

Commonwealth of Pennsylvania
State Employees' Retirement System

Comprehensive Annual Financial Report

For the year ended December 31, 2005



Comprehensive Annual Financial Report

For the year ended December 31, 2005

Prepared by the staff of the
Pennsylvania State Employees' Retirement System

Eric Henry
Executive Director

Francis J. Donlevy
Director, Office of Finance and Administration

State Employees' Retirement System
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Nicholas J. Maiale
CHAIRMAN

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State Employees' Retirement System
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June 2006

Honorable Edward G. Rendell, Governor
Commonwealth of Pennsylvania

Members, Pennsylvania General Assembly

Members, Pennsylvania State Employees' Retirement System

Dear Governor Rendell, Legislators and Members:

The Board of the Pennsylvania State Employees' Retirement System ("SERS") is pleased to present our Comprehensive Annual Financial Report ("CAFR") on the SERS Fund for calendar year 2005. The CAFR provides us with a vehicle to compile and publicly disclose extensive financial, investment, actuarial and statistical reports with introductions from SERS management and the fund's consulting actuary.

This 2005 report reflects another strong year for the Fund's investment performance, with an overall return on the portfolio of 14.5 percent, or \$3.6 billion, net of fees. Investment earnings are critically important to SERS' long-term soundness, comprising by far our single largest source of revenue: Over the last 20 years, approximately 77 percent of SERS funding has come from investment earnings, compared to 13 percent from employers and 10 percent from employees.

Our investment success is a direct result of an innovative and diversified investment strategy, which has drawn national recognition. That is reflected in the selection of our Chief Investment Officer as the public fund recipient of Institutional Investor Magazine's 2005 Award for Excellence in Investment Management, with the award proclaiming SERS "Public Fund of the Year."

We believe that as a result of long-term investment portfolio planning and the prudent management of Fund assets, the System is well prepared to meet its obligations again this year and in the future.

The 11-member SERS Board represents the interest of public employees, public employers, and the taxpayer, in careful balance. SERS Board, staff, and I will continue to pursue prudent long-term investment strategies to assure the solvency of the Fund and the quality of pension-related services to all SERS members.

Sincerely,

Nicholas J. Maiale
SERS Board Chairman

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Certificate of Achievement for Excellence in Financial Reporting

Presented to
Commonwealth of Pennsylvania
State Employees' Retirement
System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Fudge

President

Jeffrey R. Emer

Executive Director



Public Pension Coordinating Council
Public Pension Standards
2005 Award

Presented to

Pennsylvania State Employees' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator



Commonwealth of Pennsylvania
State Employees' Retirement System

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May 30, 2006

Mr. Chairman and Members of the Board:

We are pleased to present you with the Comprehensive Annual Financial Report (CAFR) of the Pennsylvania State Employees' Retirement System ("the System" or "SERS") for the calendar year ended December 31, 2005. Although SERS is not legally required to produce a CAFR, we do so in the interest of public accountability. In addition, publication of this CAFR also serves to comply with the requirement, contained in the State Employees' Retirement Code, that SERS' financial statements be published, after auditing by an independent certified public accountant, on or before July 1 of each year.

Financial Information

The System's management is responsible for the preparation, accuracy and objectivity of the information included in this report, and accepts full responsibility for the contents, including not only the audited financial statements but all other information as well. The basic financial statements were prepared by management in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, and have been audited by an independent auditor. Users of the financial statements are encouraged to review the Management's Discussion and Analysis ("MD&A"), which accompanies the basic financial statements and discusses the market conditions, legislation and changes in operations that affected the financial results and funded status of the System.

SERS maintains an effective system of internal controls designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements conform to generally accepted accounting principles. It should be recognized, however, that all internal controls have inherent limitations. These limitations exist because of several factors, including cost: The cost of attempting to establish a perfect internal control system would far outweigh the benefits derived. Another limitation is the potential for controls to be overridden by management, either individually or through collusion of two or more staff. To mitigate the risk caused by these inherent limitations, the System's Audits, Reporting, and Compliance department provides a continuing review of the adequacy and effectiveness of the System's internal control structure. Also, our independent external auditors, KPMG, conduct an annual audit of the financial statements in accordance with generally accepted auditing standards. Their audit includes tests and procedures designed to provide reasonable assurance that the financial statements are fairly presented. The external auditors have full and unrestricted access to the SERS Board members to discuss their audit and related findings regarding the integrity of financial reporting and adequacy of the internal control structure.

The System also receives independent financial audits on all of its private equity, venture capital, pooled real estate, and absolute return fund-of-funds limited partnerships, as well as audits for its directly held real estate portfolios. Additionally, the System receives audited statements on investments in collective trust funds, for example the BGI S&P 500 index fund and certain emerging market funds.

Profile of SERS

SERS is a component unit of the Commonwealth of Pennsylvania, and administers a cost-sharing, multiple-employer defined benefit retirement plan. Founded in 1923, SERS is a mature pension plan with the number of annuitants and active members rapidly approaching a 1:1 ratio; as of December 31, 2005 the System had 109,981 active and 101,179 annuitants and beneficiaries.

The System is administered by an independent 11 member administrative board comprised of: the State Treasurer, ex officio; two senators; two members of the House of Representatives; and six members appointed by the Governor. Through the Governor, the Board submits to the General Assembly an annual budget covering all proposed administrative expenditures, which includes proposed expenditures the Board intends to pay through the use of directed commissions. The expenditures are approved by the General Assembly in an appropriation bill and paid from the investment earnings of the fund.

Membership, Funding and Contribution Trends

As a mature plan, SERS pays out far more in benefits and refunds each year than it receives in contributions: \$1.9 billion in payouts versus \$454 million in contributions in 2005. The difference must come from the Fund's earnings and accumulated reserves, necessitating an investment policy that maintains the short-term liquidity required to fund payouts, while pursuing long-term returns of at least the actuarially assumed rate of 8.5%.

SERS achieved that goal again in 2005. The System posted an overall return of 14.5%, which placed it among the top 10% of all public pension funds nationwide. Although the 2005 return significantly exceeded the actuarial assumption, the System's funded ratio nonetheless declined, to 92.9%. That is because SERS uses a five-year smoothing to establish its return for actuarial purposes, and therefore is still carrying a portion of the 2001 and 2002 losses, and because Act 2003-40 adjusted SERS' amortization schedule in a way that effectively deferred increases in the employer contribution rate. A funded status of less than 100% is not cause for concern however, and SERS remains among the best-funded public pension plans in the United States.

Although the purpose of the CAFR is to provide information regarding SERS status as of December 31, 2005, readers also should be aware of two anticipated future developments:

First, as the Fund continues to mature, the number and percentage of retired members is expected to continue to grow, while the number of active members is expected to remain relatively constant. As the number of retirees grows, the amount that must be paid out in benefits is expected to continue to increase. It is projected that by 2010 the number of retired members will exceed the number of active members and by 2011 annual benefit payments will reach \$3 billion, 58% more than in 2005.

Second, while employer contribution rates remain near historically low levels, as also discussed in more detail in the MD&A, it is anticipated that those rates will rise dramatically in future years. Act 2003-40, which changed the amortization period of SERS' unfunded liability, is expected to maintain employer contributions in single digits through 2011, even dropping back down to zero, followed by a steep increase to 15.1% for the 2012-13 fiscal year. These projections assume no new COLAs are granted. If COLAs are granted during this time period, projected rates would be significantly higher.

Initiatives

Given the critical need for sound actuarial data in determining the future obligations of the System, the SERS Board in 2005 commissioned a first-ever performance audit of the fund's actuary. The resulting report found no deficiencies. In addition, the Board further diversified the Fund with the allocations to emerging market debt and an actively managed inflation-protection portfolio. Staff launched an agency-wide review of operations to improve efficiencies, moved forward with leadership development and succession planning initiatives and undertook a number of information technology initiatives to enhance productivity.

Awards

We are very pleased to note that the Government Finance Officers Association of the United States and Canada (GFOA) again awarded the Certificate of Achievement for Excellence in Financial Reporting to the System for the year ended December 31, 2004. The Certificate of Achievement is a national award, recognizing conformance with the highest standards for preparation of a state and local government financial report.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, SERS received the Public Pension Coordinating Council (PPCC) Standards Award recognizing "a high level of plan design, funding, member communications and administrative practices." PPCC comprises three national associations that, combined, represent retirement systems serving most of the nation's 16 million state and local government employees.

SERS also was honored that its Chief Investment Officer was chosen as the public fund recipient of Institutional Investor Magazine's 2005 Award for Excellence in Investment Management, with the award proclaiming SERS "Public Fund of the Year."

Acknowledgements

This report reflects the dedicated efforts of the SERS staff under the direction of the SERS Board. We would like to take this opportunity to express our gratitude to the Board, the staff, our advisors and others who have worked diligently to administer the System, enhance delivery of member services and manage the Fund's assets in a prudent fashion.

We will continue to strive to administer the System in a manner that ensures the accurate, timely payment of benefits, prompt and courteous service, and prudent management of the Fund's assets on behalf of our members and the Commonwealth's taxpayers.

Respectfully submitted,



Eric Henry
Executive Director



Francis J. Donlevy
Director, Office of Finance and Administration

Introductory Section
SERS Board

Honorable Nicholas J. Maiale
Chairman



Michael J. Acker
Senior Vice President Triad Strategies



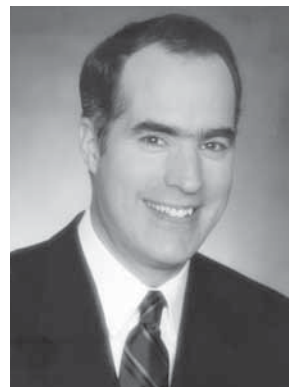
Honorable Gibson E. Armstrong
State Senator



Honorable Robert A. Bittenbender
Former State Secretary of the Budget



Honorable Robert P. Casey, Jr.
State Treasurer



Introductory Section
SERS Board

David R. Fillman

Executive Director, AFSCME Council 13



Honorable Robert W. Godshall

State Representative



Honorable Raphael J. Musto

State Senator



Honorable Thomas G. Paese

Former State Secretary of Administration



Honorable M. Joseph Rocks

Retired Member and Former State Senator



Honorable Michael R. Veon

State Representative



Introductory Section

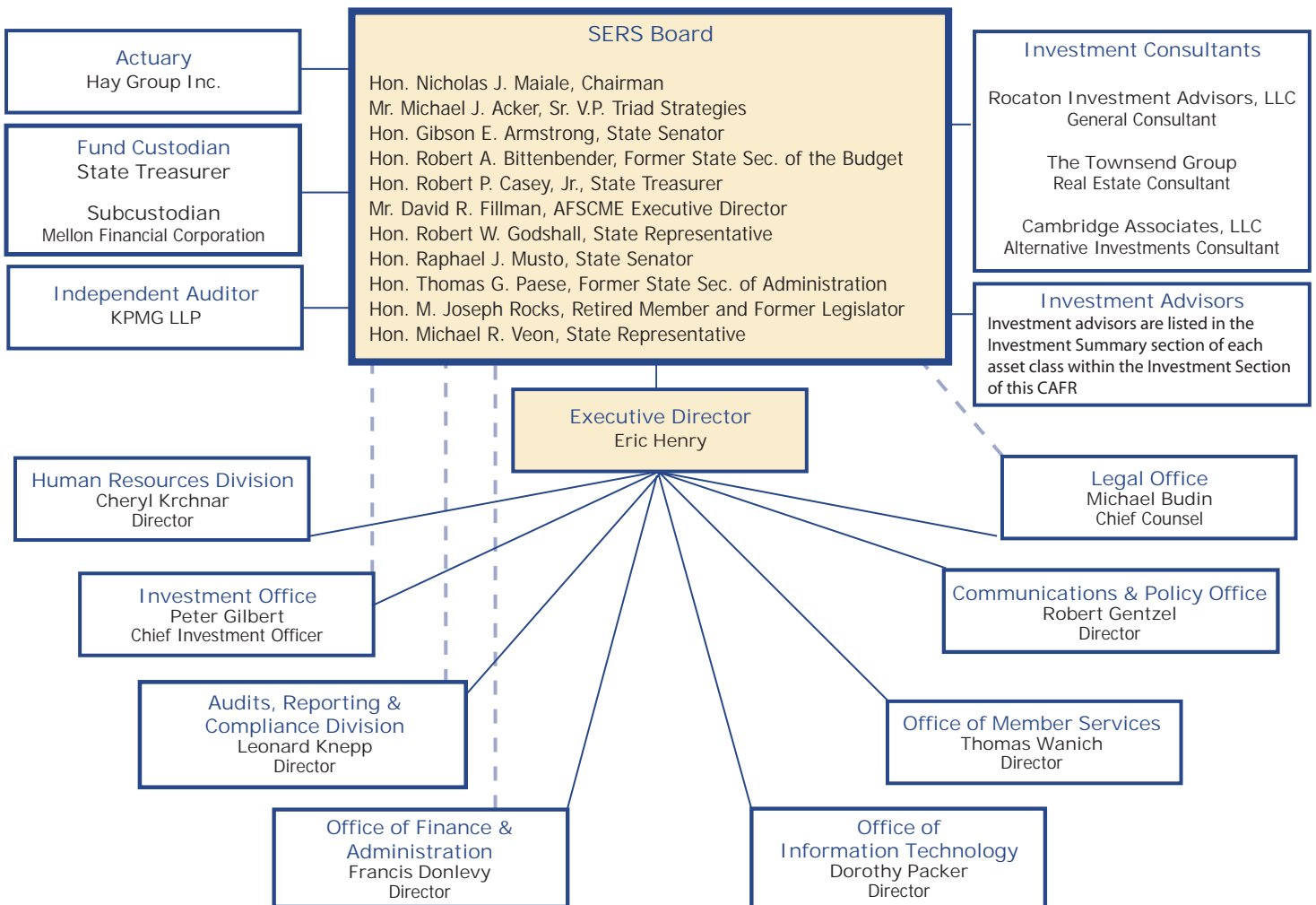
SERS' Vision, Mission and Organizational Chart

SERS' Vision

By 2008, SERS will be prepared for membership and employee shifts brought about by the Baby Boom generation while providing retirement benefits and services.

SERS' Mission

The mission of SERS is to provide retirement benefits and services to our members through sound administration and prudent investments.





Financial Section



Financial Section
Independent Auditors' Report



KPMG LLP
Suite 200
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Members of the Board
Commonwealth of Pennsylvania
State Employees' Retirement System:

We have audited the accompanying statements of plan net assets of the Commonwealth of Pennsylvania State Employees' Retirement System (a component unit of the Commonwealth of Pennsylvania) as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Commonwealth of Pennsylvania State Employees' Retirement System as of December 31, 2005 and 2004, and its changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The information included in Management's Discussion and Analysis and Required Supplemental Schedules 1 and 2 and the notes thereto is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Supplemental Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory, investment, actuarial and statistical sections have not been subject to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

April 10, 2006

Financial Section
Management's Discussion and Analysis

This section presents Management's Discussion and Analysis of the Pennsylvania State Employees' Retirement System's (the "System's") financial statements and the significant events and conditions which affected the operations and performance of the System during the years ended December 31, 2005 and 2004.

The Management's Discussion and Analysis includes forward-looking statements that involve certain risks and uncertainties. Actual results and performance may differ materially from those expressed or implied in the forward looking statements due to a wide range of factors including: changes in securities markets, general economic conditions, interest rates, energy policies, legislation and global conflicts.

Overview of the Financial Statements and Accompanying Information

- 1) **Fund Financial Statements.** The System presents Statements of Plan Net Assets as of December 31, 2005 and 2004 and Statements of Changes in Plan Net Assets for the years then ended. These statements reflect resources available for the payment of benefits as of year-end, and the sources and use of those funds during the year.
- 2) **Notes to Financial Statements.** The notes to financial statements are an integral part of the financial statements. We encourage our readers to review them because the additional detailed information will provide a better understanding of the financial statements. The notes provide information about the System's organization, benefits and contributions, how asset values are determined, the use of derivatives in managing the System's assets, and contingencies and commitments.
- 3) **Required Supplementary Information.** The required supplementary information consists of:
 - Two schedules concerning the funded status of the System and employer contributions,
 - Related notes to those schedules discussing actuarial assumptions and information, and this
 - Management's Discussion and Analysis.
- 4) **Other Supplementary Schedules.** Other schedules include detailed information on administrative expenses incurred by the System, a breakout of investment manager fees by asset class, and fees paid to consultants for professional services.

Financial Analysis

The System provides retirement benefits to the employees of the Commonwealth of Pennsylvania and certain other public agencies. The System's benefits are funded through member and employer contributions, and investment income. The net assets of the System increased approximately \$2.1 billion in each of the years ending December 31, 2005 and 2004, respectively, as reflected in the table on page 8. The 2005 increase reflects another strong year in the global markets, which enabled the System's investments to earn approximately \$3.6 billion in net investment income. Returns were particularly strong in international equity, commodity, real estate, and alternative investment markets. As explained below in the funded ratio section, despite these strong returns, System funding status has dropped from 96.1% in 2004 to 92.9% in 2005. By comparison as reported in the "2006 Wilshire Report on State Retirement Systems," by Wilshire Associates, which compiled 2005 data on 58 pension plans, the average funding level of the 58 plans was 80%. Every five years, the System undergoes an Actuarial Experience study to determine whether the assumptions used in the annual actuarial valuation are representative of current and anticipated trends. The latest experience study for the five year period 2001 – 2005 was completed March 15, 2006. Annually, the System reviews and modifies, if necessary, its five-year investment plan. These processes enable the System to position itself to respond to changing dynamics and fulfill its mission. After three years of double digit percentage increases in benefit expenses, in 2005 the benefit payment expense increased only 4.5%. Despite the slowdown in the benefit expense increase, the three-year average number of retirees added to the retirement rolls is significantly higher than historical norms. The System expects this recent acceleration of retirements to continue as a consequence of Act 9, which increased active participant benefits. Contributing to that expectation is the fact that the System has over 8,000 current employees with 30 years or more of service, and average salaries of \$59,500.

Financial Section
Management's Discussion and Analysis

Funded Ratio

The funded ratio of the plan measures the ratio of actuarially determined assets against actuarially determined liabilities and is a good indicator of a pension fund's fiscal strength and ability to meet its obligations to its members. The System is required by statute to perform an annual actuarial valuation. The actuarial process to develop the funded ratio is highly dependent on estimates and assumptions, particularly those regarding investment returns, payroll increases, inflation and demographics. In addition, the selection of methods, such as amortization periods, affects employer contribution rates and the funded ratio of the plan. The 2005 valuation showed the funded status of the System declining to 92.9% at December 31, 2005 from 96.1% at December 31, 2004. This status reflects the fact that actuarially determined liabilities increased approximately \$853 million and actuarially determined assets decreased approximately \$106 million from December 31, 2004 to December 31, 2005. The increase in liabilities is attributed primarily to the increase in the number of annuitants and beneficiaries, and the drop in the present value of future contributions, which offset the actuarially determined liabilities. The decrease in assets is primarily due to the 5-year amortization of investment returns which were significantly below actuarial assumptions for the years 2001 and 2002.

Member Contributions

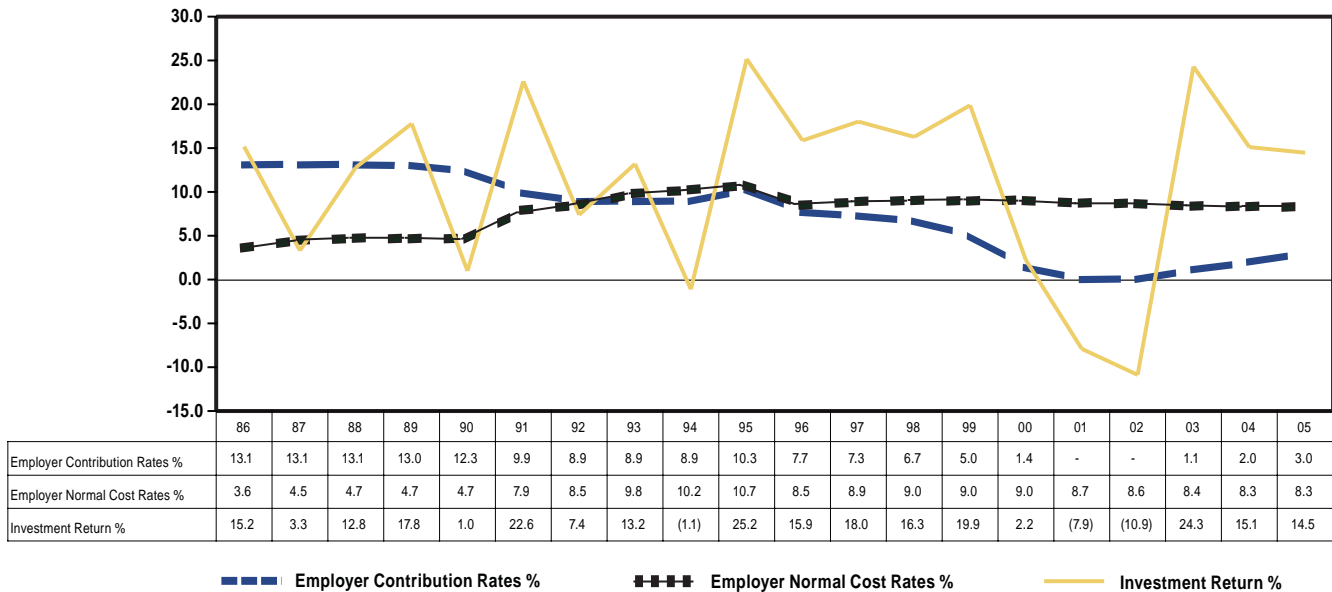
Additions to plan net assets include employer and member contributions and net income from investment activities. Member contributions were approximately \$306 million, \$310 million, and \$308 million for the years ended December 31, 2005, 2004 and 2003, respectively, with 2005 contributions representing a decrease of approximately \$4 million compared to 2004. The employee rate of 6.25% of gross salary for most members is set by statute and has remained unchanged. The reduction in member contributions resulted from a large percentage of the workforce having 26 pays in 2005 as compared to 27 pays in 2004. Additionally, purchased service contributions were lower in 2005.

Employer Contributions

Employer contribution rates remain near historically low levels. The composite employer rate, which had exceeded 12% in 1990 and was as high as 18% in the early 1980's, was 3.02% as of December 31, 2005. This resulted in employer contributions decreasing from over \$419 million in 1990 to \$107 million and \$148 million in 2004 and 2005, respectively. Over this time period, the active membership payroll has grown from \$3.2 billion in 1990 to over \$4.9 billion. The benefits of reduced employer contributions pass directly back to the participating Commonwealth agencies and the taxpayers of Pennsylvania. In fact, had the Commonwealth agencies paid the Employer Normal Cost rate over the last 10 years, the Commonwealth agencies would have paid over \$2 billion more in employer contributions into the fund. The chart on the next page presents the relationship between investment returns and contribution rates. The Normal Cost is the cost of future benefits that is allocated to the current year by the actuarial cost method. In theory, if the unfunded actuarial liability were zero, and there were no deviations from the actuarial assumptions or amendments to the Retirement Code, the Normal Cost would be that amount required to fund the on-going liabilities for plan participants. When returns are strong, the employer's level of contributions will generally be below the Normal Cost. Conversely, when investment returns lag the actuarially assumed rate of 8.5%, those losses are amortized into the fund through increased employer contributions as reflected in the chart on the next page.

Financial Section
Management's Discussion and Analysis

History of SERS Employer Contribution Rates and Investment Returns



Employer contributions, which had been approximately \$69 million in 2003, increased to approximately \$107 million in 2004 and \$148 million in 2005. The increase was due to the composite employer contribution rate increasing to 3.02% as of July 1, 2005 from a rate that was 2.03% of reported payroll, at July 1, 2004. This continues the reversal in the direction of employer contribution rates in recent years. The increase in the rate is due mostly to amortizing the difference of recent actual investment returns versus the 8.5% estimate used for actuarial valuations, and the invoking of the minimum required contribution rate of 2% and 3% in 2004 and 2005 respectively. The employer rate is projected to increase significantly in future years, with the largest increase occurring when the rate increases to 15.1% on July 1, 2012. This projected increase does not take into account potential Cost of Living Adjustments (COLAs), which would require legislative approval. If COLAs are granted, the rate increase would be even higher. Ultimately, the employer rate is based on the outcome of market returns, changes in plan demographics, and the selection of actuarial methods and assumptions.

Net Investment Income

Investment portfolio performance produced investment returns of 14.5%, 15.1%, and 24.3% for the years 2005, 2004 and 2003, respectively. That performance generated net investment income totaling approximately \$3.6 billion during 2005, \$3.6 billion in 2004, and \$4.9 billion in 2003. Strong global equity markets continued to fuel performance in 2005 as the domestic Russell 3000 index returned 6.1% and the MSCI World ex US Index returned 14.0%. For the 10-year period ended December 31, 2005, the System earned a compounded rate of return of 10.1%, which exceeded the actuarial assumption of 8.5%.

The most significant deduction from investment income is investment manager fees. The System's assets are managed 100% by external investment advisors hired by the Board. Many of these managers are paid a fee based on the assets under management. Accordingly, those managers were generally compensated more in 2005 than in prior years because of the effect of increasing asset values. However, the industry practice for the limited partnership holdings is for the limited partners to pay fees to the general partner based on commitments to the partnership during the initial years. The \$37.9 million increase in investment expenses in 2005 was due to several factors. Real estate manager fees were up \$16.3 million, primarily as a result of incentive fees. These incentive fees are paid once every 3 years when direct real estate managers' performance exceeds the performance of the National Council of Real Estate Investment Fiduciary (NCREIF) Property Index (NPI). The remaining fee increase was the result of the market value increase of the overall SERS investment portfolio and allocation to active management from passive management in the equity asset classes.

Financial Section
Management's Discussion and Analysis

Benefits, Refunds and Expenses

Benefits are the most significant recurring deduction to Plan Net Assets. During 2005 and 2004, the System paid out approximately \$1.94 billion and \$1.86 billion, respectively, in benefits and refunds, an increase of approximately 4.5% in 2005. This 4.5% increase represents a sharp drop off in year-over-year increases compared to the prior 3 years, which averaged approximately 14% a year. The slowdown in the benefit expense increase was primarily due to the absence of certain factors that caused higher than normal increases in benefits in recent years. Among those factors in prior years were increases in retirements due to health care changes in 2004, COLA increases in 2002 and 2003, and Act 9 of 2001, which increased the retirement benefit for most employees in July of 2001. The relatively small increase in 2005 was due to an increase in the number of retirees. There were 6,298 new retirees added to the annuity payroll in 2005 with an average annual benefit of \$23,807. These new additions are retiring with a much higher annual benefit than those being removed from rolls. Retirees removed from the rolls were 3,846 with an average annual benefit of \$10,656. The System expects retirees to be added to the rolls at increased rates for the next several years, thereby increasing annual benefit expenses. The System was established in 1923 but did not pay more than \$1 billion in annual benefits until 1997. Based on recent actuarial projections, the System expects benefit payments to reach \$2 billion by 2006 and \$3 billion by 2011. The table below shows the increase in retirees and monthly benefit payments since 2003.

	Growth in Monthly Benefits		
	Dec. 2005	Dec. 2004	Dec. 2003
Monthly Benefit Payments	\$133 million	124 million	111 million
Retirees	101,179	98,727	94,412

The administrative costs of the System represented less than .08% of average assets in 2005 and 2004. All costs were within budget.

Plan Assets

The System's investments increased from \$26.6 billion as of December 31, 2004 to \$28.6 billion as of December 31, 2005. The \$2 billion increase in investments is even more impressive considering the system paid out \$1.9 billion in benefit payments in 2005. The increase continues to reflect the strong rebound in global equity markets that started in early 2003, as well as strong returns from the real estate, private equity and inflation protection asset classes. This rebound was also responsible for an increase in total investments of \$1.8 billion in 2004 and \$3.4 billion in 2003. One year returns on asset classes are presented in the table below:

Asset Class	2005	2004	2003
Domestic Equities	7.3%	14.9	34.3
International Equities	19.3	20.6	40.6
Fixed Income Securities	4.9	7.7	12.7
Cash / STIF	2.9	1.7	1.3
Real Estate	30.9	14.6	10.8
Private Equity	36.5	25.7	11.9
Venture Capital	8.3	-2.6	-14.8
Inflation Protection	24.7	20.2	20.7
Total Fund	14.5%	15.1	24.3

The System values its assets at "fair value" as discussed in the accounting policies footnote 2(c) to the financial statements. Fair value is the value the System expects to receive in a current sale between a willing buyer and a willing seller that are equally motivated; that is, other than a forced or liquidation sale. The value of publicly

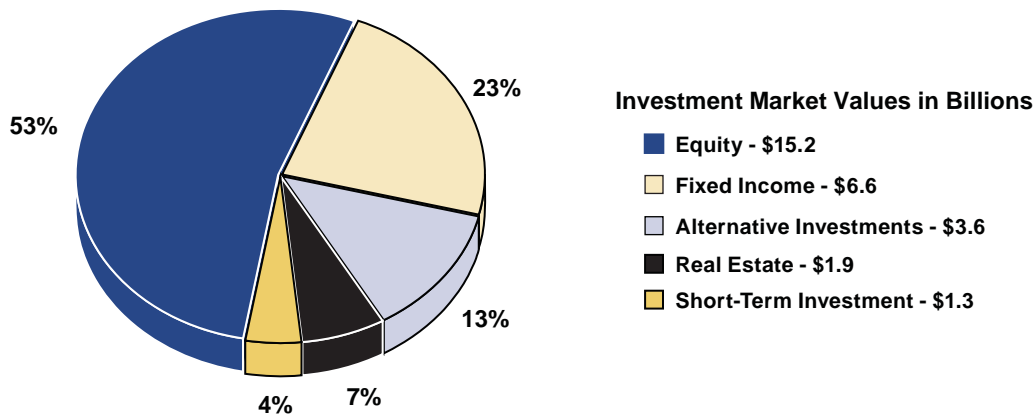
Financial Section
Management's Discussion and Analysis

traded securities, stocks and bonds, are determined using the latest quote from national exchanges or pricing services. Those prices reflect the securities' pricing at the close of business and are affected by such items as liquidity, current events and the size of lots being traded. Real Estate is valued by the investment advisor using discounted cash flows, recent comparable sales, and current market conditions to arrive at a fair value. The real estate portfolios undergo an annual independent financial audit of the estimated fair values as well as an independent appraisal process on a routine cycle conducted by approved appraisers who meet specified professional qualifications. The appraisal process involves a significant amount of judgment and estimating. As a result, the ultimate value on the sale of the asset may differ from the appraised value.

Values for investments in private equity and venture capital limited partnerships are determined by the general partners and by valuation committees. The partnerships' investments, as well as the assumptions and estimates used in developing the investment values, are subject to annual independent audits. Because the investments in those partnerships are generally illiquid and holding periods may last for several years, the ultimate value realized by the System on the disposition may differ from the estimated values reflected in our financial statements, and those differences could be material.

As of December 31, 2005 equity market values were relatively unchanged from December 31, 2004. This was a result of the System rebalancing the strong returns of the equity class among the other asset classes in accordance with the System's annual 5-year investment plan. The fixed income class' \$1.3 billion increase in market value was primarily due to the strong returns in the inflation protection portfolios and additional funding to emerging market debt portfolios. The decrease in the size of the real estate portfolio is attributed to managers selling the underlying holdings into the robust real estate market in order to realize strong returns while at the same time employing a measured strategy of reinvestment. Alternative investments were up \$.6 billion primarily as a result of additional funding to the asset class and market value appreciation. The total investment portfolio market value of \$28.6 billion dollars was allocated as follows:

Investment Market Values and Distribution Percentages
 As of December 31, 2005



The System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System for borrowed securities equal to 102% of the borrowed securities. The System invests the collateral to earn interest. Income, net of expenses, from security lending is dependent on the volume of lending generated at the custodian bank. Net security lending revenue during 2005 was \$12.5 million, an increase of \$4 million over 2004 lending revenue of \$8.5 million. Approximately \$1.8 million of the \$4 million increase came from the System's increased sovereign debt holdings in the emerging market debt portfolios, and \$1 million came from the larger Treasury Inflation Protection Security (TIPS) holdings underlying the System's inflation protection

Financial Section
Management's Discussion and Analysis

portfolio. Volume was up significantly as well, \$116.5 million for 2005 as compared to \$40.9 million for 2004. As with the net security lending revenue, most of the \$75.6 million increase in volume was a direct result of the larger TIPS holdings and sovereign debt holdings. Since TIPS have a much lower return rate on loaned securities than other types of securities, the volume increase of 185% was significantly higher than the net security lending revenue increase of 48%.

Derivatives

The System uses derivatives as a means to provide market exposure to domestic stocks and commodity asset classes and to manage interest rate risk in the fixed income portfolios. Used properly, these derivatives deliver returns similar to indexed returns in the respective asset classes in a cost efficient manner without disrupting the liquidity needs of the System. The System's investment advisors manage counterparty credit risk by entering into contracts with parties with strong credit ratings and by establishing collateral requirements. The System monitors derivative levels and types to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

Liquidity

As part of the Five-Year Annual Investment Plan, the Board has approved an initiative to establish a benefit reserve equal to two years of benefits payments, or 15% of the total fund. The function of the reserve is to provide ample liquidity during periods of distressed equity markets in order to mitigate the need to sell equities at distressed prices to pay benefit needs. Investments in Real Estate, Venture Capital and Private Equity Limited Partnerships and high yield securities are generally considered illiquid. Investments in inflation protection strategies include a swap for the net return of the GSCI index return. The underlying cash positions in that strategy are invested in TIPS, which are very liquid. Holdings in the fund-of-funds investments also have liquidity constraints governed by the respective partnership agreements.

GASB 44

The System has implemented Government Accounting Standards Board (GASB) Statement No. 44 "Economic Condition Reporting: The Statistical Section" for the year ended December 31, 2005. GASB 44 adds and modifies requirements for information presented in the statistical section of the Comprehensive Annual Financial Statements (CAFR). For the most part, GASB 44 requires the system to expand from 6 years to 10 years certain information reported in the statistical section to give the reader a better historical perspective of trends and economic conditions of the agency. GASB 44 also requires additional information to be presented regarding demographic information about participating employers and active employees.

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Condensed Financial Information
(Dollar Amounts in Millions)

Net Assets

Assets	2005	Increase (Decrease)	2004	Increase (Decrease)	2003
Receivables	\$728	403	325	161	164
Investments	28,577	1,973	26,604	1,796	24,808
Security Lending Collateral Pool	3,116	187	2,929	1,361	1,568
Total Assets	32,421	2,563	29,858	3,318	26,540
Liabilities					
Accounts Payable and Accrual Expense	72	36	36	(12)	48
Investment Purchases	481	229	252	(136)	388
Obligations Under Security Lending	3,116	187	2,929	1,361	1,568
Total Liabilities	3,669	452	3,217	1,213	2,004
Total Net Assets	\$28,752	2,111	26,641	2,105	24,536

Changes in Net Assets

Additions	2005	Increase (Decrease)	2004	Increase (Decrease)	2003
Member Contributions	\$306	(4)	310	2	308
Employer Contributions	148	41	107	38	69
Investment Gain (Loss)	3,623	54	3,569	(1,366)	4,935
Total Additions	4,077	91	3,986	(1,326)	5,312
Deductions					
Benefits and Refunds	1,943	83	1,860	228	1,632
Administrative Expenses	23	2	21	(3)	24
Total Deductions	1,966	85	1,881	225	1,656
Increase (Decrease) in Net Assets	\$2,111	6	2,105	(1,551)	3,656

Numbers may not add due to rounding.

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	2005	2004
<u>Assets:</u>		
Receivables:		
Plan members	\$710	10,236
Employers	7,145	7,075
Investment income	94,824	96,323
Investment proceeds	622,848	197,578
Miscellaneous	2,397	13,593
Total receivables	727,924	324,805
Investments:		
Short-term investments	1,253,567	966,120
United States government securities	2,791,290	2,460,079
Corporate and foreign bonds and notes	2,947,015	2,393,054
Common and preferred stocks	12,128,447	12,157,813
Collective trust funds	3,896,820	3,498,043
Real estate	1,948,283	2,137,442
Alternative investments	3,611,344	2,991,248
Total investments	28,576,766	26,603,799
Securities lending collateral pool	3,115,916	2,929,639
Total assets	32,420,606	29,858,243
<u>Liabilities:</u>		
Accounts payable and accrued expenses	72,284	35,533
Investment purchases	480,535	251,672
Obligations under securities lending	3,115,916	2,929,639
Total liabilities	3,668,735	3,216,844
Net assets held in trust for pension benefits	\$28,751,871	26,641,399

A Schedule of Funding Progress is presented on page 24.

See accompanying notes to financial statements.

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	2005	2004
<u>Additions:</u>		
Contributions:		
Plan members	\$305,624	309,923
Employers	148,375	106,703
Total contributions	453,999	416,626
Investment gain:		
Net appreciation in fair value of investments	2,811,470	2,807,290
Collective trust fund appreciation and income	420,888	391,248
Interest	368,610	280,221
Dividends	128,480	124,099
Real estate	112,057	148,133
Miscellaneous	3,537	6,722
	3,845,042	3,757,713
Investment expenses	(234,760)	(196,859)
Net gain from investing activities	3,610,282	3,560,854
From securities lending activities:		
Securities lending income	116,477	40,854
Securities lending expenses	(103,939)	(32,385)
Net income from securities lending activities	12,538	8,469
Total net investment gain	3,622,820	3,569,323
Total additions	4,076,819	3,985,949
<u>Deductions:</u>		
Benefits	1,936,428	1,853,117
Refunds of contributions	7,215	6,138
Administrative expenses	22,704	21,244
Total deductions	1,966,347	1,880,499
Net increase	2,110,472	2,105,450
Net assets held in trust for pension benefits:		
Balance, beginning of year	26,641,399	24,535,949
Balance, end of year	\$28,751,871	26,641,399

See accompanying notes to financial statements.

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(1) Organization and Description of the System

(a) Organization

The Commonwealth of Pennsylvania (Commonwealth) State Employees' Retirement System (the System) was established as of June 27, 1923, under the provisions of Public Law 858, No. 331. The System was developed as an independent administrative board of the Commonwealth and is directed by a governing board that exercises control and management of the System, including the investment of its assets. The System's board has eleven members including the State Treasurer (ex officio), two Senators or former Senators, two members or former members of the House of Representatives, and six members appointed by the Governor, one of whom is an annuitant of the System. At least five board members are active members of the System and at least two have ten or more years of credited service.

The System is the administrator of a cost-sharing multiple-employer defined benefit retirement system established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. The System is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. Administration costs are financed through contributions and investment earnings.

Membership in the System is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option to participate. At December 31, 2005 and 2004, System membership consisted of:

	2005	2004
Retirees and beneficiaries currently receiving benefits	101,179	98,727
Terminated employees entitled to benefits but not yet receiving them	5,461	5,609
Current active employees	109,981	108,405
Total members	216,621	212,741
Number of participating agencies	108	108

(b) Pension Benefits

The System provides retirement, death, and disability benefits. Cost of living adjustments (COLAs) are provided at the discretion of the General Assembly. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly.

Employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50, with at least three years of service.

Most members of the System, and all state employees hired after June 30, 2001 (except State Police officers and certain members of the judiciary and legislators), are Class AA members. The multiplier for Class AA is 1.25, which translates into an annual benefit of 2.5% of the member's highest three-year average salary times years of service and became effective for members July 1, 2001. The general annual benefit for Class A members is 2% of the member's highest three-year average salary times years of service. State Police are entitled to a benefit equal to

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a percentage of their highest annual salary, excluding their year of retirement. The benefit is 75% of salary for 25 or more years of service and 50% of salary for 20-24 years of service. Judges are entitled to a benefit of 4% of final average salary for each of the first 10 years of service and 3% for subsequent years. District Justices are entitled to a benefit of 3% of final average salary for each year of service. Act 9 also created a new class of service for current legislators, Class D-4. The multiplier for Class D-4 is 1.5, which translates into an annual benefit of 3% of the final average salary for each year of service. Most members vest with 5 years of credited service.

According to the Retirement Code, all obligations of the System will be assumed by the Commonwealth should the System terminate.

(c) Contributions

The System's funding policy, as set by the System's Board, provides for periodic active member contributions at statutory rates. The System's funding policy also provides for periodic employer contributions at actuarially-determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. A variation of the entry-age normal actuarial cost method is used to determine the liabilities and costs related to all of the System's benefits, including superannuation, withdrawal, death, and disability benefits, and to determine employer contribution rates. The significant difference between the method used for the System and the typical entry-age normal actuarial cost method is that the normal cost is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. The System believes that this variation should produce approximately the same results as the typical method over the long run. These rates are computed based upon actuarial valuations on the System's fiscal year-end of December 31 and applied to the Commonwealth based on its fiscal year-end June 30; therefore, the employer contribution rates, in effect for the System's year-end of December 31, reflect a blended average of calculated rates. The blended contribution rates were as follows:

	2005	2004
Employer normal cost	8.29%	8.38
Amortization of unfunded actuarial assets in excess of liabilities	(14.65)	(14.11)
Amortization of supplemental annuities	5.44	4.85
Act 2003-40 Minimum rate factor	3.45	2.40
Total employer cost	2.53%	1.52

In addition to the employer normal cost, the total employer cost includes other costs and credits resulting from COLAs, differences between actual investment results and actuarial estimated returns, and changes in benefits. These additional costs and credits are amortized over a period of future years as set by the Legislature. On December 10, 2003, Act 2003-40 (Act 40) revised the amortization periods of these additional costs and credits to the following amortization periods:

Pre-Act 2001-9 funding credit	10 years
Act 2001-9 Liability	30 years
Post 2000 gains and losses	30 years
Existing and future COLAs	10 years

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Additionally, Act 40 revised minimum employer contribution rates to 2%, 3%, and 4% effective July 1, 2004, 2005, and 2006, respectively.

The general membership contribution rate for all Class A and Class AA members is 5% and 6.25% of salary, respectively. The contribution rate for Class D-4 members is 7.5%. Judges and district justices have the option of electing special membership classes requiring a contribution of 10% and 7.5%, respectively. All employee contributions are recorded in an individually identified account that is credited with interest, calculated at 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

(d) Benefits Completion Plan (BCP)

Act 2002-234 amended the State Employees Retirement Code by adding Section 5941 to the Code. Section 5941 directs the State Employees Retirement Board to establish and serve as trustee of a retirement benefit plan that is in conformity with Internal Revenue Code (IRC) Section 415(m), the Benefits Completion Plan. The BCP is a separate trust fund established to provide benefits to all annuitants of the SERS Defined Benefit Plan and their survivor annuitants and beneficiaries whose retirement benefit exceeds the IRC Section 415(b) limits. The BCP is funded on an annual basis. A monthly annuity or death benefit is paid under the BCP only if a corresponding monthly annuity or death benefit is paid from the Defined Benefit Plan to the extent permitted by IRC Section 415(b) and the Retirement Code. At December 31, 2005, there were 6 members in the BCP.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period in which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(b) Use of Estimates

Management of the System has made certain estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Investments in venture capital, alternative investments and real estate are generally illiquid. Certain investments in the hedge funds of funds may also have liquidity restraints. Because of the inherent uncertainty in valuing these securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

(c) Investments

The System's investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale. The investments in short-term investment funds, including those managed by the

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Treasurer of the Commonwealth of Pennsylvania, are reported at cost plus allocated interest, which approximates fair value. The security lending collateral pool, which is a fund operated by the securities lending agent, also is accounted for at cost plus accrued interest, which approximates fair value. U.S. government obligations, corporate and foreign bonds and notes, and common and preferred stocks, are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. The System has entered into certain swap contracts with a notional amount which approximates the System's original investment in the absolute return fund-of-funds limited partnerships to provide S&P 500 returns. The combination of the swaps and the underlying investments are designed to provide a return consistent with an actively managed equity portfolio. Accordingly, those investments have been classified as common stocks on the statement of net assets. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream. Alternative investments, which include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments are valued based on estimated fair value amounts established by valuation committees, which are subject to an annual independent audit. The values for real estate and alternative investments are reported on a one-quarter lag (September 30), adjusted for cash flows through December 31. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The fair value of swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread.

The Collective Trust Funds (CTF) consist primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the System's investment operations.

(d) Commitments

As of December 31, 2005 and 2004, the System had contractual commitments totaling approximately \$3.0 billion and \$2.5 billion, respectively, to fund future alternative investments, and \$236 million and \$196 million, respectively, to fund future real estate investments.

(e) Compensated Absences

The System accrues a liability for vacation leave as the benefits are earned by the employees to the extent the System will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Vacation leave vests 100% at the time it is earned up to 45 days, which is carried over to the next year at December 31. The System also accrues a liability for sick leave as the benefits are earned by the employees to the extent the System will compensate the employee for the benefits through cash payments at termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days. As of December 31, 2005 and 2004, \$2.6 million and \$2.4 million, respectively, were accrued for unused vacation and sick leave for the System's employees.

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(f) Federal Income Taxes

Management believes the System meets the definition of a Governmental Plan. In the System's communications with the Internal Revenue Service (IRS), it has been treated as a qualified plan, and is, therefore, considered exempt from federal income taxes. Therefore, the System has not requested a determination letter from the IRS relating to the status of the System under the Internal Revenue Code.

(g) Risk Management

The System is exposed to various liabilities and risks of loss related to theft or destruction of assets, injuries to employees, and court challenges to fiduciary decisions. As an administrative agency of the Commonwealth, the System is accorded sovereign immunity. The System participates in certain Commonwealth pooled insurance programs and requires asset managers to carry certain insurance coverage. Purchased insurance for director and officer liability was effective until January 14, 2004. Since that time the System has elected self-insurance for fiduciary and director and officer liability. During the past three fiscal years, insurance settlements did not exceed insurance coverage.

(h) Reclassification

Certain 2004 balances have been reclassified to conform with the 2005 presentation.

(3) Description of Funds

The Retirement Code requires the System to maintain the following funds representing the net assets held for future and current benefit payments:

The *Member Savings Account* accumulates contributions and interest earnings of active employees. Member balances are transferred to the Annuity Reserve Accounts as members retire.

The *State Accumulation Account* accumulates contributions of the employer and the net earnings of the fund. Funds are transferred to the Annuity Reserve Accounts as members retire. The amount transferred is determined actuarially.

The *Supplemental Annuity Account* accumulates contributions for supplemental annuities. The negative balances represent the liability for past cost of living adjustments that are being amortized to actuarial required contributions. The balance in this account is actuarially determined.

The *Annuity Reserve Accounts* are the accounts from which all death and retirement benefits and supplemental annuities are paid. The balance in this account is actuarially determined.

The *Interest Reserve Account* accumulates all income earned by the fund and from which all administrative and investment expenses incurred by the fund and the Board necessary for operation of the System are paid. Any balance in this reserve is transferred to the State Accumulation Account at year-end.

The *Benefit Completion Plan (BCP) Reserve Account* accumulates all BCP employer contributions, net earnings of the fund less any benefits paid out of the fund.

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Fund balances at December 31, 2005 and 2004 are as follows:

	2005	2004
Members Savings Account	\$3,696,477	3,593,576
State Accumulation Account	12,607,133	11,499,301
Supplemental Annuity Account	(1,333,961)	(1,481,733)
Annuity Reserve Accounts:		
Annuitants and Beneficiaries	12,485,799	11,793,079
State Police	1,250,195	1,192,785
Enforcement Officers	43,369	42,549
Benefit Completion Plan Reserve Account	2,859	1,842
Total	\$28,751,871	26,641,399

(4) Investments

As provided by statute, the System's Board has exclusive control and management responsibility of System funds and full power to invest the funds. In exercising its fiduciary responsibility to System membership, the Board is governed by the "prudent person" rule in establishing investment policy. The "prudent person" rule, requires the exercise of that degree of judgement, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to permanent disposition of the funds, considering the probable income to be derived therefrom, as well as the probable safety of their capital. The Board has adopted its Statement of Investment Policy to formally document investment objectives and responsibilities. This policy, as well as applicable state law, establishes guidelines for permissible investments of the System.

The System's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SERS would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Pursuant to Title 71, Pennsylvania Consolidated Statutes Section 5931 [c], the State Treasurer serves as custodian of the fund. In accordance with a contractual relationship between the Commonwealth's Treasury Department and its custodial agent, substantially all investments, where securities are used as evidence of the investment, are held by the custodian in book-entry form in the System's name. Those investments are defined as insured or registered investments for which the securities are held by the System or its agent and, therefore, have very minimal level of custodial credit risk losses. All remaining investments do not have securities that are used as evidence of the investments. These investments are primarily in collective trust funds and limited partnerships, which include real estate, alternative investments, and absolute return fund-of-funds.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services (Moody's). As directed by the SERS investment policy, each year the Board approves an Annual Five-Year Investment Plan. This plan manages the overall credit risk of the fixed income asset class through a clearly defined

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long-term asset allocation policy. This policy, established a long-term target allocation of the fixed income asset class at 24% of the Fund. Of the 24% allocation, 15% of the Fund will be allocated to a core segment of the fixed income asset class and composed of primarily investment grade, relatively liquid public domestic securities. These securities will be comprised of two components: a) intermediate duration, and b) longer duration strategies based on the Lehman Aggregate Index. In addition to the core segment, the system will also allocate fixed income investments to a high yield segment. The high yield segment is composed primarily of less liquid, public and private securities and has a target allocation of 5% of the Fund. The high yield component will focus on debt instruments offering higher return premiums and different risk characteristics than traditional core fixed income securities. The fixed income class also has dedicated a 4% allocation of the fund to emerging market debt. Emerging market debt investments are made using dollar denominated sovereign debt as well as local currency sovereign and corporate debt. For securities exposed to credit risk in the fixed income portfolio, the following table discloses aggregate fair value, by major Moody's credit quality rating category at December 31, 2005 and 2004:

Fixed Income Securities Exposed to Credit Risk

Moody's Rating ^a	2005 Fair Value	2004 Fair Value
AGY ^b	\$538,272	665,193
AAA	479,429	290,970
AA	82,075	90,519
A	180,486	155,033
P-1	—	25,348
BAA	466,378	329,418
BA	859,625	514,035
B	573,491	677,397
CAA	136,521	148,590
CA	10,320	33,676
C	1,201	1,738
NA ^c	237,573	168,372
S-T Mkt Neutral and STIF ^d	1,192,355	770,250
Total	\$4,757,726	3,870,539

- ^a The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of BA in this table.
- ^b AGY rating is assigned to securities issued by privately owned government sponsored enterprises (GSEs) such as Federal National Mortgage Association (Fannie Mae), Federal Home Loan Bank Corporation (Freddie Mac) and several others entities. Although created by Congress as a publicly chartered entity, GSE issued securities are not U.S. backed government securities and, therefore, subject to credit risk.
- ^c NA represents securities that were either not rated by Moody's, or had a withdrawn rating. NA also includes the market value of certain swaps, which by nature do not have credit quality ratings. See footnote (6) for additional information regarding the nature of these swap agreements.
- ^d Represents investments in the Commonwealth Treasury Department's Short-Term Investment Fund (STIF). This fund is comprised of short-term, investment grade securities, which are mainly U.S. Treasuries, agencies, or repurchase agreements. Also included are cash and cash equivalents of the System's Market Neutral investment strategy. Those investments represent deposits for short sales and cash collateral and are invested primarily in U.S. Treasuries.

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U.S. Treasuries with a fair value of \$2.2 billion and \$1.9 billion as of December 31, 2005 and 2004, respectively, were not included in the credit risk table because they are not subject to credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means for limiting SERS' exposure to fair value losses arising from rising interest rates, SERS' long-term asset allocation policy diversifies its fixed income core segment between intermediate duration and longer duration strategies based on the Lehman Aggregate Index. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. SERS measures interest rate risk using option adjusted duration, which takes into account the effect of embedded options on cash flows. At December 31, 2005 and 2004 the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

Fixed Income Sector	2005		2004	
	Fair Value	Option-Adjusted Duration	Fair Value	Option-Adjusted Duration
Agencies	\$199,888	2.3	\$227,841	3.1
Asset Backed Securities	345,688	1.2	217,031	1.1
CMBS and CMO	93,839	2.5	79,249	0.9
Corporates	1,147,058	3.2	1,199,491	4.7
Government	2,235,217	3.7	2,038,326	3.8
Sovereign Debt	900,040	6.2	509,402	6.7
U.S. Govt Mortgages	356,185	2.4	336,669	2.2
U.S. Private Placements	310,856	3.0	349,849	4.6
S-T Mkt Neutral and STIF	1,192,355	0.1	770,250	0.1
Other Investments ^a	210,746	N/A	91,145	N/A
Total Fixed Income and STIF	\$6,991,872		\$5,819,253	

^a Other Investments represents certain securities with maturities ranging through the year 2040 and the value of SWAP agreements as of December 31.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program to manage risk and enhance returns, the System invests in global markets. As provided in SERS Annual Five-Year Investment Plan, SERS contracts with certain advisors to overlay foreign currency exposure in the international equity asset class by entering into foreign exchange contracts to hedge foreign currency exposure. At December 31, 2005 and 2004, SERS had the following currency exposures:

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2005

Currency	Short Term Investments ^a	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency Unit	\$(2,741)	10,791	1,340,076	12,674	101,556	1,462,356
British Pound Sterling	(4,030)	-	1,004,709	5,220	2,111	1,008,010
Japanese Yen	(12,930)	-	978,616	14,519	-	980,205
Swiss Franc	(1,384)	-	313,184	-	-	311,800
South Korean Won	(98)	-	225,206	-	-	225,108
Hong Kong Dollar	(3,657)	-	124,840	3,998	-	125,181
Swedish Krona	(102)	-	116,759	-	-	116,657
New Taiwan Dollar	936	-	97,622	-	-	98,558
Australian Dollar	1,070	-	77,706	-	-	78,776
Danish Krone	-	-	66,871	-	-	66,871
S African Comm Rand	258	-	60,333	-	-	60,591
Singapore Dollar	(1,100)	-	56,767	1,034	-	56,701
Brazil Real	945	-	54,478	-	-	55,423
Norwegian Krone	(263)	-	49,134	-	-	48,871
Thailand Baht	14	-	38,190	-	-	38,204
New Turkish Lira	55	-	25,832	-	-	25,887
Mexican New Peso	26	-	25,303	-	-	25,329
Indian Rupee	196	-	25,128	-	-	25,324
Other Currencies (11)	979	2,210	116,576	-	-	119,765
Total	\$(21,826)	13,001	4,797,330	37,445	103,667	4,929,617

2004^b

Currency	Short Term Investments ^a	Equity	Alternative Investments	Total
Euro Currency Unit	\$26,430	1,475,518	67,899	1,569,847
British Pound Sterling	(499)	1,043,991	-	1,043,492
Japanese Yen	2,195	824,892	-	827,087
Swiss Franc	3,056	327,921	-	330,977
Swedish Krona	(117)	127,691	-	127,574
Hong Kong Dollar	(52)	111,314	-	111,262
South Korean Won	74	106,976	-	107,050
Australian Dollar	5,056	94,297	-	99,353
Danish Krone	(203)	77,711	-	77,508
Norwegian Krone	1,004	53,493	-	54,497
Singapore Dollar	7	39,550	-	39,557
Canadian Dollar	748	26,423	-	27,171
Other Currencies (19)	750	177,403	-	178,153
Total	\$38,449	4,487,180	67,899	4,593,528

^a Includes receivables and payables as of December 31, 2004 for securities sold and purchased.

^b Fixed income and real estate investments were not exposed to foreign currency risk in 2004.

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(5) Securities Lending

In accordance with a contract between the Commonwealth's Treasurer and its custodian, the System participates in a securities lending program. State statutes neither specifically authorize nor prohibit the lending of the System's securities.

The custodian, acting as lending agent, lends the System's equity, debt, and money market securities for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities loaned except for the equity securities of non-U.S. corporations, for which collateral of 105% is required. Collateral is marked-to-market daily. If the collateral falls below guidelines for the fair value of the securities loaned, additional collateral is obtained. Cash collateral is invested by the lending agent in accordance with investment guidelines approved by the Board. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

As of December 31, 2005 and 2004, the System's credit exposure to individual borrowers was limited because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The Treasurer's contract with the lending agent requires the agent to indemnify the System if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All securities loans at December 31, 2005 and 2004 could be terminated on demand by either the lending agent or the borrower. Cash collateral is invested, together with the cash collateral on securities loans of other Commonwealth entities, in a short-term collective investment pool. The duration of the investments in the pool at December 31, 2005 and 2004 was 25 days and 29 days, respectively. The relationship between the average maturities of the investment pool and the System's loans is affected by the maturities of the loans made by other entities in the investment pool. In addition, the interest rate risk posed by mismatched maturities is affected by other program features, such as the lending agent's ability to reallocate securities loans among all of its lending customers.

As of December 31, 2005 and 2004, respectively, the fair value of loaned securities was \$3.3 billion and \$3.1 billion; the fair value of the associated collateral was \$3.4 billion and \$3.2 billion, of which \$3.1 billion and \$2.9 billion was cash. The securities lending collateral pool is not categorized because securities are not used as evidence of the investment.

(6) Derivative and Structured Financial Instruments and Restricted Assets

The System enters into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its portfolio. It enters into foreign exchange contracts and foreign currency options contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and to manage interest rate risk, and swaps to gain equity exposure on its absolute return fund-of-funds investments, as well as hedge against the effects of inflation.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The System uses these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the System generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the System's net assets and represents the fair value of the contracts on December 31. At December 31, 2005 and 2004, the System's contracts to purchase and sell by major foreign currencies were as follows:

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Contracts as of December 31, 2005

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Japanese Yen	\$1,410,659	(90,722)	1,992,241	132,660
EURO Currency Unit	1,222,845	(30,204)	2,124,291	43,855
British Pound Sterling	714,559	(23,850)	971,482	22,779
Swiss Franc	352,716	(15,309)	565,176	18,227
Swedish Krona	133,593	(2,879)	178,620	2,687
Australian Dollar	85,128	(3,197)	140,869	3,048
Other	3,732	25	8,740	(61)
Total	\$3,923,232	(166,136)	5,981,419	223,195

Contracts as of December 31, 2004

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
British Pound Sterling	\$2,134,039	124,074	2,226,564	(145,630)
EURO Currency Unit	2,067,917	152,275	2,049,503	(170,539)
Japanese Yen	1,553,365	66,758	1,555,695	(80,339)
Swiss Franc	383,183	22,436	423,547	(27,523)
Australian Dollar	132,071	11,625	133,941	(13,666)
Swedish Krona	124,590	10,521	124,470	(12,274)
Other	947	(1)	2,455	(14)
Total	\$6,396,112	387,688	6,516,175	(449,985)

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The System has entered into certain futures contracts maturing through March 2006. The notional value of these contracts at December 31, 2005 and 2004 is as follows:

	2005		2004	
	Buy Contracts	Sell Contracts	Buy Contracts	Sell Contracts
Treasury futures	\$52,851	86,589	50,023	15,091
S&P futures	319,347	—	308,887	—

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The System pledges investment securities to provide the initial margin requirements on the futures contracts it buys. In addition to that collateral, the System also pledges securities for sales of securities that it does not presently own (short sales). The System enters into those short sales to neutralize the market risk of certain equity positions.

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Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates and credit worthiness. During 2005 and 2004, the System entered into commodity swaps, S&P 500 total return swaps, Russell 2000 swaps, credit default swaps, and interest rate swaps. Under the commodity swap arrangement, the System receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for short-term interest plus a spread, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. The S&P 500 total return swaps are used to gain equity exposure on its absolute return fund-of-fund investments. The Russell 2000 swaps are used to gain equity exposure on its global macro strategy investments. Under those arrangements, the System receives the net return of the respective equity indices in exchange for a short-term rate plus a spread. The System uses multiple contracts with counterparties as well as collateral posting requirements to manage its credit risk. The contracts have varying maturity dates ranging from March 17, 2006 through January 3, 2007. Credit Default Swaps are agreements with counterparties to either purchase or sell credit protection. The System's advisors use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The System uses interest rate swaps as the most cost-effective way of gaining exposure to certain sectors of the fixed income market.

The table below presents the System's swap exposure at December 31:

	Notional value		Receivable/(payable)	
	2005	2004	2005	2004
S&P 500 Total Return Index	\$5,343,776	5,094,937	125,321	363,022
Goldman Sachs Commodity Index	1,438,123	1,289,353	35,287	(162,078)
Russell 2000	392,236	—	—	—
Interest Rate	11,000	—	—	—
Credit Default	8,900	—	152	—

The System mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting portfolio managers and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

The System also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds. Those collective trust funds invest in those instruments directly, and indirectly (through a securities lending collateral pool), to hedge foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

(7) Commission Recapture Program

The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investments directly to the System. During the years ended December 31, 2005 and 2004, the System earned \$714 and \$818 of benefits resulting from a commission recapture program, respectively. The System used the program to pay approximately \$46 and \$498 of consulting, advisory, and other expenditures for the years ended December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the System has accumulated \$2,865 and \$2,197, respectively, of benefits that are available for future expenditures.

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(8) Pension Plan for Employees of the System

The System also makes employer contributions. The System's employees' contribution requirements and benefits are described in note 1 to these financial statements. The System's contributions for the years ended December 31, 2005, 2004 and 2003 were \$186, \$93, and \$25, respectively, which were equal to the required contributions each year.

(9) Litigation and Contingencies

The System is involved in various individual lawsuits, generally related to benefit payments, which, if settled adversely, could increase estimated actuarial liabilities by approximately \$1 billion. Some of the individual cases involve legal issues that, if extended to the entire membership, may result in significant costs to the System. If such an event were to occur, the additional costs would be recovered by the System through adjustments to the employer contribution rate.

(10) COLA

On April 23, 2002, the Governor of Pennsylvania signed Act 2002-38 (Act 38) into law. House Bill 27 provided for, among other things, a two phase COLA for retired members. The bill excluded those members in Class AA, T-D and D-4. For annuitants retiring before July 2, 1990 the bill provided the following COLA:

	Percent Increase
Phase One, effective July 1, 2002:	
Date of retirement:	
Before July 2, 1980	25.00%
Between July 2, 1980 through July 1, 1983	15.00
Between July 2, 1983 through July 1, 1988	10.00
Between July 2, 1988 through July 1, 1990	8.00
Average expected increase	13.86
Phase Two, effective July 2, 2003:	
Date of retirement:	
Between July 2, 1990 through July 1, 1994	9.00
Between July 2, 1994 through July 1, 1998	7.50
Between July 2, 1998 through July 1, 1999	6.35
Between July 2, 1999 through July 1, 2000	4.87
Between July 2, 2000 through July 1, 2001	3.08
Between July 2, 2001 through July 1, 2002	2.27
Average expected increase	6.99

The increased actuarial liabilities for the COLA were approximately \$257 million for Phase One and \$396 million for Phase Two. Funding for Phase One commenced on July 1, 2003 and funding for Phase Two began on July 1, 2004. The effect on the employer contribution rate is expected to be 0.77% and 1.21% for Phase One and Phase Two, respectively. The cost of the COLA will be amortized under a 10-year level amortization schedule.

Financial Section
Required Supplementary Information

COMMONWEALTH OF PENNSYLVANIA
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Required Supplemental Schedule 1 - Schedule of Funding Progress
 (Unaudited)
 (Dollar Amounts in Millions)

Actuarial Valuation Year ended December 31	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL As A Percentage of Covered Payroll
2005	\$26,794	28,852	2,058	92.9%	\$5,138	40.1%
2004	26,900	27,999	1,099	96.1	5,094	21.6
2003	27,466	26,180	(1,286)	104.9	4,965	(25.9)
2002	27,498	25,650	(1,848)	107.2	5,093	(36.3)
2001	27,505	23,659	(3,846)	116.3	4,872	(78.9)
2000	26,094	19,702	(6,392)	132.4	4,769	(134.0)
1999	23,624	19,092	(4,532)	123.7	4,519	(100.3)

Required Supplemental Schedule 2 - Schedule of Employer Contributions
 (Unaudited)
 (Dollar Amounts in Thousands)

Year ended December 31	Annual Required Contributions	Percentage Contributed
2005	\$319,190	46.1%
2004	105,229	100.0
2003	55,079	123.4
2002	22,906	221.9
2001	52,104	147.2
2000	168,002	100.0
1999	269,869	100.3

During the years 2004, 2003, 2002, and 2001, actual contributions exceeded the annual required contributions (ARC). For the period July 1, 2001 through June 30, 2003 the ARC was set at zero. However, the System required payment from certain agencies that provided age 50 retirement and from special classes for payment of past liabilities for retro-active benefit enhancements. Collection of those amounts resulted in the actual contributions exceeding the ARC.

See accompanying notes to required supplemental schedules of funding progress and employer contributions.

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Required Supplementary Information

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 Notes to Required Supplemental Schedules
 December 31, 2005 and 2004

Actuarial information as of the latest actuarial valuation:

Valuation date	December 31, 2005
Actuarial cost method (b)	Variation of entry age actuarial cost method
Amortization method (a)	10 year and 30 year schedules with level payments
Remaining amortization period (a)	6-30 years, closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rates of return (c)	8.5%
Projected salary increases (c)	4.9% - 20.2%, average of 7.1%
Cost-of-living adjustments (d)	As described below

GASB 25 establishes a range of actuarial cost and amortization methods for the Unfunded Actuarial Accrued Liability. The scheduled payments for the year beginning July 1, 2005 are below the minimum amount required to meet the GASB 25 minimum. As a result, SERS employer contributions were 46.1% of the ARC for the year ended December 31, 2005. This is a temporary result of financing implemented by Act 2003-40 in December 2003. After 2011, the SERS contribution is expected to exceed the GASB 25 minimum.

- (a) The December 31, 2001 valuation included the effect of Act 9, which increased the actuarial accrued liabilities by approximately \$2.7 billion. Act 2003-40 revised the amortization method and remaining amortization periods as discussed in footnote 1(c) to the audited financial statements.
- (b) A variation of the entry-age normal actuarial cost method is used to determine the liabilities and costs related to all of the System's benefits including superannuation, withdrawal, death and disability benefits. The significant difference between the method used for the System and the typical entry-age normal actuarial cost method is that the normal cost is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. This variation should produce approximately the same results as the typical method over the long run.
- (c) Includes inflation at 3%.
- (d) Information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. The effects of COLAs granted to annuitants were included in the respective valuations as presented in the table below:

Valuation Year	Effective Retirement Date	COLA Range (based on date of retirement)	Effective Date of COLA	Increase to Actuarial Accrued Liabilities
2002	Between July 2, 1990 and July 1, 2002	2.271% - 9.0%	July 1, 2003	\$396 million
2002	On or before July 1, 1990	8.0% - 25.0%	July 1, 2002	\$257 million
1997	On or before June 30, 1997	1.86% - 25.0%	July 1, 1998	\$478 million

Financial Section
Additional Financial Information

COMMONWEALTH OF PENNSYLVANIA
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 Schedule of Administrative Expenses
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Personnel services:		
Salaries	\$9,532	
Benefits	3,760	
Temporary personnel wages, overtime, and outservice training	196	
Total personnel services		\$13,488
Professional services:		
Consultant fees	2,173	
Treasury Department services	850	
Consultant contractual services vendor provided	775	
Commonwealth Central services	534	
Consultant services EDP	444	
Legal fees	66	
Total professional services		4,842
Rentals:		
Real estate rent	1,547	
Other equipment rental	457	
Total rentals		2,004
Communication:		
Postage	498	
Telephone	334	
Printing and advertising	102	
Total communication		934
Other expenses:		
Supplies	404	
EDP Software	383	
EDP and office equipment	276	
Travel and conferences	171	
Subscriptions and memberships	115	
Maintenance	87	
Total other expenses		1,436
Total administrative expenses		\$22,704

Financial Section
Additional Financial Information

COMMONWEALTH OF PENNSYLVANIA
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 Schedule of Investment Expenses and Consulting Fees
 Year ended December 31, 2005
 (Dollar Amounts in Thousands)

Investment Expenses

	Fees
Investment Manager Fees:	
Stocks	\$90,037
Alternative investments	84,439
Real estate	33,437
Fixed income	16,388
Commodities	6,124
Total investment manager fees	230,425
Investment Related Expenses:	
Alternative investments	3,202
Real estate	603
Custodial	321
Legal	53
Legal - reimbursement of prior years expenses	(62)
Fixed income	26
Other	192
Total investment related expenses	4,335
Total investment expenses	\$234,760

Consulting Fees

Firm	Category	Fees
Cambridge Associates, LLC	Private Equity	\$1,033
Rocaton Investments Advisors, LLC	General Consultant	427
HayHuggins Company Inc.	Actuary	279
The Townsend Group	Real Estate	219
Institutional Shareholder Services	Proxy Services	110
Pension Consulting Alliance	Special Projects	70
Other	-	35
Total consulting fees		\$2,173

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Investment Section



Investment Section
Report on Investment Activity

Peter M. Gilbert
Chief Investment Officer

June 2006

Dear Members:

I am pleased to present the results of the investment operations for SERS for the calendar year 2005. The data contained in the Investment Section was compiled in conjunction with SERS investment, financial reporting and auditing staff, SERS consultants, Rocaton Investment Advisors, Cambridge Associates and the Townsend Group, and our custodian, Mellon Trust. Performance was calculated using the Modified Dietz day weighted return methodology.

The SERS Investment Office, in conjunction with the Fund's three consultants, performs a review of the asset allocation annually, recommending modifications to asset classes and future allocations as appropriate. The results are reviewed and adopted by the Board. The asset allocation decisions are among the most important decisions the Board makes in striving to achieve the Fund's investment objectives. The Fund invests in a broad range of diversified asset classes and strategies. Perusal of the Investment Summary in the following pages will reveal the diversification of both asset classes and investment manager styles. Some highlights of the investment program during 2005 follow.

The investment return for the Total Fund for 2005 was 14.5%. The 2005 performance ranked SERS among the top public pension funds nationwide for the year. The lion's share of the 2005 return was attributable to the asset allocation policy in place during the year. The 14.5% return followed on the heels of the 15.1% return in 2004 and the 24.3% return in 2003. The annualized return of the Fund for these three years was 17.9%.

As always, the performance across asset classes was mixed. The success achieved in 2005 is the result of alternative asset class returns, rather than the traditional domestic stock and bond asset classes. The alternative asset classes driving 2005 performance were Private Equity, 36.5%; Real Estate, 30.9%; Commodities, 24.7%; and International Stocks, 19.3%.

Longer term, SERS' ten year performance was 10.1% placing SERS in the top quartile of a universe of large public pension funds. This 10.1% return handily exceeded the actuarial return assumption of 8.5%. This superior long-term performance contributed significantly to reducing employer contributions to the statutorily required floor of 3.02%, well below the 8.25% normal employer contribution rate. In addition, these strong returns helped to maintain the well-funded status of the Fund.

Fund assets climbed to \$28.8 billion at year-end, approaching an all-time high for the Fund. Following the 2001-2002 market correction, Fund assets had dipped to a low of \$20.2 billion. The \$8.6 billion increase in assets represents investment earnings of \$13.2 billion and employer and employee contributions of \$1.2 billion offset by benefit payments of \$5.1 billion and expenses of \$0.7 billion. The success of the program can be attributed to the Fund's broadly diversified investment structure.

SERS continues to invest in the Commonwealth of Pennsylvania, providing funding for investments that have a positive impact on the economy of the State. In aggregate, the Fund had \$1.4 billion, or 4.7% of the Total Fund, invested in Pennsylvania. Those investments include U.S. stocks, fixed income, real estate, venture capital and private equity asset classes.

Investment Section
Report on Investment Activity

During 2005, two new initiatives were included in the Fund structure: adding emerging market debt to the fixed income asset class, and adding an actively managed portfolio to the inflation protection asset class. The emerging market debt structure comprises traditional long-only mandates and a combination of non-traditional distressed debt and long/short strategies. In addition to these new assignments, the Board committed funds to real estate, and numerous new venture capital and private equity partnerships.

Most importantly, the growth and changes to the Fund were managed in accordance with the investment policy and objectives set out by the Board, operating as fiduciaries in the sole interest of the beneficiaries and members of the Fund. The primary investment objective is to assure the adequate accumulation of reserves in the Fund at the least cost to the citizens of the Commonwealth while preserving the principal of the Fund against erosion from inflation. The objectives further state that the Board seeks to meet these objectives within acceptable risk parameters through adherence to the aforementioned policy of diversification of investments by type, industry, investment manager style and geographic location. As a long-term investor, this concept of diversification is key, as it allows the Fund to achieve its return objectives while at the same time controlling risk.

SERS' Investment Office continuously monitors economic and market events and works to position the Fund through broad diversification to be in a position to perform well under a wide variety of economic scenarios. Under the supervision and guidance of the Board, the Fund is well positioned to ensure that SERS' members receive the financial security that they have earned and that is due them.

Sincerely,



Peter M. Gilbert
Chief Investment Officer

Investment Section

Investment Policies

The State Employees' Retirement Board adopted a formal Statement of Investment Policy in 1979. It has been revised periodically, principally to reflect and incorporate legislative changes governing investments. The purpose of the statement is to formalize the Board's investment objectives, policies, and procedures; to establish guidelines for the investment of Fund assets, and to define the duties and responsibilities of the various entities involved in the investment process. The major elements of the statement are:

- As fiduciaries, the Board will exercise that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs in investment matters;
- The Fund's overall investment objective is to provide a total rate of return, over full economic cycles, which exceeds the return of a fully diversified market portfolio within each asset class. The Board seeks to meet this objective within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, quality and geographic location;
- The Board employs an investment staff and also contracts with investment advisors and consultants to provide expert, professional judgment in all investment decisions;
- An annual Investment Plan is prepared to control the allocation of funds during the year among investment advisors and categories of assets;
- Guidelines are established for each category of assets used by the Fund's investment advisors to provide a framework for monitoring quality, diversification and liquidity; and
- Where investment characteristics, including yield, risk and liquidity, are equivalent, the Board's policy favors investments which have a positive impact on the economy of Pennsylvania.

Investment Section

Investment Objectives

To assure an adequate accumulation of reserves in the Fund at the least cost to the citizens of the Commonwealth and to provide some protection against the erosion of principal by inflation, the long-term investment objectives of the Fund, are:

- Achieve a net total return equivalent to the actuarial rate of return assumption, or preferably in excess of this rate in order to improve the funded ratio of the Fund through investment earnings;
- Achieve in Domestic Stocks a total return that exceeds the total return of the Russell 3000 Index;
- Achieve in International Stocks a total return that exceeds the total return of the SERS Custom International Stock Index;
- Achieve in the Fixed Income asset class a total return that exceeds the total return of the SERS Fixed Income Custom Index;
- Achieve in the Equity Real Estate asset class a total return that exceeds the total return of the Townsend Stylized Benchmark;
- Achieve in the Cash asset class a total return that exceeds the total return on U.S. Treasury Bills (90 days);
- Achieve in the Venture Capital asset class a total return that exceeds the Cambridge Venture Capital Benchmark;
- Achieve in the Private Equity asset class a total return that exceeds the Cambridge Private Equity Benchmark.

Total return includes income and both realized and unrealized gains and losses and is computed on market value. The Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, investment manager style and geographic location.

Investment Section
Investment Results

Schedule of Portfolio Returns* After Fees
For the period ending December 31, 2005

Asset Class	1 Year Return	3 Year Return	5 Year Return	10 Year Return
Domestic Stocks	7.3%	18.3	3.6	9.9
<i>Russell 3000 Index^a</i>	<i>6.1</i>	<i>15.9</i>	<i>1.6</i>	<i>9.0</i>
International Stocks	19.3	26.5	7.6	9.7
<i>SERS Custom International Stock Benchmark (26% Hedged)^b</i>	<i>20.3</i>	<i>27.7</i>	<i>8.0</i>	<i>7.2</i>
Fixed Income	4.9	8.4	7.4	7.0
<i>SERS Custom Fixed Income Benchmark</i>	<i>4.0</i>	<i>6.5</i>	<i>6.8</i>	<i>6.2</i>
Cash	2.9	2.0	2.3	4.0
<i>90 day U.S. T-bills</i>	<i>3.1</i>	<i>1.8</i>	<i>2.3</i>	<i>3.9</i>
Real Estate ^c	30.9	18.4	13.3	13.1
<i>Townsend Stylized Benchmark</i>	<i>20.6</i>	<i>15.4</i>	<i>12.1</i>	<i>12.0</i>
Private Equity ^c	36.5	24.3	8.4	17.9
<i>Cambridge Private Equity Index</i>	<i>35.1</i>	<i>22.0</i>	<i>6.3</i>	<i>15.2</i>
Venture Capital ^c	8.3	-3.5	-16.0	8.7
<i>Cambridge Venture Capital Index</i>	<i>12.5</i>	<i>3.0</i>	<i>-16.6</i>	<i>20.5</i>
Inflation Protection ^d	24.7	21.9	N/A	N/A
<i>Inflation Protection Custom Index</i>	<i>24.5</i>	<i>20.8</i>	<i>9.6</i>	<i>9.5</i>
Total Fund	14.5%	17.9	6.1	10.1
Total Fund Benchmark	13.7	16.7	5.2	9.0

* Returns for periods longer than one year are annualized.

^aThe Domestic Stocks Benchmark is the Wilshire 5000 Index through 12/31/98, and the Russell 3000 thereafter.

^bThe International Stocks Composite and the Custom International Index were unhedged prior to 5/1/96.

^cResults for the Real Estate, Private Equity, Venture Capital and Indices are lagged one quarter.

^dInflation Protection was initially funded in November, 2001.

Note: Performance was calculated using the Modified Dietz day weighted return methodology.

Investment Section
Largest Assets Held
 At December 31, 2005

Domestic Equity		International Equity	
Holding	Fair Value	Holding	Fair Value
NTL Inc.	\$46,951,236	Nestle	\$63,889,076
Ansys Inc.	15,477,729	British Petroleum	53,527,758
Autoliv Inc.	14,543,484	Telewest Global Inc.	48,758,968
Ansoft Corp	13,781,942	UBS AG	42,530,868
Wesco International Inc.	12,429,730	France Telecom	38,102,436
Ametek Inc.	10,635,000	Total SA	37,672,730
Dean Foods	10,327,502	Novartis	36,221,714
Allegheny Technologies Inc.	9,912,980	Vodafone	34,956,052
Constellation Energy Group Inc.	9,786,240	Royal Dutch Shell	34,318,086
Crown Holdings Inc.	9,752,501	Reckitt Benckiser	30,231,490

International Fixed Income

Holding	Fair Value
Russian Federation Bond Step, March 31, 2030	\$109,254,244
Federative Republic of Brazil, 8.0% January 15, 2018	73,886,330
Federative Republic of Brazil, Variable Rate April 15, 2012	44,048,541
Federative Republic of Brazil, 11.0% August 17, 2040	39,183,750
Mexico Notes 6.625%, March 3, 2015	34,101,200
Mexico Government Bonds, 8.125% December 30, 2019	25,916,100
Mexico Mtn 5.875%, January 15, 2014	25,516,890
Republic Of Ecuador, Step August 15, 2030	24,115,740
Federative Republic of Brazil, 7.875% March 7, 2015	19,915,500
Republic of Turkey, 9.5% January 15, 2014	18,652,225

US Government and Government Related

Holding	Fair Value
U S Treasury Inflation Index Note, 3.875% January 15, 2009	\$456,970,482
U S Treasury Inflation Index Note, 0.875% April 15, 2010	325,317,602
U S Treasury Inflation Index Note, 3.75% January 15, 2012	245,374,960
U S Treasury Inflation Index Note, 4.25% January 15, 2010	217,874,106
U S Treasury Inflation Index Note, 3.5% January 15, 2011	211,818,806
U S Treasury Inflation Index Note, 3.0% July 15, 2012	57,395,370
U S Treasury Bond Stripped Principal Payment 8.75% August 15, 2020	56,109,754
U S Treasury Note, 3.75% May 15, 2008	40,627,320
Federal National Mortgage Association, 7.0% November 1, 2034	39,530,123
U S Treasury Note 3.875% February 15, 2013	36,597,552

Domestic Corporate Fixed Income

Holding	Fair Value
Comcast Corp SR Sub Deb, 10.625% July 15, 2012	\$17,176,983
Pemex Project FDG MTN, 8.625% February 1, 2022	15,892,500
Citibank Cr Card ISS 2000-A3, 6.875% November 16, 2009	13,568,752
General Motors Corp Note, 8.0% November 1, 2031	11,996,570
Ford Motor Co Del GBL Landmark, 7.450% July 16, 2031	11,883,000
Ford Motor CR CO SR NT, 6.625% June 16, 2008	10,453,521
Nextel Communications Inc Sr, 7.375% August 1, 2015	9,497,790
Chesapeake Energy Corp SR 144A, 6.875% November 15, 2020	9,239,063
Triads Hospital Inc., 7.0% November 15, 2013	9,022,500
Davita Inc. SR Sub NT, 7.25% March 15, 2015	8,869,500

Note: A detailed list of SERS' investment holdings at December 31, 2005, may be viewed at www.sers.state.pa.us

Investment Section
Schedule of Trading Broker Commissions
Year Ended December 31, 2005

Broker	Commissions	Broker	Commissions
Merril Lynch	\$1,032,076	First Union Capital Markets	\$96,776
First Boston Corp	952,095	SK International Securities	93,833
Deutsche Bank	704,045	Oppenheimer	93,179
Salomon Smith Barney	607,814	Nomura Bank International	91,769
Morgan Stanley	575,379	Pershing	90,598
Bear Stearns	471,426	Sanford C Bernstein & Co	86,797
Lehman Brothers	445,941	Kay Hian James Capel Ptd	85,976
U.B.S. Securities	438,858	Bank Oppenheim	85,770
Goldman Sachs	418,575	Mitsubishi Finance Int	85,423
J. P. Morgan	399,835	Westminster Research Associates	79,712
ABM Amro	349,524	Donaldson, Lufkin, & Jenrette	76,697
Credit Lyonnais	340,065	Deutsche Securities	76,308
B Trade Services	293,082	Mainfirst Bank AG	75,749
Citibank	292,408	Citation Group	74,846
Midland Bk London	249,904	Raymond James & Assoc. Inc.	73,253
Cheuvreux De Virieu	248,539	Pulse Trading	68,723
Kleinwort Benson	229,856	Jones & Associates	66,876
Carnegie	214,155	UFJ International	66,289
Execution Services	195,680	Julius Baer Securities	65,412
Instinet	194,723	Samsung Securities	64,157
Liquidnet	194,158	Heflin & Company	63,712
Union Bank Of Switzerland	187,136	Berenborg Gossler	62,803
Investment Technology Group	181,466	Daiwa Bank	62,323
Warburg Dillon Read	172,734	SG Securities	60,952
Cazenove	167,347	Euromobulare	59,066
Cantor Fitzgerald	134,357	Saritoga Capital	58,341
Paine Webber	129,611	Fortis Securities	58,306
Exane	124,942	Den Danske Bank	56,790
Davy Stockbrokers	124,419	Williams Capital Group	53,108
HSBC Securities	123,202	Intersecurities Inc.	51,235
ING Bank	122,899	Legg Mason	49,981
Jefferies & Company	120,776	Thomas & Weisel	48,679
Weeden & Company	112,759	Goodbody Stockbroker	47,491
Bank Of America	108,864	Caib Securites	45,873
KBC Bank N V	106,072	Collins Stewart	45,529
ABG Securities	104,482	RBC Dominion Sec. Corp.	45,245
Petercam	99,980	Banco Santander	44,182

Investment Section
Schedule of Trading Broker Commissions *(continued)*
Year Ended December 31, 2005

Broker	Commissions	Broker	Commissions
Green Street Advisors	44,135	Peel Hunt	21,061
Pereire-Tod Ltd.	43,058	Lazard Freres	21,016
Macquarie Bank	42,921	CJS Securities	20,553
Investec Bank Ltd.	42,601	Numis Securities Ltd.	20,154
Anderson & Strudwick Inc.	42,221	Neuberger & Berman	19,805
Kempen	41,840	Autranet	19,625
SG Cowen Securities	41,795	Rabobank Nederland	19,293
Svenska Handelsbanken	41,788	JMP Securities	18,822
Henderson Brothers Inc.	41,692	Lombard Odier Et Cie	18,635
Oien Securities Inc.	39,459	Gget, LLC	18,476
A.G. Edwards & Sons Inc.	38,151	Williams De Broe	18,442
Capital Institutional Investors	36,357	Deutsche Equities	18,136
Mizuho Securities	35,921	Spear Leeds & Kellogg	17,998
Rochdale Securities	35,270	Intermonte Sec Cim	17,674
Redburn Partners	32,703	ISI Group	17,629
Magna Sec Corp.	31,957	American Technology Research	17,257
Neue Zurich Bank	31,513	Boston Institutional Services	17,223
Seslia Securities	31,350	Egnatia Securities SA	17,010
Kevin Dann Partners	30,672	Alpha Bank AE	16,885
First Clearing LLC	30,484	PCS Securities	16,101
First Albany	29,819	Ivy Securities Inc.	16,085
Dain Rauscher	29,546	Friedman Billings	15,082
Citigroup Gbl Mkts	28,612	Second Street Securities	15,015
Blaylock Partners L P	28,523	CI Nordic Securities	14,718
Oddo Securities	28,279	Baird Robert W & Co Inc	14,375
HVB Capital Markets	27,977	Peregrine Brokerage	14,309
William Blair & Company	27,882	Stephens	13,277
GK Goh Securities	27,063	Merrion Capital Group	13,114
Financial Brokerage Group	26,780	Wave Securities	12,820
Beal M R & Co.	26,536	SIS Segaintersettle AG	12,226
Prudential Securities	26,098	P K Securities AE	12,049
Enskilda Securities	25,142	Mogavceo Lee & Company	11,932
Mcdonald & Company Securities	24,360	Banco De Portugal	11,463
Bank Am Bellevue	24,227	West Deutsche Landesbanken	11,359
Credit Agricole	22,499	Gerson Lehrman Group Brokerage	10,838
BNP Capital Markets	22,404	Henderson Crosthwaite & Co.	10,704
Scott Stringfellow Inc.	21,540	Other (238)	682,825
		Total Commissions	\$15,948,104

Investment Section
Investment Summary
as of December 31, 2005

SERS' assets are administered by the SERS Board. The Board has adopted an Investment Policy (Policy) that incorporates the provisions of the Retirement Code which govern the investment of SERS' assets. The Policy provides investment objectives and guidelines. An Investment Plan is reviewed and updated annually for strategic asset allocation purposes, as well as for diversification needs within each asset class.

Market Value as of December 31, 2005: SERS' assets had an unaudited market value of approximately \$28,805.2 million.

SERS Asset Allocation

Asset Class	Market Value (Unaudited)		2005 Target Allocation	Long-Term Target Allocation
	\$ (mil)	%		
Domestic Stocks	\$9,786.1	34.0%	35.0	30.0
International Stocks	6,028.1	20.9	20.0	17.0
Currency Overlay	56.7 ^a	0.2	0.0	0.0
Fixed Income	4,619.8	16.0	18.0	24.0
Cash	598.5	2.1	0.0	0.0
Real Estate	1,968.8	6.8	8.0	8.0
Alternative Investments	3,623.3	12.6	12.0	14.0
Inflation Protection	2,123.9	7.4	7.0	7.0
Total	\$28,805.2	100.0%	100.0	100.0

^a The market value of the currency overlay represents amounts receivable (payable) due to changes in the underlying exchange rates of forward currency contracts. The contracts are used to hedge the effect of currency fluctuations in international stock holdings.

Number of Investment Advisors: SERS has 45 advisors in the public markets domain and 145 advisors covering alternative investments and real estate.

- 13 U.S. Stock advisors
- 2 Inflation Protection advisors
- 13 International Stock advisors
- 24 Real Estate advisors
- 2 Currency Overlay advisors
- 53 Venture Capital general partners managing limited partnerships
- 14 Fixed Income advisors
- 68 Private Equity general partners managing limited partnerships
- 1 Cash advisor

In addition, Board appointments included one U.S. stock advisor and one private equity general partnership.

Number of Investment Portfolios: SERS had 364 investment portfolios/accounts. Fifty-five of these accounts are public market investments, while 309 covered private markets.

- 17 U.S. Stock portfolios
- 2 Inflation Protection portfolios
- 18 International Stock portfolios
- 49 Real Estate portfolios
- 2 Currency Overlay portfolios
- 108 Venture Capital limited partnership interests
- 15 Fixed Income portfolios
- 152 Private Equity limited partnership interests
- 1 Cash portfolio

In addition, Board appointments included one U.S. stock portfolio, two real estate portfolios, one private equity limited partnership, and two venture capital limited partnerships.

Investment Section
Investment Summary - U.S. Stock Investments
as of December 31, 2005

U.S. Stocks is one of eight major asset classes which SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmark. SERS contracts with external investment advisors to manage portfolios.

Policy: Stock investments are employed by the Fund primarily because their expected large return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The U.S. stock asset class is managed on a total return basis.

SERS' long term investment objective in the U.S. Stock asset class is to achieve a total return, net of fees, that exceeds the total return of the Russell 3000 Index.

Stock investments shall emphasize, but not be limited to, publicly traded securities which provide SERS with an equity interest in private sector concerns (e.g., common stock, preferred stock, convertible preferred stock, convertible bonds and derivative instruments providing stock like returns).

SERS' 2006 Investment Plan targets a long-term allocation of 30.0% of assets to U.S. Stocks. The U.S. stocks structure reflects the broad U.S. market in terms of capitalization (large, medium, small). SERS' U.S. stock portfolio, in aggregate, will strive to reflect the risk characteristics of the Russell 3000 Index, which is a good proxy for the broad, investable U.S. market.

The large cap segment of the portfolio is benchmarked to the S&P 500 Index utilizing indexed, enhanced indexed and transportable alpha strategies including market neutral and funds-of-hedge funds. The remainder of the portfolio represents the medium and small capitalization segments of the domestic stock market. Exposure to the medium and small capitalization segment of the market is achieved with actively managed traditional long-only advisors and global macro transportable alpha strategies benchmarked to the Russell 2500 Index.

Market Value as of December 31, 2005: U.S. Stocks had a \$9,786.1 million market value, 34.0% of the total fund's \$28,805.2 million market value.

Number of Investment Advisors: SERS had contracts with 13 external investment advisors to manage U.S. Stock portfolios.

Number of Investment Portfolios: SERS had 17 U.S. Stock portfolios managed by the 13 investment advisors.

Type of Investment Portfolios: As of December 31, 2005, 81.2% of SERS' U.S. Stock allocation was in large capitalization stock strategies, including the equitized fund-of-funds absolute return strategies, and 18.8% was in medium/small capitalization stock strategies. The alpha transport strategies, used in both the large capitalization and medium/small capitalization segments, replicate a broad market return benchmark through derivatives and then add alpha through uncorrelated return streams. SERS has one equitization manager to replicate the benchmarks for the alpha transport strategies.

Investment Section
Investment Summary - U.S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	Market Value ^a As of 12/31/05 (\$ Millions)
1. Barclays Global Investors	S&P 500 Index	\$1,611.2
	Enhanced indexing	327.9
	Russell 2500 Index (Transition)	394.1
2. AXA Rosenberg Investment Management	Russell 2500, risk controlled	331.7
3. Blackstone Alternative Asset Management (BAAM)	Absolute return Fund-of-funds	1,686.3
4. Bridgewater	Global Macro	392.4
5. Emerald	PA stocks	206.3
6. First Quadrant	Equitized long/short U.S. market neutral	70.7
7. Iridian Asset Management	Mid-cap private business value	308.9
8. Martingale Asset Management	Equitized long/short U.S. market neutral	87.2
9. Mellon Equity Associates	PA stocks	207.5
The Boston Company	Equitized long/short U.S. market neutral	87.6
10. Mesirow Financial	Absolute return Fund-of-funds	1,290.1
11. Morgan Stanley Alternative Investment Partners	Absolute return strategy equitization	125.3
	Absolute return Fund-of-funds	1,086.6
12. PAAMCO Absolute Return	Absolute return Fund-of-funds	1,496.7
13. Twin Market Neutral	Equitized long/short U.S. market neutral	75.6
Total		\$9,786.1

^a Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.

Investment Section
Investment Summary - International Stock Investments
as of December 31, 2005

International stocks is one of eight major asset classes that SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmarks. SERS contracts with external investment advisors to manage portfolios.

Policy: Stock investments are employed by the Fund primarily because their expected large return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The International Stock asset class is managed on a total return basis.

SERS' long term investment objective for the international stock component of the stock asset class is to achieve a total return, net of fees, that exceeds the total return of the S&P/Citigroup World Equity Broad Market Index Europe and Pacific, a proxy for large cap and small cap stocks in non-U.S. developed markets, and the MSCI Emerging Markets Index, a proxy for stocks in emerging markets.

SERS' 2006 Investment Plan targets an allocation of 10.4% of total Fund assets to stocks in non-U.S. developed markets, 2.6% of total Fund assets to strategies dedicated to small-cap stocks in non-U.S. markets, and 4% of total Fund assets to strategies dedicated to stocks in emerging markets, by the end of 2010.

Market Value as of December 31, 2005: International Stocks had a \$6,028.1 million market value or 20.9% of the total Fund's \$28,805.2 million market value. In addition, the fair value of forward exchange contracts in the currency overlay program amounted to \$56.7 million.

Number of Investment Advisors: SERS had contracts with 13 external investment advisors to manage international stock portfolios. In addition, SERS had contracts with two external advisors to manage the currency overlay program.

Number of Investment Portfolios: SERS had 18 stock portfolios managed by the 13 investment advisors and two accounts for the currency overlay program.

Type of Investment Portfolios: As of December 31, 2005, SERS had 18 actively managed international portfolios. 13.0% of total Fund assets was allocated to stocks in non-U.S. developed markets, 3.6% of total Fund assets was allocated to strategies dedicated to small-cap stocks in non-U.S. markets, and 4.3% was allocated to strategies dedicated to stocks in emerging markets.

Investment Section
Investment Summary - International Stock Investments

International Stock Investment Advisor	Investment Style	Market Value ^a as of 12/31/05 (\$ millions)
Integrated developed and emerging markets		
<u>Broad Mandates</u>		
1. Artisan Partners Limited Partnership	Growth stocks	\$559.9
2. Morgan Stanley Investment Management Limited (London) EAFE value equity team	Free cash flow value	740.6
3. Templeton Investment Counsel, LLC	5-year stock value	763.9
<u>Regional Mandates</u>		
4. Marathon Asset Management LLP	Europe - relative value sectors	615.1
5. Walter Scott & Partners Limited	Europe - growth	353.1
6. J.P. Morgan Investment Management Inc. (New York) Japan equity team	Japan - benchmark risk control	413.8
7. GAM International Management Ltd GAM Institutional Group Trust	Pacific basin ex Japan - value	151.2
Morgan Stanley Investment Management Inc. (New York) Asia equity team	Pacific basin ex Japan - growth	147.2
<u>Dedicated Small Cap</u>		
8. Harris Associates L.P.	Small cap - intrinsic value	349.9
9. Merrill Lynch Investment Managers International Limited Specialist equities teams	Small cap - growth	342.5
10. Pictet International Management Limited International small cap equity team	Small cap - value with growth	357.0
<u>Dedicated Emerging Markets</u>		
11. Bernstein Investment Research and Management Pictet International Management Limited Emerging markets equity team	Global emerging markets - value	129.0
	Global emerging markets - value	370.2
12. Rexiter Capital Management Limited	Global emerging markets - core	126.1
Templeton Asset Management Ltd. Global emerging markets team TIFI Emerging Markets Series	Global emerging markets - value	340.2
Templeton Strategic Emerging Markets Fund team Templeton Strategic Emerging Markets Fund, L.P.	Global emerging markets private placements with public companies	101.1
Templeton Strategic Emerging Markets Fund II, L.P.	Global emerging markets private placements with public companies	32.2
13. Oaktree Capital Management, LLC OCM Emerging Markets Feeder Fund, L.P.	Pacific basin emerging and developed - long/short	135.1
Total International Stocks		\$6,028.1

^a Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding

Investment Section
Investment Summary - International Stock Investments

	Currency Overlay Investment Advisor	Investment Style	Market Value^a as of 12/31/05 (\$ millions)
1.	Pareto Partners	Currency Overlay	\$23.7
2.	Record Treasury	Currency Overlay	33.0
Total Currency Overlay			\$56.7^b
Total International and Currency Overlay			\$6,084.8

^a Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.

^b The market value of the currency overlay represents amounts receivable (payable) due to changes in the underlying exchange rates of forward currency contracts. The contracts are used to hedge the effect of currency fluctuations in international stock holdings.

Investment Section
Investment Summary - Fixed Income Investments
as of December 31, 2005

Fixed Income is one of eight major asset classes that SERS uses to diversify the investments of the Fund. The SERS' Investment Plan diversifies Fixed Income investments and strategies. SERS contracts with external investment advisors to manage portfolios.

Policy: The Fixed Income asset class is employed by the Fund because of its ability to generate current income from interest payments, increase the value of the Fund through the reinvestment of those interest payments, serve as a Benefit Payment Reserve during periods of financial stress, serve as a hedge against disinflation and/or deflation and to help diversify the overall Fund. The Fixed Income asset class is managed on a total return basis.

In the Fixed Income asset class, SERS' long-term investment objective is to achieve a total return, net of fees, that exceeds the total return of the SERS Custom Fixed Income Index which is comprised of the Lehman Intermediate, Lehman Aggregate, the Citigroup High Yield Market and J.P. Morgan Emerging Market Bond indexes.

SERS' 2006 Investment Plan targets a long-term allocation of 24.0% of assets of the total Fund to the Fixed Income asset class. Of this amount, 63% is targeted to the core strategies and 37% to specialty strategies (High-yield and emerging market debt).

Market Value as of December 31, 2005: Fixed Income had a \$4,619.8 million market value, 16.0% of the total Fund's \$28,805.2 million market value.

Number of Investment Advisors: SERS had contracts with 14 external investment advisors to manage portfolios within the Fixed Income asset class.

Number of Investment Portfolios: SERS had a total of 15 portfolios within the Fixed Income asset class.

Type of Investment Portfolios: The Fixed Income asset class is divided into core and specialty segments.

Core: Core portfolios invest in relatively liquid, high quality, fixed income securities with intermediate term durations that meet return, disinflation/deflation, benefit reserve payments and diversification needs of the Fund. SERS had five actively managed core bond portfolios, two Lehman Intermediate and three Lehman Aggregate portfolios, with a total market value of \$1,775.4 million. In addition, SERS had one passively managed core bond portfolio with a market value of \$256.4 million. The combination of core portfolios represented 44% of the asset class.

Specialty: The specialty strategy portfolios (high-yield, emerging market debt, and subordinated debt) focus on debt instruments offering higher return premiums and different risk characteristics than core fixed income securities. SERS had corporate high yield portfolios with a market value of \$1,075.4 million, emerging market debt portfolios with a market value of \$1,162.9 million, one high yield commercial mortgage-backed securities portfolio with a market value of \$278.8 million, one whole-loan mortgage portfolio with a market value of \$32.2 million, one subordinated debt portfolio with a market value of \$11.9 million that invests in Pennsylvania companies, and one mezzanine debt portfolio with a market value of \$26.8 million. The specialty portfolios represent 56% of the asset class.

Investment Section
Investment Summary - Fixed Income Investments

Fixed Income Investment Advisor	Investment Style	Market Value ^a As of 12/31/05 (\$ Millions)
<u>Core</u>		
1. Goldman Sachs Asset Management	Active domestic intermediate duration	\$373.4
2. MDL Capital Management	Active domestic intermediate duration	92.4
3. Standish (Mellon)	Domestic – index	256.4
4. Morgan Stanley	Active domestic	833.8
5. NISA Investment Advisors	Active domestic intermediate duration	375.4
6. Taplin, Canida & Habacht	Active domestic	100.4
<u>Specialty</u>		
7. Legg Mason	Whole-loan mortgages	32.2
Salomon Brothers Asset Management	Global High yield	1,143.2
8. Berwind (Eureka) Financial Group	PA Capital Fund	11.9
9. Fidelity Management Trust Company	Commercial mortgage backed securities	278.8
10. Oaktree Capital Management	Mezzanine Fund	26.8
11. W. R. Huff Asset Management	High yield bonds	449.4
12. Gramercy Advisors	Emerging market debt – absolute return	92.1
13. Greylock Capital Management	Emerging market debt – absolute return	100.5
14. PIMCO	Emerging market debt	453.1
Total		\$4,619.8

^aIncludes securities and cash that the manager had available for investment. Numbers may not add due to rounding.

Investment Section
Investment Summary - Cash Investments
as of December 31, 2005

Cash is one of eight major asset classes that SERS uses for investments of the Fund. The SERS' Investment Plan calls for minimizing cash balances while meeting cash flow requirements.

Policy: Cash investments are employed by the Fund to provide for SERS' liquidity needs and to accumulate funds for future permanent investment. The Cash asset class is to be managed on a total return basis, with the exception that temporary investments such as overnight repurchase agreements ("repo"), commercial paper, and banker's acceptance may alternatively be evaluated on a yield-to-maturity basis given their extremely short maturities.

In the Cash asset class, SERS' long term investment objectives are to achieve a total return, net of fees, that exceeds the total return on 90 day U.S. Treasury Bills. SERS' current Investment Plan targets an allocation of 0% of assets to the Cash asset class.

Market Value as of December 31, 2005: Cash had a \$598.5 million market value, 2.1% of the total Fund's \$28,805.2 million market value.

Number of Investment Advisors: In accordance with SERS' 2006 Investment Plan, SERS utilizes the Pennsylvania State Treasury Department to manage its cash accounts. The Pennsylvania State Treasury Department, as sole custodian of the Fund, is responsible for selecting the cash managers that the Fund utilizes.

Number of Investment Portfolios: SERS' cash portfolio is managed primarily by the Treasurer. In addition, Valley Forge and Swarthmore manage a short-term duration segment of the portfolio to provide additional yield on assets not deemed necessary for immediate liquidity.

Type of Investment Portfolios: SERS' Cash asset class currently employs a money market short-term investment strategy. The portfolio also contains the uninvested cash balances held by other SERS investment advisors in other asset classes.

In the aggregate, the State Treasury managed approximately \$876 million on behalf of SERS and SERS' external investment advisors as of December 31, 2005.

Investment Section
Investment Summary - Inflation Protection Investments
as of December 31, 2005

Inflation Protection is one of eight major asset classes that SERS uses for investments of the Fund. The objective of this asset class is to reduce the deleterious affects of inflation by investing in strategies that specifically respond to expected and unexpected inflation.

Policy: Inflation Protection investments are employed by the Fund to provide diversification within the total portfolio and to act as a hedge against inflation.

SERS' long term investment objective in the Inflation Protection asset class is to achieve a total return, net of fees, that exceeds the total return of the Customized Inflation Protection Benchmark.

The strategy is a combination of indexed commodities, TIPS and a diversified inflation hedges portfolio. The strategy provides diversification and low correlations to other asset classes in the portfolio. The commodities are based on the Goldman Sachs Commodity Index (GSCI) which is a "basket" of 26 commodities that are traded on U.S. exchanges. Exposure to the GSCI is achieved through swap contracts. The underlying cash for the GSCI swaps is intermediate-duration Treasury Inflation Protection Securities (TIPS). These fixed-income securities adjust for actual changes in inflation, and therefore retain their real value. The prices of these investments are expected to generally move independently of the broad market movements that affect other financial assets such as stocks and bonds. Commodities historically have the highest correlation with inflation, considerably outperforming stocks and bonds during rising inflation periods, but underperforming when inflation was stable or falling. They provide an inflation hedge because their prices are linked to global supply and demand conditions for the world's basic commodities. This is the general underlying driver of inflation.

SERS' 2006 Investment Plan targeted a long-term allocation of 7.0% of assets to Inflation Protection. The commodity allocation is a passively managed exposure to the commodity markets. Exposure is gained by entering into swap agreements that provide the GSCI return that would be achieved by passively holding the underlying commodity futures contracts. The TIPS generate incremental returns above typical cash instruments. On December 31, 2005, the passive commodity portfolio represented 5.3% of the total Fund. The active strategy over/under weights inflation-sensitive instruments including commodities, inflation-sensitive stocks, and bonds. The active diversified inflation hedge portfolio amounted to 2.0% of the total Fund.

Market Value as of December 31, 2005: Inflation protection strategies had a \$2,123.9 million market value, 7.4% of the total Fund's \$28,805.2 million market value.

Number of Investment Advisors: SERS had contracts with two external investment advisors to manage the Inflation Protection portfolios.

Number of Investment Portfolios: SERS had two Inflation Protection portfolios managed by the two investment advisors.

Types of Investment Portfolios: The commodity portfolio achieves the commodity index return by employing a swap agreement whereby SERS "swaps" the return earned on a short-term cash portfolio for the return of the Goldman Sachs Commodity Index. The advisor manages both the underlying TIPS portfolio and the commodity swaps.

The diversified inflation hedge portfolio seeks to add value from both bottom-up selection of global equity, fixed income, and commodities instruments, as well as active top-down asset class and sector allocation.

	Inflation Protection Investment Advisor	Investment Style	Market Value ^a As of 12/31/05 (\$ Millions)
1.	NISA Investment Advisors	Indexed commodities and TIPS	\$1,539.7
2.	Wellington	Diversified inflation hedge portfolio	584.2
Total			\$2,123.9

^aIncludes securities and cash that the manager had available for investment. Numbers may not add due to rounding.

Investment Section
Investment Summary - Real Estate Investments
as of December 31, 2005

Equity Real Estate is one of eight major asset classes that SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies Real Estate investments and balances real estate management styles. In accordance with the plan, SERS contracts with external investment advisors to manage portfolios.

Policy: Equity Real Estate investments are generally long-term, illiquid investments that due to their high correlation with inflation provide an inflation hedge and, due to their low correlation with stocks and bonds, provide diversification within the total portfolio. It is expected that the long-term total return (income and appreciation) for real estate will fall between that of stocks and bonds. The Equity Real Estate asset class is managed on a total return basis.

In the Equity Real Estate asset class, SERS' long-term investment objective is to achieve a total net return that exceeds the total return of the NCREIF Index for rolling five year periods. SERS' 2006 Investment Plan targets a long-term allocation of 8% of assets to the Equity Real Estate asset class.

Investments are made through commingled fund investments, limited partnerships, REITs and separate account portfolios where SERS contracts with external investment advisors to own properties directly or with other co-investors. SERS' Equity Real Estate portfolio provides for diversification by:

- Transaction structure;
- Property type;
- Geographic location; and
- Development phase.

Market Value as of December 31, 2005: Real Estate had an estimated \$1,968.8 million market value, approximately 6.8% of the total Fund's December 31, 2005 market value. This market value represents September 30, 2005 actual numbers adjusted for cash flows, which occurred in the fourth quarter 2005. Real estate market values and detailed property data is lagged by one quarter due to the timing of the receipt of the private market valuations and information.

Number of Investment Advisors: SERS had contracts with 24 external investment advisors to manage real estate portfolios as of December 31, 2005.

Number of Investment Portfolios: SERS had investments in 49 real estate portfolios managed by the 24 investment advisors.

Type of Investment Portfolios: As of September 30, 2005, the composition of the real estate portfolio was:

- 37% pooled funds, 63% separate accounts;
- 28% office, 7% industrial, 10% retail, 19% residential, 13% hotel/motel, 7% timber, 16% other;
- 15% Pennsylvania, 25% East excluding PA, 30% West, 20% South, 8% Midwest, 2% International; and,
- 42% of the market value of the separate accounts was invested in fifteen investments located in Pennsylvania.

Investment Section
Investment Summary - Real Estate Investments

	SERS Initial Funding	Property Type	Transaction Structure	Market Value ^a as of 9/30/05 (\$ millions)
1. Apollo-AREF III	06/26/98	Opportunistic	equity and debt	\$33.3
2. Berwind – BPG Fund IV	04/20/98	Opportunistic	equity and debt	12.1
BPG Fund V	11/29/99	Opportunistic	equity and debt	22.4
BPG Fund VI	09/09/02	Opportunistic	equity and debt	23.5
BPG Fund VII	09/12/05	Opportunistic	equity and debt	0.7
3. Blackstone – BREP II	02/26/97	Opportunistic	equity and debt	3.7
BREP III	10/22/99	Opportunistic	equity and debt	13.2
BREP IV	12/08/03	Opportunistic	equity and debt	21.6
BREP V		Opportunistic	equity and debt	-
4. Campbell Group		Timber	equity ownership	-
5. Cliffwood Select Equity Fund	08/04/00	Long/Short REITs	public securities	34.8
6. CRA Securities	01/31/96	REITs	public securities	377.7
7. Filmore Capital Partners		Debt	equity and debt	-
8. Forest Investment Assoc.	10/30/92	Timber	equity ownership	164.2
9. Heitman Capital Mgmt	12/28/87	Diversified	equity ownership	28.1
JMB Group Trust III	12/31/84	Office, retail	equity ownership	0.1
10. LaSalle Investment Mgmt.	10/01/93	Diversified	equity ownership	126.8
11. Legg Mason Real Estate Adv.	10/01/93	PA diversified	equity ownership	188.1
Eastern Retail Holdings	01/07/99	Retail	equity and debt	44.0
12. Lowe Enterprises	10/01/93	Diversified	equity ownership	376.5
13. Lubert-Adler Fund II	10/30/98	Opportunistic	equity and debt	16.7
Lubert-Adler Fund III	11/10/00	Opportunistic	equity and debt	17.7
Lubert-Adler Fund IV	3/31/04	Opportunistic	equity and debt	20.4
14. Miller Global Fund III	01/19/99	Diversified	equity and debt	1.1
15. Oaktree Capital Management:				
TCW Fund VI	04/20/94	Opportunistic	equity and debt	2.5
OCM Opportunity Fund A	05/09/96	Opportunistic	equity and debt	25.8
OCM Opportunity Fund II	12/15/98	Opportunistic	equity and debt	7.0
OCM Opportunity Fund III	03/05/03	Opportunistic	equity and debt	26.8
16. Oxford Development	01/09/97	Industrial	equity ownership	12.5
17. Prudential Senior Housing I	12/22/98	Senior housing	equity and debt	5.1
Prudential Senior Housing II	06/12/01	Senior housing	equity and debt	24.5
18. Rockpoint Fund I	09/28/04	Opportunistic	equity and debt	16.6
Rockpoint Fund II	09/27/05	Opportunistic	equity and debt	0.1
19. Sentinel Corp.	07/31/84	Diversified	equity ownership	71.2
20. Starwood: SOF IV	03/24/97	Opportunistic	equity and debt	11.7
SOF V	05/14/99	Opportunistic	equity and debt	14.9
SOF VI	03/27/03	Opportunistic	equity and debt	64.8
SOF VII		Opportunistic	equity and debt	-0.5
21. UBS-Brinson: PMSA	09/30/83	Diversified	equity mortgages	63.2
RESA	06/3//84	Diversified	equity ownership	74.2
Multifamily Trust	08/02/99	Residential	equity ownership	7.5
22. Urdang Investment Mgmt.	05/15/02	REITs	public securities	50.9
23. Westbrook Partners: WREF II	06/16/97	Opportunistic	equity and debt	5.6
WREF III	09/01/98	Opportunistic	equity and debt	16.0
WREF IV	05/01/01	Opportunistic	equity and debt	17.8
WREF V	02/16/05	Opportunistic	equity and debt	21.8
24. Goldman Sachs:				
Whitehall V & VI	04/20/94	Opportunistic	equity and debt	4.5
Whitehall V-S & VI-S	12/11/95	Opportunistic	equity and debt	1.1
Whitehall VII & VIII	05/28/96	Opportunistic	equity and debt	6.0
September 30, 2005 Total				\$2,077.8
4 th Quarter 2005 Net Cash Flow Adjustments				-109.0
December 31, 2005 Total				\$1,968.8

^aMarket values are lagged by one quarter due to the timing of the receipt of private market valuations and information. Numbers may not add due to rounding.

Investment Section
Investment Summary - Alternative Investments
as of December 31, 2005

Alternative Investments is comprised of Venture Capital and Private Equity investments, both of which take the form of limited partnerships, and is one of eight major asset classes that SERS uses to diversify the investments of the fund.

Venture Capital and Private Equity Defined

Venture Capital is the financing of young, rapidly growing companies, typically at three stages of development. (1) Seed and Early Stage: Seed is the form of venture capital that supports companies in their conceptual phase, i.e., a product and market are identified, and a corporation may have been formed. Early Stage financing supports companies pursuing a business plan but not yet generating meaningful revenues. The product has been developed and may have been shipped to customers for testing. Management positions have been filled and an operating team is in place. (2) Late Stage financing supports companies that have proven revenues, and are in the process of rolling out operations and building sales to achieve profitability. (3) Growth or Expansion Financing supports profitable or nearly profitable businesses that, lacking access to significant debt financing, need capital for growth and expansion. Companies at either the later stage or growth or expansion stage may be nearing a strategic sale to another company or an initial public offering.

Private Equity primarily refers to investments in the equity and subordinated debt of established companies. Private equity approaches undertaken by SERS' limited partnerships include: (1) Leveraged buyouts ("LBO") in which companies are acquired through the use of borrowed funds, or a combination of borrowed funds and contributed equity capital. The acquired company's assets serve as collateral for the borrowed funds, which are repaid from the company's cash flows. (2) Distressed debt investing involves: (a) de-leveraging of debt-laden, but successful, companies by infusing capital to permit debt reduction in exchange for an equity stake in the company, or (b) acquiring debt of a troubled, sometimes bankrupt company, at steep discounts to face value, followed by assistance to return the company to profitability to permit selling of the debt securities at levels above the discounted purchase price. (3) Secondary interests in established private equity funds – these interests are purchased from other investors who seek liquidity or desire to realign or rebalance their investment portfolios, often for non-financial reasons. Such partnership interests are often purchased at significant discounts to net asset value and often occur when the acquired partnerships begin to realize profits.

Investment Objective: SERS' long term investment objective for Alternative Investments is to achieve a risk-adjusted total return, net of fees, in excess of the return generated by the S&P 500 Index. SERS' 2006 Investment Plan anticipates a long-term allocation range with a midpoint of 14%.

Market Value as of December 31, 2005: The asset class total market value stood at \$3,623.3 million after adjusting the September valuation for subsequent cash flows in the 4th quarter. Alternative investment market values lag one quarter due to timing of the receipt of private market valuations, reports and other information. These values do not include 4th quarter unrealized appreciation/depreciation. Alternative investments represent 12.6% of the Fund. Sub-asset class market values and fund percentages were as follows:

	Total Active Commitments (\$ mil)	Market Value (\$ mil)	Percent Allocation to Total Fund
Venture Capital	\$2,990.2	942.0	3.3%
Private Equity	6,106.2	2,681.3	9.3
Total Alternative Investments	\$9,096.4	3,623.3	12.6%

Investment Section
Investment Summary - Alternative Investments

Number of Limited Partnerships: As of December 31, 2005, SERS had made commitments to 260 active Alternative Investments limited partnerships; 108 commitments were made to Venture Capital partnerships and 152 to Private Equity partnerships. (This does not include 14 partnerships – 11 Venture Capital and three Private Equity – that are now “inactive,” or in the liquidation phase, and investments pending contract approval.)

SERS Venture Capital Portfolio

SERS Venture Capital program includes commitments to 108 venture capital limited partnerships, comprising a fund portfolio that is well-diversified by stage of investment, industry focus, and geography. This fund portfolio holds investment interests in approximately 2,000 growing companies, the majority of them working to commercialize novel solutions to current and future challenges in information technology, communications and medicine.

The program’s scope has expanded over the years to include top investment funds nationally and internationally. Many of these managers have investments that are either located in Pennsylvania or employ Pennsylvania citizens. This significant Pennsylvania component recognizes the program’s initial statutory mandate, as well as its ongoing effort to invest in Pennsylvania venture capital funds whose expected returns are at least equal to those of investment opportunities elsewhere.

The Venture Capital program also includes investments in six fund-of-funds, which are limited partnerships that, in turn, invest in venture capital funds. Four of these fund-of-funds commitments have the strategic goal of enabling SERS to gain indirect exposure to many top-tier venture capital funds that SERS would otherwise have difficulty accessing directly. The other two of these commitments are to funds investing in minority-focused venture capital funds.

SERS Private Equity Portfolio

The Private Equity program has commitments to 152 buyout-oriented partnerships, which are well-diversified by size of investment and geographic focus. This fund portfolio holds investment interests in over 2,000 companies. Hostile acquisitions are avoided; most transactions are privately negotiated rather than auctioned, and are usually completed with present management in place.

Of these buyout fund investments, 21 are in distressed debt funds. These funds each conduct their distressed investment strategies in a differentiated manner; i.e., they employ control or non-control approaches, and accordingly, have differing degrees of active influence over the companies in which they invest.

SERS’ 28 non-U.S. private equity fund investments include 22 funds investing in companies based in the U.K. and Europe (including two Scandinavian funds) and four funds investing in Asian companies. The U.K./Europe funds are attempting to capitalize on recent trends favoring the restructuring of large companies, generational succession in businesses established after World War II, and the cross-border business opportunities within the region since the formation of the European Economic Union and currency harmonization. The Asian partnership investments focus on the expanded opportunities in the region created by attractive valuations, favorable demographic trends, economic growth, and changing attitudes in many Asian countries regarding foreign investment.

The Private Equity program also includes investments in four international fund-of-funds, whose objective is to capture superior returns from select funds globally. These fund-of-funds’ holdings are well-diversified with a geographic emphasis on developed countries.

The program also includes eight partnerships that specialize in secondary purchases of interests in established buyout and venture capital partnerships.

Lastly, SERS utilizes one manager to oversee the stock distributions that are received from SERS’ private equity investments.

Investment Section
Investment Summary - Alternative Investments

SERS Venture Capital Committed, Drawn and Distributed
as of December 31, 2005

The Capital Committed column represents total dollars allocated from SERS to each limited partnership. Capital Drawn is the portion of SERS capital commitments drawn by the General Partner to be invested with underlying portfolio companies. The Distributions column shows the value of original capital and profits returned to SERS.

Active Funds Venture Capital Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. APEX Investment Fund IV	Early Stage	8/31/1999	\$25,000,000	25,000,000	257,565
APEX Investment Fund V	Early Stage	7/25/2001	20,000,000	14,000,000	0
2. Abingworth Bioventures IV, L.P.	Seed/Early Stage	7/16/2003	20,000,000	6,540,000	0
3. Adams Capital Management II	Early Stage	9/30/1999	30,000,000	30,000,000	0
Adams Capital Management III	Early Stage	10/25/2000	30,000,000	20,700,000	0
4. Advanced Technology Ventures VI	Early Stage	3/9/2000	10,000,000	9,500,000	240,896
Advanced Technology Ventures VII L.P.	Early Stage	12/6/2000	25,000,000	12,959,700	2,452,474
5. Alloy Annex I, L.P.	Seed/Early Stage	7/16/2003	5,000,000	3,000,000	0
Alloy Ventures 2000 L.P.	Early Stage	4/26/2000	20,000,000	18,000,000	2,074,620
Alloy Ventures 2002 L.P.	Early Stage	3/20/2002	25,000,000	11,250,000	2,602,018
Alloy Ventures 2005, L.P.	Seed/Early Stage	7/13/2005	25,000,000	1,000,000	0
6. Atlas Venture Fund IV	Early Stage	3/23/1999	26,000,000	22,430,303	4,211,947
Atlas Venture Fund V L.P.	Early Stage	1/28/2000	37,200,000	34,066,720	3,808,897
Atlas Venture Fund VI	Early Stage	1/24/2001	24,800,000	16,499,513	1,455,629
7. Austin Ventures VIII	Early Stage	1/29/2001	20,932,140	13,347,742	1,454,071
Austin Ventures IX	Early Stage	1/9/2005	20,000,000	0	0
8. Bachow Investments III	Later Stage	11/9/1994	25,000,000	25,073,149	25,024,149
9. Birchmere Ventures III	Early Stage	3/18/2004	10,000,000	1,870,524	0
10. Care Capital III	Later Stage	*	25,000,000	0	0
11. Charles River Partnership XI L.P.	Early Stage	1/31/2001	11,032,259	8,163,872	694,663
12. Clearstone Venture Partners III-A, L.P.	Early/Late Stage	4/21/2004	25,000,000	4,500,000	0
13. Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	19,449,041	198,860
Cross Atlantic Technology Fund II	Early Stage	12/28/2001	32,900,000	21,385,000	1,499,189
14. Draper Fischer Jurvetson VI	Early Stage	8/13/1999	8,000,000	7,240,000	50,908
Draper Fisher Jurvetson Fund VII L.P.	Early Stage	7/26/2000	20,000,000	14,171,716	511,102
Draper Triangle Ventures	Early Stage	8/31/1999	20,000,000	19,703,807	1,927,730
Draper Triangle Ventures II, L.P.	Early Stage	9/10/2003	12,000,000	1,154,467	0
15. Edison Venture Fund III	Later Stage	3/1/1994	25,000,000	25,000,000	45,769,783
16. Fairview Capital	Fund of Funds	9/28/1994	10,000,000	10,000,000	4,273,128
Fairview II	Fund of Funds	3/1/1998	10,000,000	9,300,000	1,565,318
17. APA Fostin	Early Stage	9/30/1987	20,000,000	20,000,000	76,979,572
Fostin Capital II	Early Stage	10/5/1989	8,000,000	7,500,000	11,415,869
18. Frazier Healthcare III	Early Stage	2/4/1999	30,000,000	27,375,000	1,428,575
Frazier Healthcare IV	Early Stage	3/14/2001	30,000,000	17,892,010	3,064,868
Frazier Healthcare V	Early/Late Stage	12/8/2004	30,000,000	1,542,000	0
19. Grotech PA III	Later Stage	6/29/1990	3,000,000	3,014,865	2,910,452
Grotech Partners IV	Later Stage	11/1/1993	25,000,000	25,157,827	42,558,884
Grotech Partners V	Later Stage	9/18/1998	25,000,000	25,125,000	22,378,391

Investment Section
Investment Summary - Alternative Investments

SERS Venture Capital Committed, Drawn and Distributed (continued)
as of December 31, 2005

Active Funds Venture Capital Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
20. Halpern Denny Fund II	Later Stage	4/23/1998	\$25,000,000	25,116,871	2,591,403
Halpern Denny Fund III	Later Stage	4/26/2000	25,000,000	21,931,740	11,372,443
21. HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	148,586,055	29,460,974
HarbourVest Partners VII	Fund of Funds	4/24/2002	75,000,000	12,375,000	0
22. Healthcare Ventures III	Early Stage	7/9/1992	15,000,000	15,000,000	29,573,725
Healthcare Ventures V	Early Stage	10/17/1997	25,000,000	24,312,500	45,306,314
Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	34,125,000	3,462,611
Healthcare Ventures VII	Early Stage	7/24/2002	35,000,000	18,900,000	0
Healthcare Ventures VIII, L.P.	Early Stage	7/13/2005	35,000,000	900,000	0
23. Highland Capital Partners VI	Early Stage	10/25/2000	25,000,000	15,937,500	3,582,296
Highland Capital Partners VII	Early Stage	*	50,000,000	0	0
24. InterWest Partners VIII	Early Stage	8/25/2000	25,000,000	20,000,000	3,102,481
InterWest Partners IX	Early Stage	*	20,000,000	0	0
25. I. P. II L.P.	Early Stage	12/17/2001	8,600,000	4,886,074	864,148
I. P. III L.P.	Seed/Early Stage	10/27/2004	8,000,000	496,000	0
26. J.H. Whitney Equity Fund III L.P.	Later Stage	3/12/1998	20,000,000	20,171,316	34,843,171
J.H. Whitney IV L.P.	Later Stage	2/1/2000	20,000,000	16,712,208	1,596,861
27. J.P. Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	87,421,220	6,595,784
JP Morgan Venture Capital Investors II	Fund of Funds	8/23/2000	100,000,000	42,102,360	4,102,137
28. JMI Equity Fund V, L.P.	Early/Late Stage	4/27/2005	24,000,000	3,240,000	0
29. Keystone V	Later Stage	12/26/1997	25,000,000	25,117,132	2,062,796
Keystone Venture IV	Later Stage	7/13/1993	15,000,000	15,045,275	9,687,679
30. Kline Hawkes Pacific L.P.	Early Stage	8/30/2000	15,000,000	14,280,716	3,509,564
31. Knightbridge Venture Capital VI, L.P.	Early Stage	4/21/2004	20,000,000	800,000	0
32. Lightspeed Venture Partners VII	Early Stage	*	25,000,000	0	0
33. Meridian Venture Partners II, L.P.	Buyouts	1/26/2005	10,000,000	7,500,000	0
34. Meritech Capital Partners II	Later Stage	10/25/2000	25,000,000	16,288,426	3,188,691
Meritech Capital Partners III	Later Stage	*	35,000,000	0	0
35. Mid-Atlantic III	Early Stage	4/1/1997	20,008,308	20,111,247	2,717,446
Mid-Atlantic Venture Fund IV L.P.	Early Stage	5/4/2000	30,000,000	26,400,000	217,297
NEPA Venture-II	Early Stage	7/24/1992	7,500,000	7,526,234	34,000,329
36. Morgenthaler Partners VII L.P.	Early Stage	7/26/2001	35,000,000	22,750,000	859,848
Morgenthaler Partners VIII L.P.	Diversified	*	35,000,000	0	0
37. New Enterprise Associates 11	Early Stage	10/29/2003	25,000,000	10,625,000	0
New Enterprise Associates IX	Early Stage	10/28/1999	20,000,000	19,600,000	1,086,474
New Enterprise Associates VI	Early Stage	3/2/1994	25,000,000	25,000,000	196,734,032
New Enterprise Associates X L.P.	Early Stage	9/13/2000	35,000,000	28,028,000	8,772,295
New Enterprises Associates VII	Early Stage	4/1/1997	30,000,000	30,000,000	96,797,241
38. Novo Vita	Early Stage	10/25/2000	11,616,498	10,950,420	0
39. Oak Investment Partners XI	Later Stage	6/9/2004	35,000,000	11,889,706	0
40. APAX Excelsior VI	Later Stage	7/3/2000	35,000,000	29,016,638	17,489,746
P/A Fund I	Later Stage	6/2/1993	30,000,000	29,999,999	64,201,030
P/A Fund III	Later Stage	4/1/1997	100,000,000	100,000,000	128,281,098

Investment Section
Investment Summary - Alternative Investments

SERS Venture Capital Committed, Drawn and Distributed (continued)
as of December 31, 2005

Active Funds Venture Capital Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
41. PA Early Stage Partners III L.P.	Early Stage	6/6/2001	\$10,000,000	2,700,000	0
42. Pitango Venture Capital Fund IV, L.P.	Diversified	4/21/2004	25,000,000	4,201,534	0
43. Polaris Venture Partners	Early Stage	6/4/1996	15,000,000	14,595,000	45,978,188
Polaris Venture Partners II	Early Stage	9/8/1998	25,000,000	24,250,000	24,859,455
Polaris Venture Partners III L.P.	Early Stage	1/6/2000	50,000,000	44,000,000	7,718,368
Polaris Venture Partners IV L.P.	Early Stage	7/31/2001	50,000,000	21,500,000	0
44. Quaker Bio Ventures	Early Stage	2/25/2003	20,000,000	6,122,957	77,043
45. Sprout VII	Early Stage	2/24/1995	18,000,000	18,000,000	34,163,082
46. Summit Accelerator Fund L.P.	Early Stage	11/15/1999	8,000,000	6,560,000	2,680,786
Summit Venture Capital Fund II	Diversified	*	15,000,000	0	0
Summit IV	Later Stage	6/27/1995	25,000,000	24,000,000	181,792,498
Summit V	Later Stage	3/1/1998	37,500,000	35,437,500	30,286,301
47. T.Rowe Price Stock Distribution Account	Stock Distribution	1/3/2005	0	89,384,785	49,418,474
48. TA/Advent VII	Later Stage	7/30/1993	25,000,000	25,112,500	88,471,851
TA/Advent VIII	Later Stage	2/3/1997	30,000,000	29,541,093	45,720,261
49. TL Ventures III L.P.	Early Stage	1/3/1997	15,000,000	15,062,614	18,583,704
TL Ventures IV	Early Stage	5/13/1999	35,000,000	35,000,000	7,974,759
TL Ventures V	Early Stage	7/13/2000	40,000,000	27,648,219	573,525
50. Three Arch Capital L.P.	Early Stage	12/20/2000	20,000,000	13,800,000	2,090,011
Three Arch Partners IV, L.P.	Early/Late Stage	9/10/2003	25,000,000	2,800,000	0
51. U S Venture Partners VII L.P.	Early Stage	1/24/2000	13,750,000	13,087,500	216,840
US Venture Partners VIII L.P.	Early Stage	12/6/2000	26,250,000	19,100,625	930,734
52. Weston Presidio II	Later Stage	11/27/1995	20,000,000	17,000,000	41,383,117
Weston Presidio III	Later Stage	3/31/1999	35,000,000	30,187,086	16,369,259
Weston Presidio IV	Later Stage	6/21/2000	35,000,000	28,232,752	7,371,801
Weston Presidio V	Buyouts	*	50,000,000	0	0
53. Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	13,307,040	1,907,983
Total Active Venture Capital			\$2,990,219,228	2,056,686,098	1,615,437,512

**Not Funded as of 9/30/05.*

Commitments as of 12/31/05

Cash flows as of 9/30/05

Inactive Venture Capital

	Capital Committed	Capital Drawn	Distributions
Total Inactive Venture Capital	\$61,700,000	54,664,429	90,157,497

Investment Summary - Alternative Investments

SERS Private Equity Investments Committed, Drawn and Distributed
as of December 31, 2005

The Capital Committed column represents total dollars allocated from SERS to each limited partnership. Capital Drawn is the portion of SERS capital commitments drawn by the General Partner to be invested with underlying portfolio companies. The Distributions column shows the value of original capital and profits returned to SERS.

Active Funds Private Equity Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1. ABACUS Fund Partners L.P.	Hedge Fund	4/24/2000	\$15,000,000	15,149,220	8,131,989
2. ABRY Broadcast Partners III	Buyouts	4/1/1997	25,000,000	26,891,281	18,588,857
ABRY Broadcast Partners IV L.P.	Buyouts	7/26/2000	35,000,000	27,478,479	23,398,667
ABRY Mezzanine Partners	Mezzanine	12/5/2001	30,000,000	24,047,291	9,537,812
ABRY Partners V, L.P.	Buyouts	10/27/2004	45,000,000	6,446,781	0
3. ABS Capital Partners III L.P.	Buyouts	1/26/1999	35,000,000	29,705,650	15,029,605
ABS Capital Partners IV L.P.	Buyouts	10/13/2000	35,000,000	29,360,662	10,449,996
ABS Capital Partners V L.P.	Buyouts	*	20,000,000	0	0
4. AG Capital Recovery Partners II L.P.	Distressed Debt	10/1/2001	17,600,000	17,695,470	25,583,161
AG Capital Recovery Partners III L.P.	Distressed Debt	3/20/2002	20,000,000	16,000,000	24,208,501
AG Capital Recovery Partners IV L.P.	Distressed Debt	1/23/2003	50,000,000	30,415,216	14,185,728
5. APAX Capital Risque III (France)	Buyouts	11/29/1990	5,000,000	5,103,877	9,775,420
APAX Europe IV L.P.	Buyouts	3/31/1999	35,000,000	28,725,143	17,551,903
APAX Europe V L.P.	Buyouts	12/6/2000	60,000,000	60,409,166	34,506,150
APAX Europe VI L.P.	Buyouts	5/19/2005	60,000,000	13,122,224	0
APAX Germany	Buyouts	1/30/1991	5,200,000	5,246,602	12,101,312
APAX Germany II	Buyouts	7/15/1997	8,737,262	8,455,477	15,885,342
APAX UK Ventures VI	Buyouts	12/9/1997	9,000,000	6,861,111	12,302,931
6. AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	5,192,537	2,582,148
AXA Secondary Fund III-2	Secondaries	11/29/2004	14,000,000	2,562,005	1,323,201
7. Accel Europe L.P.	Early Stage	7/2/2001	10,000,000	5,450,000	0
8. Alpha Private Equity Fund 4 L.P.	Mid Market Buyouts	1/23/2002	26,580,000	25,568,130	6,864,312
9. Apollo Investment Fund IV	Buyouts	8/3/1998	75,000,000	71,903,010	56,236,055
Apollo Investment Fund V	Buyouts	4/18/2001	50,000,000	36,513,948	37,976,154
Apollo Investment Fund VI	Buyouts	*	40,000,000	0	0
10. Asia Pacific Growth Fund III	Global Situations	3/8/1999	15,000,000	15,089,765	2,253,053
11. Audax Private Equity Fund II, L.P.	Mid Market Buyouts	4/27/2005	25,000,000	2,442,396	0
Audax Private Equity Fund L.P.	Mid Market Buyouts	5/25/2000	35,000,000	34,311,995	7,606,561
12. Avenue Special Situations Fund III, L.P.	Distressed Debt	7/16/2003	50,000,000	42,428,808	0
Avenue Special Situations Fund IV, L.P.	Distressed Debt	*	50,000,000	0	0
13. B III Capital Partners	Distressed Debt	8/1/1997	35,000,000	34,503,390	35,052,537
14. BC European Capital VII L.P.	Buyouts	7/27/2000	35,000,000	30,922,263	17,990,144
BC European Capital VII Top Up	Buyouts	3/14/2001	10,000,000	9,339,558	4,989,020
BC European Capital VIII	Buyouts	*	97,635,000	0	0
15. Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	24,062,500	12,248,965
Bain Capital Fund VIII-E, L.P.	Buyouts	9/15/2004	13,405,000	2,214,055	0
16. Berkshire Fund VI L.P.	Mid Market Buyouts	9/28/2001	20,000,000	5,637,123	4,795,236
17. Blackstone Capital II	Buyouts	8/26/1994	40,000,000	42,820,894	90,404,013
Blackstone Capital III	Buyouts	11/3/1997	75,000,000	74,047,752	79,134,210

Investment Section
Investment Summary - Alternative Investments

SERS Private Equity Investments Committed, Drawn and Distributed (continued)
as of December 31, 2005

Active Funds Private Equity Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
Blackstone Capital IV	Buyouts	10/31/2001	\$75,000,000	47,338,608	27,692,914
Blackstone Capital V	Buyouts	*	150,000,000	0	0
Blackstone Communications Partners I L.P.	Buyouts	8/29/2000	25,000,000	16,372,344	9,758,000
18. Brynwood Partners V, L.P.	Mid Market Buyouts	7/31/2005	10,000,000	2,969,395	0
19. Cerberus Institutional Partners L.P.	Distressed Debt	3/5/1999	35,000,000	35,000,000	34,354,564
Cerberus Institutional Partners Series Three	Distressed Debt	9/10/2003	35,000,000	19,950,000	0
Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	6,595,586
20. Charterhouse Capital Partners VII	Buyouts	12/4/2002	50,000,000	34,687,761	7,096,460
Charterhouse Equity Partners II	Buyouts	3/30/1994	40,000,000	43,849,172	96,810,448
Charterhouse Equity Partners III	Buyouts	11/19/1997	50,000,000	55,395,586	18,625,374
21. Chrysalis Capital Partners	Distressed Debt	*	20,000,000	0	0
22. Clayton Dubilier & Rice V	Buyouts	5/3/1995	50,000,000	49,491,168	49,826,483
Clayton Dubilier & Rice VI	Buyouts	1/4/1999	50,000,000	37,625,542	17,741,863
23. Code Hennessy & Simmons	Buyouts	9/28/1989	10,000,000	9,650,000	27,208,717
Code Hennessy & Simmons II	Buyouts	7/12/1994	20,000,000	20,000,000	41,955,373
Code Hennessy & Simmons III	Buyouts	8/1/1997	40,000,000	38,724,000	36,579,699
Code Hennessy & Simmons IV	Mid Market Buyouts	8/31/1999	100,000,000	91,670,000	36,093,723
Code Hennessy & Simmons V	Middle/Later Stage	*	50,000,000	0	0
24. DLJ Merchant Banking Fund II	Buyouts	5/22/1997	75,000,000	81,814,100	76,747,353
DLJ Merchant Banking Fund III	Buyouts	6/6/2001	85,000,000	87,384,516	63,161,321
25. Electra European Fund II	Buyouts	*	52,072,000	0	0
26. Elevation Partners, L.P.	Private Equity	10/27/2004	35,000,000	376,769	0
27. Energy Spectrum Partners IV, L.P.	Mid Market Buyouts	11/15/2004	50,000,000	6,794,667	0
28. Eureka II, L.P.	Mid Market Buyouts	*	20,000,000	0	0
29. First Reserve Fund X, L.P.	Buyouts	1/15/2004	30,000,000	8,706,550	4,311,418
30. Francisco Partners L.P.	Buyouts	5/8/2000	50,000,000	41,234,586	15,138,090
31. Frontenac VII	Buyouts	8/1/1997	40,000,000	40,000,000	50,597,767
32. GTC&R V	Buyouts	4/25/1997	11,400,000	11,400,000	16,085,108
GTC&R VI	Buyouts	6/25/1998	50,000,000	50,375,000	39,141,912
GTC&R VII	Buyouts	3/15/2000	55,000,000	46,705,921	46,161,124
GTCR VIII	Buyouts	5/12/2003	75,000,000	30,375,000	9,076,126
33. Great Hill Equity Partners	Buyouts	4/12/1999	30,000,000	29,775,000	18,584,553
Great Hill Equity Partners II L.P.	Buyouts	7/26/2000	35,000,000	29,137,500	18,736,585
34. Gryphon Partners II L.P.	Buyouts	8/6/1999	35,000,000	33,466,384	16,300,795
Gryphon Partners III, L.P.	Buyouts	6/9/2004	30,000,000	13,007,757	496,495
35. Hancock IPEP II (Harbourvest II)	Fund of Funds	4/1/1997	25,000,000	24,357,775	25,931,274
Harbourvest Inter III	Fund of Funds	6/22/1998	40,000,000	33,600,000	13,788,683
Harbourvest Int'l Private Equity Partners IV	Fund of Funds	12/6/2000	40,000,000	19,600,000	4,220,776
36. Hellman & Friedman II	Global Situations	1/7/1992	21,130,323	23,218,222	39,736,483
Hellman Friedman III	Global Situations	6/14/1995	50,000,000	40,308,123	82,535,584
Hellman Friedman IV	Global Situations	8/3/1999	75,000,000	64,513,521	23,190,382
Hellman Friedman V	Diversified	8/1/2004	80,000,000	13,518,001	0
37. Invemed Catalyst Fund L.P.	Mid Market Buyouts	9/30/1999	25,000,000	13,048,955	1,264,803

Investment Section
Investment Summary - Alternative Investments

SERS Private Equity Investments Committed, Drawn and Distributed
as of December 31, 2005

Active Funds Private Equity Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
38. J.H. Whitney V L.P.	Later Stage	9/13/2000	20,000,000	17,663,701	9,053,222
J.H. Whitney VI L.P.	Buyouts	1/5/2006	50,000,000	0	0
39. J.W. Childs Equity Partners III L.P.	Middle/Later Stage	1/23/2002	40,000,000	25,350,181	2,561,572
40. JP Morgan US Corp Finance Investors II	Fund of Funds	7/24/2002	50,000,000	17,040,057	2,846,511
41. Kelso Investment Associates V	Buyouts	1/26/1994	40,000,000	54,411,479	102,741,751
Kelso VI	Buyouts	7/7/1998	75,000,000	69,057,922	67,765,022
Kelso VII	Buyouts	2/11/2004	40,000,000	11,997,882	1,224,018
42. LLR Equity Partners II, L.P.	Buyouts	1/29/2004	25,000,000	4,237,377	0
LLR Equity Partners L.P.	Mid Market Buyouts	1/24/2000	25,000,000	24,559,977	21,634,615
43. Landmark Equity IV	Secondaries	2/28/1995	14,900,000	12,880,353	16,755,902
Landmark Equity Partners V	Secondaries	1/27/1996	19,624,113	19,434,947	22,733,583
44. Leeds Weld Equity Partners IV, L.P.	Mid Market Buyouts	7/30/2004	20,000,000	5,289,713	0
45. Lexington Capital Partners II	Secondaries	4/1/1998	40,000,000	39,286,000	32,367,214
Lexington Capital Partners III L.P.	Secondaries	1/26/1999	35,000,000	33,476,950	28,652,912
Lexington Capital Partners V	Secondaries	7/25/2001	75,000,000	54,828,916	24,996,707
Lexington Capital Partners VI	Secondaries	1/12/2006	50,000,000	0	0
46. Lime Rock Partners III, L.P.	Diversified	10/27/2004	15,000,000	2,347,503	0
Lime Rock Resources, L.P.	Diversified	*	20,000,000	0	0
47. Madison Dearborn Capital Partners	Buyouts	2/23/1993	15,000,000	14,529,060	39,639,246
Madison Dearborn Capital Partners IV	Buyouts	10/27/2000	90,000,000	60,077,376	22,986,959
Madison Dearborn Capital Ptners II	Buyouts	1/3/1997	40,000,000	40,080,476	63,890,142
Madison Dearborn III	Buyouts	4/6/1999	75,000,000	76,193,028	43,190,827
48. Matlin Patterson Global Opportunities Partners II,	Distressed Debt	12/3/2003	30,000,000	12,990,978	2,093,051
MatlinPatterson Global Opportunities Partners L.P.	Distressed Debt	5/4/2001	35,000,000	33,613,973	31,172,241
49. Media/Communication III	Buyouts	6/2/1997	25,000,000	24,131,061	19,963,053
Media/Communications IV	Buyouts	2/5/1999	25,000,000	23,125,000	0
Media/Communications Ventures Fund V L.P.	Buyouts	7/26/2000	35,000,000	28,540,101	2,749,010
50. Newbridge Asia II L.P.	Global Situations	9/3/1999	15,000,000	15,199,629	13,250,716
Newbridge Asia III L.P.	Early Stage	7/6/2000	15,000,000	14,955,632	4,072,448
Newbridge Asia IV L.P.	Buyouts	6/1/2005	40,000,000	5,852,140	0
51. Nordic Capital V L.P.	Buyouts	12/4/2002	40,000,000	34,620,207	3,374,148
Nordic Capital VI L.P.	Buyouts	*	60,000,000	0	0
52. OCM Opportunities Fund	Distressed Debt	1/12/1996	24,000,000	24,534,457	34,577,066
OCM Opportunities Fund II	Distressed Debt	2/5/1998	40,000,000	40,099,999	48,581,140
OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	77,538,597
OCM Opportunities Fund IV	Distressed Debt	12/31/2001	70,000,000	68,250,000	105,475,290
OCM Opportunities Fund V	Distressed Debt	7/14/2004	40,000,000	40,003,507	43,836
OCM Opportunities Fund VI, L.P.	Distressed Debt	9/14/2005	40,000,000	14,000,000	0
OCM Principal Opportunities	Distressed Debt	11/12/1996	25,000,000	25,057,879	21,624,589
OCM Principal Opportunities II	Distressed Debt	3/14/2001	25,000,000	25,000,000	19,028,645
OCM/GFI Power Opportunities Fund II, L.P.	Buyouts	4/27/2005	25,000,000	4,208,548	29,205
53. Oakhill Capital Partners	Buyouts	5/17/1999	50,000,000	52,034,224	34,856,494

Investment Section
Investment Summary - Alternative Investments

SERS Private Equity Investments Committed, Drawn and Distributed (continued)
as of December 31, 2005

Active Funds Private Equity Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
54. Oaktree Capital Management LLC	Diversified	5/28/2004	20,000,000	20,577,053	1,976,914
55. Palamon European Equity L.P.	Buyouts	7/23/1999	30,000,000	29,025,951	19,557,817
Palamon European Equity II L.P.	Diversified	*	40,114,200	0	0
56. Parthenon Investors II	Mid Market Buyouts	9/25/2001	20,000,000	13,671,372	7,623,606
57. Premira European Fund	Buyouts	7/1/1997	36,000,000	32,159,947	66,356,857
Premira European Fund II	Buyouts	6/7/2000	50,000,000	37,408,893	34,412,322
Premira European Fund III, L.P.	Buyouts	10/3/2003	112,640,170	41,214,370	10,777,500
Permira UK Venture Fund III	Buyouts	8/29/1989	9,063,438	8,946,988	26,106,191
Permira UK Venture Fund IV	Buyouts	4/2/1996	15,000,000	15,993,572	19,584,370
58. Providence Equity Partners IV L.P.	Middle/Later Stage	10/25/2000	25,000,000	23,986,647	13,950,837
Providence Equity Partners V LP	Mid Market Buyouts	7/14/2004	50,000,000	6,939,916	0
59. RRZ Private Equity	Buyouts	11/7/1996	20,000,000	20,024,505	10,848,280
60. SCP Private Equity Partners II L.P.	Buyouts	6/15/2000	25,000,000	20,377,446	1,706,851
61. ShoreView Capital Partners	Buyouts	4/23/2003	38,000,000	22,724,896	5,935,510
62. Sterling Capital Partners II	Buyouts	3/16/2005	30,000,000	3,470,043	0
Sterling Capital Partners L.P.	Buyouts	10/15/2002	15,000,000	9,282,757	2,754,216
63. Summit Ventures VI L.P.	Later Stage	1/11/2001	62,000,000	47,752,929	10,197,052
Summit Partners Private Equity Fund VII L.P.	Private Equity	*	97,134,500	0	0
64. TA/Advent IX	Later Stage	9/20/2000	45,000,000	38,700,000	15,739,096
65. TPG Partners II	Buyouts	5/2/1997	75,000,000	76,320,468	58,051,392
TPG Partners III	Buyouts	12/15/1999	75,000,000	68,365,858	58,942,842
TPG Partners IV	Buyouts	12/3/2003	30,000,000	16,316,107	3,655,090
66. Thomas H Lee Equity Fund V L.P.	Buyouts	7/1/2000	100,000,000	84,949,184	47,501,451
Thomas H. Lee Equity Fund IV L.P.	Buyouts	4/24/1998	70,000,000	63,384,100	33,551,411
67. UMS Partners Fund I, L.P.	Distressed Debt	7/14/2004	10,000,000	3,500,000	0
68. Vestar Capital Partners III	Buyouts	5/7/1997	25,000,000	22,944,027	18,098,980
Vestar Capital Partners IV L.P.	Mid Market Buyouts	11/22/1999	100,000,000	76,548,917	39,170,109
Vestar Capital Partners V	Mid Market Buyouts	*	50,000,000	0	0
Total Active Private Equity			\$6,106,236,006	4,025,220,564	3,014,207,245

**Not funded as of 9/30/05*

Commitments as of 12/31/05

Cash flows as of 9/30/05

Inactive Private Equity

	Capital Committed	Capital Drawn	Distributions
Total Inactive Private Equity	\$57,500,000	57,882,394	101,649,373

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Actuarial Section



Actuarial Section
Actuary's Certification

Hay Group, Inc.
Suite 600
4301 North Fairfax Drive
Arlington, VA 22203
USA

April 26, 2006

Mr. Eric Henry
Executive Director
State Employees' Retirement System
30 North Third Street
Suite 150
Harrisburg, PA 17101-1716



Dear Mr. Henry:

The purpose of this letter is to certify the actuarial adequacy of the contributions being made by the Commonwealth of Pennsylvania and other participating agencies to the Pennsylvania State Employees' Retirement System (SERS), and to discuss the approach currently being taken toward meeting the financing objectives of the plan. The results provided herein are based upon the December 31, 2005 annual actuarial valuation.

The funding objective of the plan is set forth in the SERS code. The annual employer contribution is equal to the sum of the following, but not less than 4.00 percent of payroll, for the fiscal year beginning July 1, 2006:

- (1) The employer share of the normal cost.
- (2) The amortization of the December 31, 2001 liability for Act 2001-9 benefits over a 30-year period beginning July 1, 2002 and ending on June 30, 2032.
- (3) The amortization of the remaining unfunded liabilities as of December 31, 2001 over a ten-year period beginning July 1, 2002 and ending on June 30, 2012.
- (4) The amortization of all unfunded liabilities due to supplemental annuities (COLAs) after 2001, or other legislated benefit improvements after June 30, 2003, over ten-year periods beginning with the July first following the effective date of the change.
- (5) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2001 over 30-year periods beginning with the July first following the actuarial valuation determining such changes.

The amortization payments are level amounts over the applicable amortization periods. The employer cost is determined as a percent of payroll, and the employer contributes that percent of the payroll of all covered members during each fiscal year.

All costs and liabilities have been determined in conformance with generally accepted actuarial principles and procedures in accordance with the principles of practice prescribed by the American Academy of Actuaries. The calculations were performed on the basis of actuarial assumptions and methods, which are internally consistent, and reasonable (taking into account past experience under the SERS and reasonable expectations) and which in combination represent the best estimate of anticipated experience under the plan.

The actuarial valuation is based on financial and participant data, which is prepared by SERS staff. The data are reviewed for internal and year-to-year consistency as well as general reasonableness prior to their use in the actuarial valuation.

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Actuarial Section
Actuary's Certification

Mr. Eric Henry
April 26, 2006
Page 2

The actuarial valuation uses assumptions regarding future rates of investment return and rates of retirement, withdrawal, death, and disability among SERS members and their beneficiaries. The current set of assumptions used in the December 31, 2005 actuarial valuation was adopted by the Board and was based on actual experience of SERS during the years 2001 through 2005. The actuarial value of assets is developed by recognizing the difference between the expected actuarial value of assets and the market value of assets over a five-year period.


Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* establishes a range of actuarial cost and amortization methods for the Unfunded Actuarial Accrued Liability. The scheduled payments since July 1, 2005 have been below the minimum amount required to meet the GASB #25 minimum. This is a temporary result of financing changes implemented by Act 2003-40 in December 2003. After 2011, we expect the SERS contribution to exceed the GASB #25 minimum.


The "Schedule of Funding Progress" and "Schedule of Employer Contributions" included in the Financial Section are provided as part of the accounting disclosure statements in accordance with GASB #25. These two schedules were derived from the December 31, 2005 actuarial valuation.

With the exception of the "Schedule of Retirees and Beneficiaries Added to and Removed from Rolls" and the "Summary of Plan Provisions", the schedules appearing in the Actuarial Section were derived from the December 31, 2005 actuarial valuation.

Based upon the valuation results, it is our opinion that the Pennsylvania State Employees' Retirement System is in sound condition in accordance with generally accepted actuarial principles and procedures. The employer contribution has been below the GASB #25 minimum since July 1, 2005 and will likely remain below the minimum through June 30, 2012. However, the employer payments scheduled after that time are substantially above the GASB minimum and the plan is in sound condition over the long run.

Respectfully submitted,
Hay Group

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Summary of Actuarial Assumptions and Methods

- The investment rate of return is 8.5% per year based on an underlying rate of inflation of 3.0% per year.
- The Plan uses a five-year smoothed market approach to value plan assets for actuarial purposes.
- Actuarial methods are specified by statute. Actuarial assumptions are recommended by the plan's actuary and approved by the SERS Board. The Board approved assumptions based on a new experience study for the current valuation.
- For current and future non-disabled retirees, beneficiaries, and survivors, the plan uses the RP-2000 Healthy Annuitant Mortality Table projected to 2008. For current and future disabled retirees, the plan uses the RP-2000 Disabled Retiree Annuitant Mortality Table projected to 2008. For all pre-retirement active employees, the mortality is based on actual SERS experience.
- The rates for probability of retirement and the probabilities of withdrawal from active service, including death before age and service retirements, are presented in the Schedule of Active Member Valuation Data.
- The projected average salary increase is 7.1% with a range of 4.9% to 20.2%. This increase includes an underlying assumption of 3.0% for inflation. The annual rate of salary increase for promotions and longevity for members is presented in the Schedule of Active Member Valuation Data. For the current valuation, the salary increase assumptions for general employees have been modified to reflect the negotiated increases in the latest collective bargaining agreement.
- The plan uses a variation of the entry-normal age actuarial cost method to determine the liabilities and costs related to the System's benefits. The method is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. This variation should produce approximately the same results as the typical method over the long run. The Plan uses amortization periods of 10 years and 30 years as follows:
 - (1) The amortization of the December 31, 2001 liability for Act 2001-9 benefits over a 30-year period beginning July 1, 2002 and ending on June 30, 2032.
 - (2) The amortization of the remaining unfunded liabilities as of December 31, 2001 over a ten-year period beginning July 1, 2002 and ending on June 30, 2012.
 - (3) The amortization of all unfunded liabilities due to supplemental annuities (COLAs) after 2001, or other legislated benefit improvements after June 30, 2003, over ten-year periods beginning with the July first following the effective date of the change.
 - (4) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2001 over 30-year periods beginning with the July first following the actuarial valuation determining such changes.
- The Plan does not use an assumption for cost-of-living adjustments in the determination of actuarial valuations.
- The Plan periodically prepares a study using actual experience in order to develop assumptions to be used in its actuarial valuations. The latest study was completed March 15, 2006, for the period January 1, 2001, through December 31, 2005.
- The most recent valuation was based on members of the Plan as of December 31, 2005. All census data was supplied by the Plan and was subject to reasonable consistency checks. Asset data was also supplied by the Plan.
- The actuarial computations were prepared by, or made under the supervision, of a Member of the American Academy of Actuaries (M.A.A.A.).

Actuarial Section
Schedule of Active Member Valuation Data

Withdrawal From Active Employment Before Age & Service Retirement
 Annual Rate of Active Members Separating Within the Next Year
 as of December 31, 2005

Table A^a

Sample Age	Male						Female					
	Withdrawal Years of Service				Death	Disability	Withdrawal Years of Service				Death	Disability
	0	5	9	14+			0	5	9	14+		
20	11.85%	-	-	-	0.02	-	11.19%	-	-	-	0.02	-
25	11.60	1.97	1.97	-	0.02	0.03	10.24	2.68	2.12	-	0.02	0.07
30	11.11	1.97	1.48	1.54	0.03	0.09	10.24	2.68	1.88	2.03	0.02	0.17
35	10.86	1.83	1.00	1.05	0.05	0.16	10.24	2.21	1.41	1.55	0.03	0.29
40	10.86	1.28	1.00	1.05	0.06	0.25	10.01	2.21	0.85	0.61	0.05	0.38
45	10.49	1.28	0.49	0.56	0.12	0.44	9.77	1.98	0.85	0.61	0.07	0.60
50	10.24	1.14	0.49	0.56	0.21	0.61	9.77	1.98	0.47	0.61	0.12	0.91
55	10.24	1.48	1.48	1.54	0.33	0.80	9.77	1.65	1.41	1.55	0.18	1.15
60	-	-	-	-	0.48	-	-	-	-	-	0.30	-

Annual Rate of Retirement
Table B^a

Sample Age	Full Benefits	
	Male	Female
45-59	30.0%	30.0
60-61	25.0	25.0
62	33.0	33.0
63-64	22.0	22.0
65	33.0	33.0
66-79	22.0	22.0
80	100.0	100.0

Annual Rate of Salary Increase
Table C

Completed Years of Service	Increase
1	16.9%
2	8.3
3	5.9
4	4.6
5	4.2
6-10	3.2
11-15	2.8
16-20	2.4
21-25	1.8
26+	1.6

Reduced Benefits
Table D

Sample Age	5 - 14 Years of Service		15 or More Years of Service	
	Male	Female	Male	Female
20	-	-	-	-
25	3.0%	3.9	-	-
30	2.5	3.5	-	-
35	1.9	2.8	2.6	2.7
40	1.7	1.7	2.6	2.7
45	1.1	1.6	2.6	2.7
50	1.0	1.3	2.6	2.7
55	2.3	2.3	3.9	3.9

^aThe assumptions presented in Table A and Table B on this page were based on a review of SERS' experience from 2001 through 2005. The rates are the probabilities that an event will occur in the year after the valuation. For instance, the male retirement rate of 33% at age 62 means that 330 of every 1,000 male employees age 62 and eligible for full benefits are expected to retire before they reach age 63.

Actuarial Section
Schedule of Active Member Valuation Data

Male Active Members by Age and Years of Service

Age Group	Years of Service							Total	Average Salary
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus		
< 20	29	-	-	-	-	-	-	29	\$21,731
20 - 24	1,095	8	-	-	-	-	-	1,103	26,494
25 - 29	2,868	499	7	-	-	-	-	3,374	33,721
30 - 34	2,505	1,988	557	15	-	-	-	5,065	40,180
35 - 39	2,317	2,120	2,918	948	24	-	-	8,327	47,264
40 - 44	2,066	1,474	2,070	2,412	944	49	-	9,015	48,464
45 - 49	1,919	1,385	1,472	1,975	2,130	1,104	57	10,042	48,961
50 - 54	1,784	1,271	1,508	1,587	1,640	1,938	1,274	11,002	50,490
55 - 59	1,553	1,063	1,377	1,367	1,261	1,299	2,364	10,284	52,775
60 - 64	663	476	651	505	357	280	616	3,548	54,366
65+	276	231	331	171	114	77	252	1,452	57,394
Total	17,075	10,515	10,891	8,980	6,470	4,747	4,563	63,241	\$48,129
Average Age:	46.12								
Average Service:	12.71								

Female Active Members by Age and Years of Service

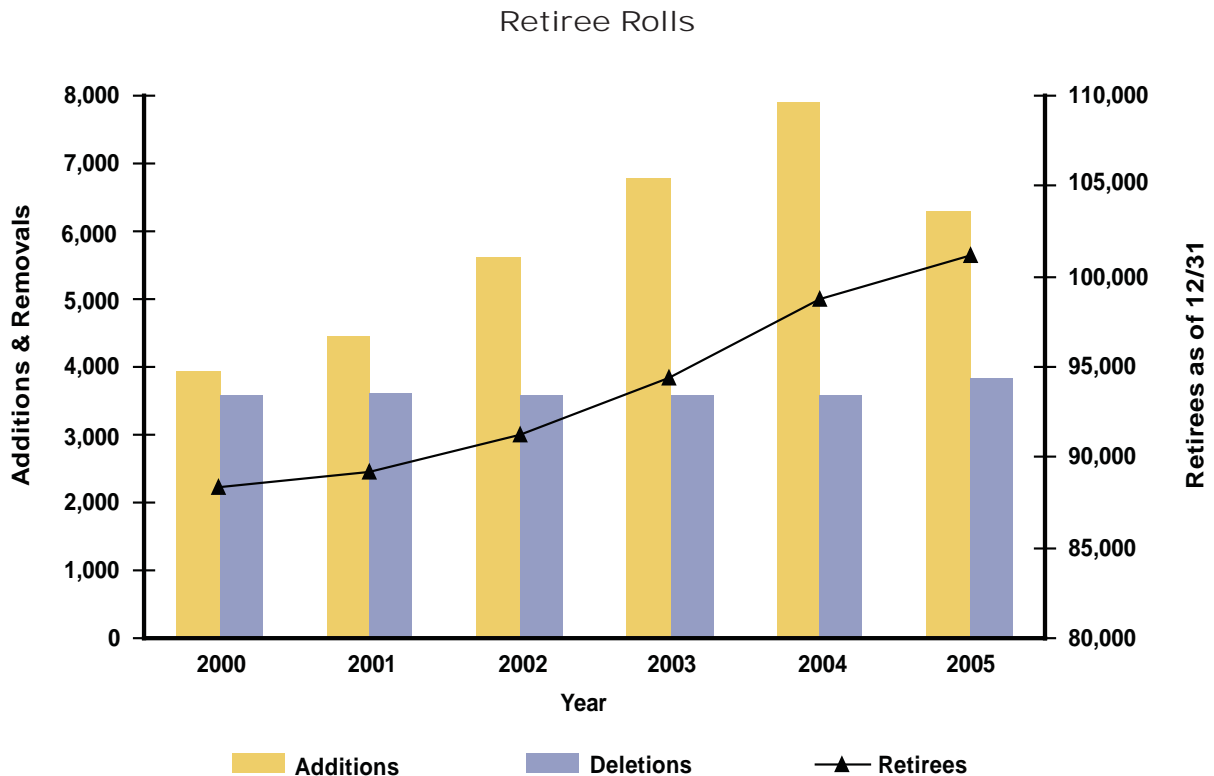
Age Group	Years of Service							Total	Average Salary
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus		
< 20	52	-	-	-	-	-	-	52	\$22,144
20 - 24	1,191	39	-	-	-	-	-	1,230	24,995
25 - 29	2,310	575	25	-	-	-	-	2,910	30,950
30 - 34	1,898	1,126	463	31	-	-	-	3,518	34,635
35 - 39	1,841	1,181	1,089	708	56	-	-	4,875	37,232
40 - 44	1,769	1,135	1,046	1,152	881	147	-	6,130	39,690
45 - 49	1,937	1,234	1,238	1,270	1,220	1,173	159	8,231	41,424
50 - 54	1,635	1,101	1,199	1,343	1,191	1,492	1,691	9,652	44,420
55 - 59	1,105	794	923	1,152	967	909	1,305	7,155	44,341
60 - 64	320	331	421	389	280	220	224	2,185	43,500
65+	135	113	189	138	73	59	95	802	42,937
Total	14,193	7,629	6,593	6,183	4,668	4,000	3,474	46,740	\$40,331
Average Age:	45.91								
Average Service:	12.46								

Aggregate Active Member Valuation Data

Valuation Date	Number Employers	Number Active Members	Annual Payroll	Annual Average Pay	% Increase in Average Pay
31-Dec-05	108	109,981	\$4,929,000,000	44,815	-1.2%
31-Dec-04	108	108,405	4,920,000,000	45,382	1.9
31-Dec-03	106	109,018	4,853,000,000	44,519	2.0
31-Dec-02	105	111,059	4,846,000,000	43,631	3.5
31-Dec-01	106	109,716	4,627,000,000	42,172	2.6
31-Dec-00	106	109,469	4,500,000,000	41,110	3.6

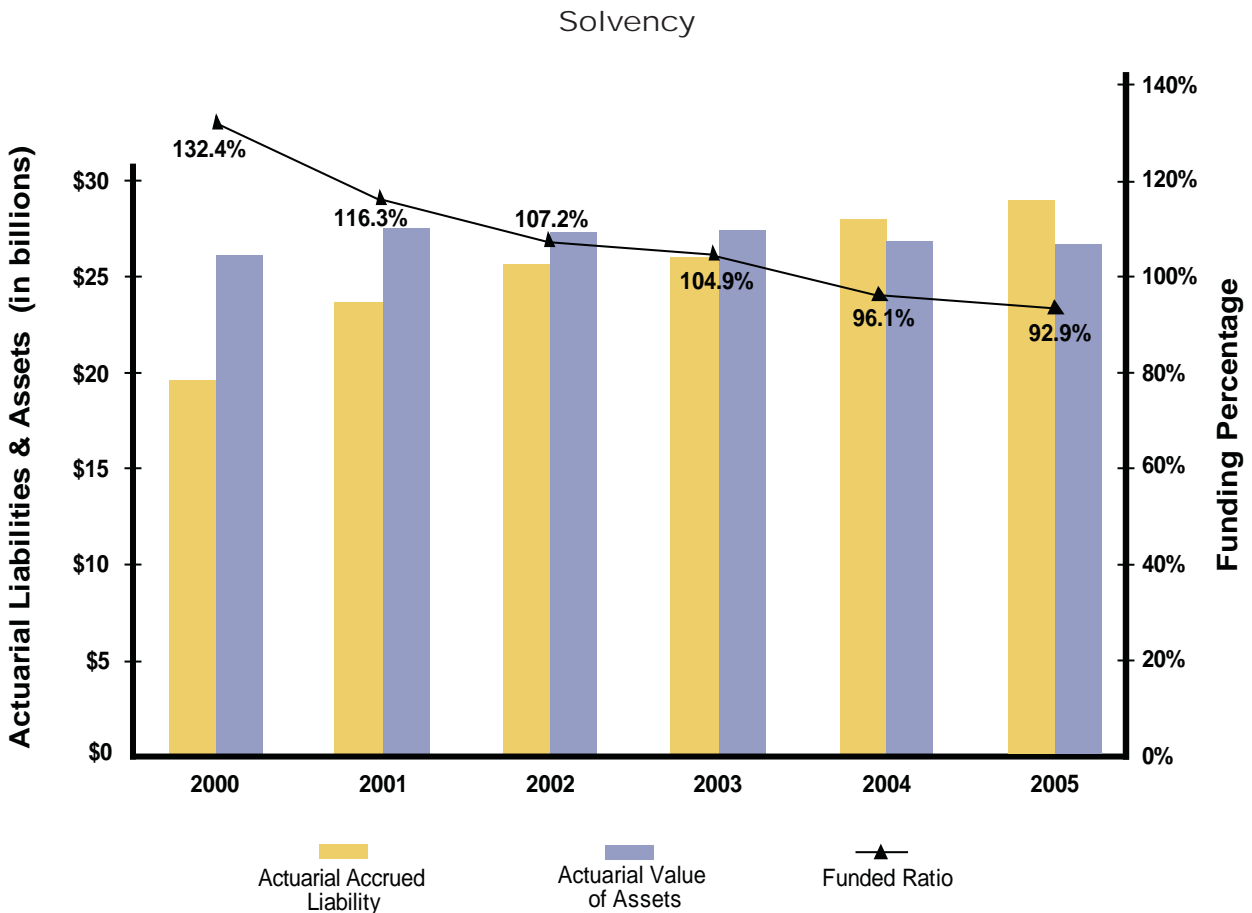
Actuarial Section
**Schedule of Retirees and Beneficiaries
 Added to and Removed from Rolls**
 Six Years Ended December 31, 2005

Year	Added to Rolls		Removed from Rolls		Rolls-End of Year		Percentage Change	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowance
2005	6,298	\$149,935,613	3,846	\$40,984,887	101,179	\$1,600,772,520	2.48%	7.22
2004	7,905	198,252,778	3,590	37,279,580	98,727	1,492,913,832	4.57	12.04
2003	6,769	161,875,423	3,585	36,430,746	94,412	1,332,443,772	3.49	14.28
2002	5,605	126,087,119	3,594	31,408,470	91,228	1,165,985,640	2.25	12.92
2001	4,444	81,715,244	3,619	30,654,172	89,217	1,032,589,104	0.93	5.00
2000	3,939	56,321,173	3,590	29,591,472	88,392	983,432,700	0.40	2.54



Actuarial Section
Solvency Test
 Six Years Ended December 31, 2005
 Dollar Amounts in Thousands

Valuation Date	Aggregate Accrued Liabilities For			Total Actuarial Accrued Liability (AAL)	Actuarial Valuation of Assets	Portion of Accrued Liabilities Covered by Reported Assets			Funded Ratio
	(1)	(2)	(3)			(1)	(2)	(3)	
	Active Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed Portion)						
31-Dec-05	\$3,696,477	14,000,196	11,155,043	28,851,716	26,793,782	100.0%	100.0	81.6	92.9
31-Dec-04	3,593,576	12,779,570	11,625,880	27,999,026	26,900,027	100.0	100.0	90.5	96.1
31-Dec-03	3,588,664	11,296,520	11,294,577	26,179,761	27,465,615	100.0	100.0	100.0	104.9
31-Dec-02	3,498,672	10,129,669	12,022,048	25,650,389	27,497,464	100.0	100.0	100.0	107.2
31-Dec-01	3,344,107	8,684,734	11,629,916	23,658,757	27,505,494	100.0	100.0	100.0	116.3
31-Dec-00	3,182,776	8,148,876	8,370,626	19,702,278	26,094,306	100.0	100.0	100.0	132.4



Actuarial Section
Analysis of Financial Experience
 Four Years Ended December 31, 2005

Gains & Losses in Accrued Liabilities
 Resulting from Differences Between Assumed Experience and Actual Experience
(Dollar Amounts in Thousands)

Type of Activity	2005	2004	2003	2002
Gain(Loss) from Investment Earnings	\$(815,133)	(1,372,930)	(1,034,701)	(1,204,242)
Demographic Assumptions	4,931	15,539	9,889	15,798
Pay Increases	23,806	(156,133)	182,236	(23,957)
Other	42,858	(179,410)	(63,390)	(27,614)
Gain(Loss) During Year From Financial Experience	(743,538)	(1,692,934)	(905,966)	(1,240,015)
Non Recurring Items:				
Contributions in excess of Requirements				148,463
Changes in Actuarial Methods and assumptions	248,873 ^a	(249,607)	564,365	(27,506)
Retiree COLA			(31,000)	(621,300)
Composite Gain(Loss)	\$(494,665)	(1,942,541)	(372,601)	(1,740,358)

^a Adoption of the assumptions from the 2005 experience study reduced the liability and employer contribution. The change in the salary increase assumptions from an age-based to service-based schedule reduced the unfunded liability by \$874 million. Other experience study changes increased the unfunded liability by \$536 million so the net effect of the experience study was to reduce the unfunded liability by \$338 million. Changes resulting from the actuarial audit increased the unfunded liability by \$89 million.

Actuarial Section
Summary of Plan Provisions

Benefit and Contribution Provisions as of December 31, 2005

The State Employees' Retirement System makes provision for retirement, disability, and death benefits for all State employees and certain other eligible groups. The major provisions may be summarized as follows:

Eligible Employees

- Class A All regular State employees and employees of certain Commissions and Authorities and employees of state-owned educational institutions and the Pennsylvania State University (unless such employees have joined the Public School Employees' Retirement System or TIAA-CREF) hired before July 1, 2001 who did not elect into the Class AA membership as of December 31, 2001. This excludes Judges, and District Justices who have elected Class E-1 or Class E-2.
- Class AA All regular State employees who are hired after July 1, 2001, and former Class A State employees hired before July 1, 2001 who elected into Class AA as of December 31, 2001. This includes employees of certain Commissions and Authorities and employees of state-owned educational institutions and the Pennsylvania State University (unless such employees have joined the Public School Employees' Retirement System or TIAA-CREF), but excludes State Police Troopers, Judges, and District Justices, and Legislators with Class D-3 or D-4.
- Class C Liquor Law enforcement officers and other officers and certain employees of the State Police who have been members and employees continuously since prior to March 1, 1974.
- Class D-3 Members of the General Assembly who have been members and employees continuously since prior to March 1, 1974.
- Class D-4 Legislators who are elected after July 1, 2001, and legislators hired before July 1, 2001 who elected into this class, excluding Class D-3 members.
- Class E-1 Judges
- Class E-2 District Justices

Age and Service Requirements for Superannuation
(full formula benefits)

- Class AA/A Age 60, with three years of service, except for members of the General Assembly, enforcement officers, correction officers, psychiatric security aids, and officers of the Delaware River Port Authority; for whom the requirement is age 50 with three years of service. Members of Class AA/A with 35 years of credited service are entitled to full formula benefits regardless of age. State Police officers can retire on full benefits after age 50 or with 20 years of service. Capitol Police and Park Rangers can retire on full benefits at age 50 with 20 years of Capitol Police or Park Ranger service.
- Class C Age 50, with three years of service.
- Class D-3 Age 50, with three years of service.
- Class D-4 Age 50, with three years of service.
- Class E-1 Age 60, with three years of service; or 35 or more years of credited service, regardless of age.
- Class E-2 Age 60, with three years of service; or 35 or more years of credited service, regardless of age.

Actuarial Section
Summary of Plan Provisions

Formula for Superannuation Annuity

The standard single-life annuity for most members is 2% of the high three-year average salary of the member multiplied by years and fractions of credited service multiplied by the Multiplier of the Class of membership. The annuity paid to a member shall not exceed the member’s highest salary during any period of 12 consecutive months of creditable service.

The multiplier for each of the major classes is as follows:

Class	Multiplier	
A	1.00	For State Police with years of service between 20 and 25, the minimum annuity is 50% of highest annual salary. With more than 25 years of service the benefit is a minimum of 75% of highest annual salary.
AA	1.25	
C	1.00	For State Police with years of service between 20 and 25, the minimum annuity is 50% of highest annual salary. With more than 25 years of service the benefit is a minimum of 75% of highest annual salary.
D-3	3.75	
D-4	1.50	
E-1	2.00	For each of the first 10 years of judicial service dropping to 1.5 for each subsequent year of judicial service.
E-2	1.50	For each year of judicial service.

There are conditions under which long-service members or members retiring at advanced ages may receive somewhat larger benefits than those described above. Further, benefit limitations exist for most members of Class D-3.



Statistical Section



Statistical Section

Statistical Section Narrative

The Statistical Section of the Commonwealth of Pennsylvania State Employees' Retirement System Comprehensive Annual Financial Report presents detailed information related to the financial statements, as well as highlights of actuarial valuations. The schedules within the Statistical Section are classified into the following four categories: Financial Trends, Revenue Capacity, Demographic and Economic Information, and Operating Information.

Financial Trends

The **Schedule of Trend Data** provides key financial, actuarial, and demographic data for ten years ending December 31, 2005. This data includes items such as employer and member contribution rates, contributions received by the System and benefits paid, fair value and actuarial value of assets, and the number of annuitants, beneficiaries and active participants.

The **Schedule of Additions to Plan Net Assets** presents the member and employer contributions, as well as the net investment income/loss for the ten years ending December 31, 2005. The System's investment returns have the most significant impact on the additions to plan net assets.

The **Schedule of Deductions from Plan Net Assets** presents the benefits, refunds of contributions, and administrative expenses for the ten years ending December 31, 2005. The System's benefit payments have the most significant impact on the total deductions from plan net assets.

The **Schedule of Benefit and Refund Deductions from Plan Net Assets by Type** presents the amount of benefit payments and refunds by type for the ten years ended December 31, 2005. Most benefit types are either superannuated or early which is determined by the amount of years of service and/or age at retirement.

The **Schedule of Total Changes in Plan Net Assets** is a schedule combining the additions to and deductions from plan net assets from the Schedule of Additions to Plan Net Assets and Schedule of Deductions from Plan Net Assets to arrive at net increase/decrease to changes in plan net assets for the ten years ended December 31, 2005.

Revenue Capacity

The **Schedule of Investment Income** presents the details of the total net investment gain/loss for the ten years ended December 31, 2005. The System has two outside sources of revenue and one own-source (internal) of revenue. Employer contributions and member contributions, which information is provided for in the Schedule of Additions to Plan Net Assets and Schedule of Deductions from Plan Net Assets, are the two outside sources of revenue, and investment income is the System's own-source revenue. Since investment income is the largest source of revenue to the System, this schedule provides more detail on the major components of the investment income, which is also disclosed in total on the Schedule of Additions to Plan Net Assets.

Demographic and Economic Information

The **Schedule of Active Member Statistics** provides the total number of active members, as well as the average age, average service, and average salary by gender.

Operating Information

The **Schedule of Retired Members by Type of Benefit** presents, for given benefit ranges, the total number of retirees, total monthly benefits and total number of retirees by retirement type as of December 31, 2005.

The **Schedule of Retired Members by Option** presents, for given benefit ranges, the total number of retirees, total monthly benefits and total number of retirees by retirement option as of December 31, 2005.

Statistical Section
Statistical Section Narrative

The **Schedule of Average Monthly Benefit Payments** presents, in five-year increments of credited service, the average monthly benefit, average final average salary and number of retired members for the ten years ended December 31, 2005.

The **Schedule of Average Annual Benefit Payments** presents, in five-year age increments and by gender, average annual benefit for each major retirement type as of December 31, 2005.

The **Schedule of SERS Agency Participation** provides the number of covered employees and the corresponding percentage of participation for the 20 largest employers for the ten years ended December 31, 2005, as well as a listing of additional employers participating with SERS as of December 31, 2005.

Sources: Unless otherwise noted, the information in these schedules is derived from information used to compile the Financial Section and Actuarial Section of the System's Comprehensive Annual Financial Reports for the relevant year.

Statistical Section
Schedule of Trend Data

Schedule of Trend Data^a

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Contribution Rates										
Employer ^b	3.02% ^d	2.03 ^d	1.07	0.00	0.00	1.39	5.00	6.70	7.28	7.69
Member	6.25%	6.25	6.25	6.25	5.00	5.00	5.00	5.00	5.00	5.00
Contributions										
Employer	\$148,375	106,703	68,604	50,831	76,710	168,002	270,718	310,501	324,093	373,902
Member	\$305,624	309,923	308,014	304,233	240,528	231,666	224,928	221,618	212,556	209,581
Average Annual Compensation	\$44,815	45,382	44,519	43,631	42,172	41,110	39,698	38,898	36,926	35,839
Market Value of Assets	\$28,751,871	26,641,399	24,535,949	20,879,559	24,706,063	27,880,467	28,093,181	24,123,358	21,311,771	18,492,216
Actuarial Value of Assets	\$26,793,782	26,900,027	27,465,615	27,497,464	27,505,494	26,094,306	23,624,267	20,670,711	18,565,136	16,841,069
Accrued Actuarial Liability	\$28,851,716	27,999,026	26,179,761	25,650,389	23,658,757	19,702,278	19,091,840	18,357,899	17,288,413	15,936,617
Funded Ratio	92.9%	96.1	104.9	107.2	116.3	132.4	123.7	112.6	107.4	105.7
Total Benefits and Refunds	\$1,943,643	1,859,255	1,632,281	1,430,417	1,245,129	1,176,785	1,229,348	1,062,155	1,021,721	928,344
Average Pension ^c	\$19,372	18,414	17,192	15,445	13,656	12,935	12,520	12,027	10,555	10,150
Annuitants and Beneficiaries	101,179	98,727	94,412	91,228	89,217	88,392	88,043	85,834	85,457	83,086
Active Participants	109,981	108,405	109,018	111,059	109,716	109,470	108,035	108,893	108,684	110,922

^a All dollar amounts are in thousands, except Average Pension and Average Annual Compensation.

^b Employer rate represents total contribution rate at December 31, as a percent of covered payroll.

^c Average pension amount represents average annual pension for only members who have reached superannuation through age or service credits.

^d Act 40 of 2003 established a minimum employer contribution rate of 2%, 3% and 4% effective July 1, 2004, 2005 and 2006 respectively.

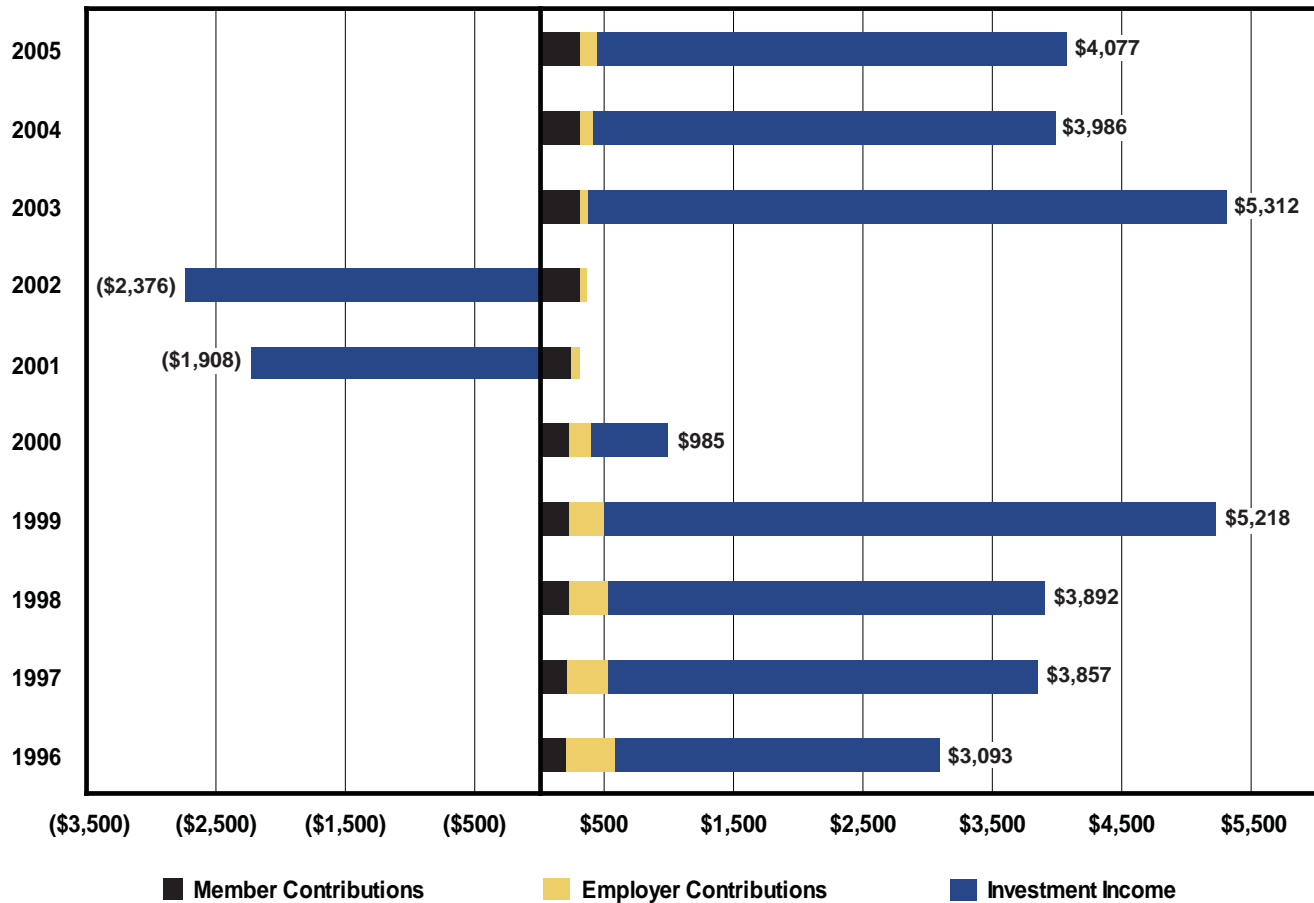
Statistical Section
Schedule of Additions to Plan Net Assets

Ten Years Ended December 31, 2005
(Dollar Amounts in Thousands)

Year Ending	Member Contributions	Employer Contributions		Net Investment Gain/(Loss)	Total
		Dollar Amount	% of Annual Covered Payroll		
2005	\$305,624	148,375	3.0%	\$3,622,820	4,076,819
2004	309,923	106,703	2.2	3,569,323	3,985,949
2003	308,014	68,604	1.4	4,935,699	5,312,317
2002	304,233 ^a	50,831	1.0	(2,731,295)	(2,376,231)
2001	240,528	76,710	1.7	(2,225,627)	(1,908,389)
2000	231,666	168,002	3.7	585,712	985,380
1999	224,928	270,718	6.3	4,722,671	5,218,317
1998	221,618	310,501	7.3	3,359,844	3,891,963
1997	212,556	324,093	8.1	3,320,169	3,856,818
1996	209,581	373,902	9.4	2,509,330	3,092,813

^a Effective January 1, 2002, most members' contributions increased to 6.25% from 5.00% of salary as a result of Act 9 of 2001.

Additions to Plan Net Assets
(Dollar Amounts in Millions)



Source: State Employees' Retirement System

Statistical Section
Schedule of Deductions from Plan Net Assets

Ten Years Ended December 31, 2005
(Dollar Amounts in Thousands)

Year	Benefits	Refund of Contributions	Administrative	Total
2005	\$1,936,428	7,215	22,704	1,966,347
2004	1,853,117	6,138	21,244	1,880,499
2003	1,627,166 ^a	5,115	23,646	1,655,927
2002	1,426,257 ^b	4,160	19,856	1,450,273
2001	1,237,953 ^c	7,176 ^d	20,887	1,266,016
2000	1,166,897	9,888	21,309	1,198,094
1999	1,218,133	11,215	19,146	1,248,494
1998	1,050,870	11,285	18,221	1,080,376
1997	1,008,648	13,073	15,542	1,037,263
1996	918,218	10,126	15,062	943,406

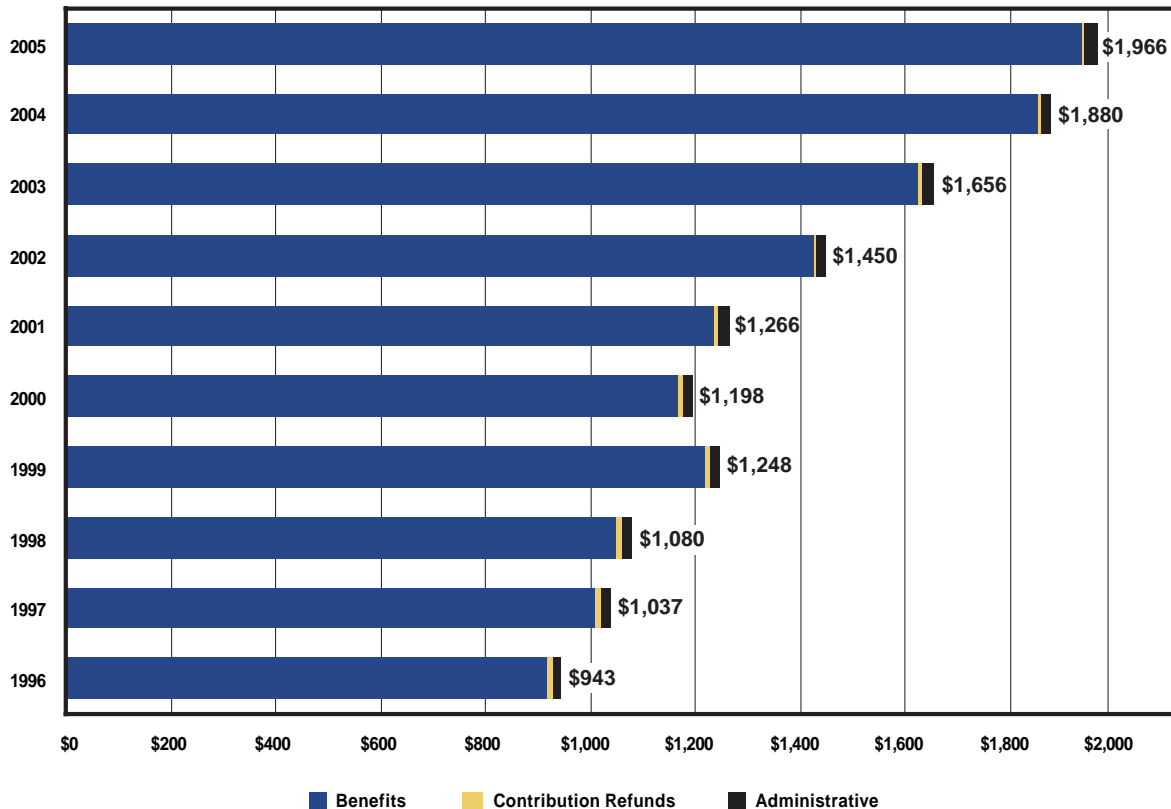
^a Phase 2 of Cost of Living Adjustment (COLA) for members who retired between July 2, 1990 and July 1, 2002 became effective July 2, 2003.

^b Phase 1 of 2-phase COLA for members who retired before July 2, 1990 became effective July 1, 2002.

^c For most members who retired after July 1, 2001, the benefit multiplier increased by 25% as a result of Act 9 of 2001.

^d Act 9 of 2001 also lowered the amount of years required to vest benefits from 10 years to 5 years.

Deductions from Plan Net Assets
(Dollar Amounts in Millions)



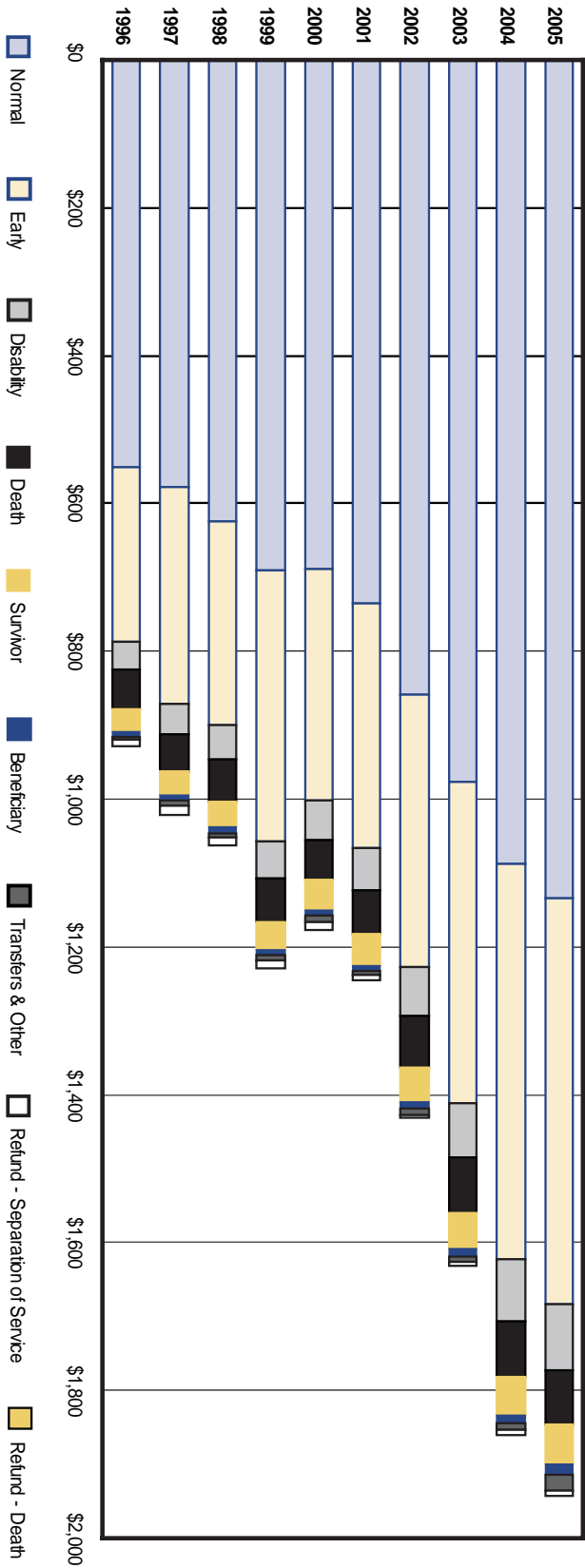
Source: State Employees' Retirement System

Schedule of Benefit and Refund Deductions from Plan Net Assets By Type

Schedule of Benefit and Refund Deductions from Plan Net Assets by Type Ten Years Ended December 31, 2005 (Dollar Amounts in Thousands)

Year	Retirement						Transfers & Other					Refunds			Total Refunds
	Normal	Early	Death	Disability	Survivor	Beneficiary	Total Benefit Deductions	Separation of Service	Death	Refunds					
2005	\$1,133,694	550,437	74,312	88,250	53,873	14,650	21,212	1,936,428	7,086	129	7,215				
2004	1,088,129	534,674	76,216	82,515	51,946	10,818	8,819	1,853,117	6,013	125	6,138				
2003	976,102	436,325	75,368	72,880	48,687	9,876	7,928	1,627,166	4,994	121	5,115				
2002	859,078	368,778	70,703	64,789	45,439	8,902	8,568	1,426,257	4,024	136	4,160				
2001	735,919	331,445	57,744	57,254	42,689	8,115	4,787	1,237,953	6,753	423	7,176				
2000	688,410	314,014	53,785	54,112	40,037	7,948	8,591	1,166,897	9,548	340	9,888				
1999	690,840	366,515	58,675	50,496	36,830	7,283	7,494	1,218,133	10,788	427	11,215				
1998	623,980	276,428	57,465	45,691	34,681	7,527	5,098	1,050,870	11,034	251	11,285				
1997	576,573	294,827	50,287	40,898	32,063	6,871	7,129	1,008,648	12,734	339	13,073				
1996	550,547	236,038	53,705	37,735	30,415	6,892	2,886	918,218	9,365	761	10,126				

Benefit and Refund Deductions from Plan Net Assets by Type
(Dollar Amounts in Millions)



Source: State Employees' Retirement System

Schedule of Total Changes in Plan Net Assets

Schedule of Total Changes in Plan Net Assets
Ten Years Ended December 31, 2005
(Dollar Amounts in Thousands)

Year Ending	Additions to Plan Net Assets				Deductions from Plan Net Assets				Net Increase/ (Decrease)
	Member Contributions	Employer Contributions	Investment Income	Total Additions	Benefits	Refund of Contributions	Administrative	Total Deductions	
2005	\$305,624	148,375	3,622,820	4,076,819	1,936,428	7,215	22,704	1,966,347	2,110,472
2004	309,923	106,703	3,569,323	3,985,949	1,853,117	6,138	21,244	1,880,499	2,105,450
2003	308,014	68,604	4,935,699	5,312,317	1,627,166	5,115	23,646	1,655,927	3,656,390
2002	304,233	50,831	(2,731,295)	(2,376,231)	1,426,257	4,160	19,856	1,450,273	(3,826,504)
2001	240,528	76,710	(2,225,627)	(1,908,389)	1,237,953	7,176	20,887	1,266,016	(3,174,405)
2000	231,667	168,002	585,712	985,381	1,166,897	9,888	21,309	1,198,094	(212,713)
1999	224,928	270,718	4,722,671	5,218,317	1,218,133	11,215	19,146	1,248,494	3,969,823
1998	221,618	310,501	3,359,844	3,891,963	1,050,870	11,285	18,221	1,080,376	2,811,587
1997	212,556	324,093	3,320,169	3,856,818	1,008,648	13,073	15,542	1,037,263	2,819,555
1996	209,581	373,902	2,509,330	3,092,813	918,218	10,126	15,062	943,406	2,149,407

Source: State Employees' Retirement System

Statistical Section
Schedule of Investment Income

Schedule of Investment Income
Ten Years ended December 31, 2005
(Dollar Amounts in Thousands)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Investment gain (loss):										
Net appreciation/(depreciation) in fair value of investments	\$2,811,470	2,807,290	3,423,081	(1,915,634)	(1,790,575)	774,998	2,676,745	1,212,355	1,302,080	1,089,629
Collective trust fund appreciation/(depreciation) and income	420,888	391,248	1,165,463	(1,310,044)	(1,014,578)	(825,600)	1,453,724	1,568,761	1,491,868	953,325
Interest	368,610	280,221	237,786	303,421	388,626	412,933	371,062	357,708	345,323	334,242
Dividends	128,480	124,099	113,634	112,015	106,253	113,293	127,330	118,502	115,749	103,206
Real estate	112,057	148,133	168,427	193,719	182,423	203,308	164,893	153,611	98,897	59,402
Miscellaneous	3,537	6,722	7,138	30,035	41,111	37,377	35,981	25,954	31,442	22,629
Investment expenses	3,845,042	3,757,713	5,115,529	(2,586,488)	(2,086,740)	716,309	4,829,735	3,436,891	3,385,359	2,562,433
Net gain (loss) from investing activities	(234,760)	(196,859)	(187,139)	(153,211)	(148,778)	(140,526)	(115,538)	(82,369)	(72,059)	(59,382)
From securities lending activities:										
Securities lending income	116,477	40,854	16,163	26,696	54,813	87,874	54,530	71,736	93,672	80,350
Securities lending expenses	(103,939)	(32,385)	(8,854)	(18,292)	(44,922)	(77,945)	(46,056)	(66,414)	(86,803)	(74,071)
Net income from securities lending activities	12,538	8,469	7,309	8,404	9,891	9,929	8,474	5,322	6,869	6,279
Total net investment gain (loss)	\$3,622,820	3,569,323	4,935,699	(2,731,295)	(2,225,627)	585,712	4,722,671	3,359,844	3,320,169	2,509,330

Source: State Employees' Retirement System

Statistical Section
Schedule of Active Member Statistics
 Ten Years Ended December 31, 2005

Schedule of Active Member Statistics
 Ten Years ended December 31, 2005

	Male			Female			Total Number of Active Members
	Average Age	Average Service	Average Salary	Average Age	Average Service	Average Salary	
2005	46.12	12.71	\$48,129	45.91	12.46	\$40,331	109,981
2004	46.14	13.03	48,801	46.01	12.88	40,716	108,405
2003	46.25	13.42	47,717	46.12	13.39	40,120	109,018
2002	46.16	13.55	46,857	45.98	13.48	39,198	111,059
2001	46.08	13.68	45,386	45.88	13.65	37,737	109,716
2000	45.86	13.53	44,316	45.70	13.65	36,630	109,469
1999	45.55	13.38	42,799	45.41	13.54	35,374	108,035
1998	45.42	13.42	41,853	45.28	13.56	34,757	108,893
1997	45.17	13.26	39,849	44.93	13.28	32,846	108,684
1996	44.81	13.01	38,736	44.51	12.98	31,870	110,922

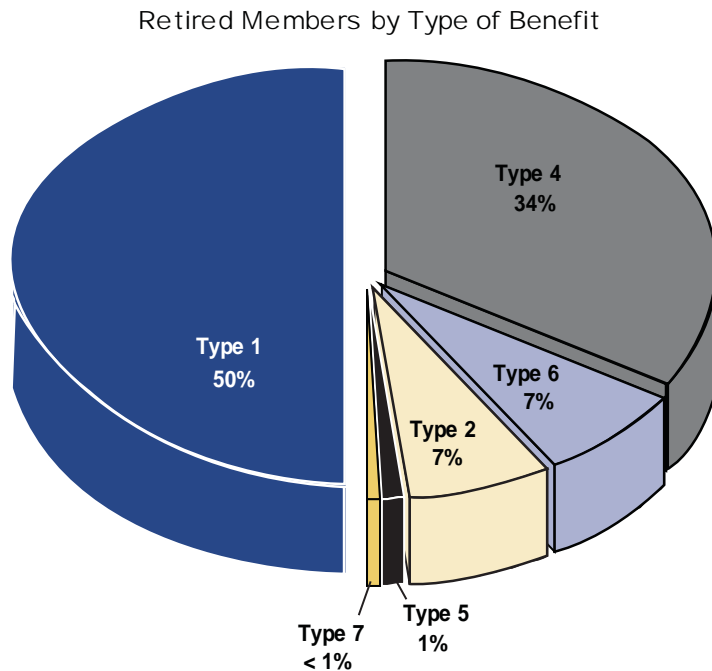
Source: State Employees' Retirement System

Statistical Section
Schedule of Retired Members by Type of Benefit
 As of December 31, 2005

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Type of Retirement						
			1	2	4	5	6	7	
\$1 to 500	\$7,442,800	29,379	8,662	775	14,945	608	4,176	213	
> 500 to 1,000	17,640,339	24,105	13,156	3,668	4,943	277	1,901	160	
> 1,000 to 1,500	18,730,324	15,214	8,764	1,439	4,118	115	697	81	
> 1,500 to 2,000	17,733,563	10,211	5,500	663	3,677	48	290	33	
> 2,000 to 2,500	15,850,654	7,093	4,033	263	2,583	27	176	11	
> 2,500 to 3,000	12,693,329	4,638	2,843	150	1,548	27	66	4	
> 3,000	43,306,701	10,539	7,504	111	2,775	45	100	4	
Totals	\$133,397,710	101,179	50,462	7,069	34,589	1,147	7,406	506	

Type of Retirement

- 1 - Superannuation
- 2 - Disabled
- 4 - Early
- 5 - Beneficiary
- 6 - Survivor
- 7 - Alternate Payee



Source: State Employees' Retirement System

Statistical Section
Schedule of Retired Members by Option
 As of December 31, 2005

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Option Selected					
			FRA	1	2	3	4	Other
\$1 to 500	\$7,442,800	29,379	7,314	11,364	6,687	2,565	810	639
> 500 to 1,000	17,640,339	24,105	8,208	7,535	4,337	2,397	1,305	323
> 1,000 to 1,500	18,730,324	15,214	4,457	4,699	2,846	1,739	1,330	143
> 1,500 to 2,000	17,733,563	10,211	3,022	2,937	1,694	1,366	1,124	68
> 2,000 to 2,500	15,850,654	7,093	2,033	1,881	1,095	1,043	1,007	34
> 2,500 to 3,000	12,693,329	4,638	1,391	1,170	709	693	641	34
> 3,000	43,306,701	10,539	3,615	2,359	1,229	1,637	1,646	53
Totals	\$133,397,710	101,179	30,040	31,945	18,597	11,440	7,863	1,294

Options

FRA - Full Retirement Allowance

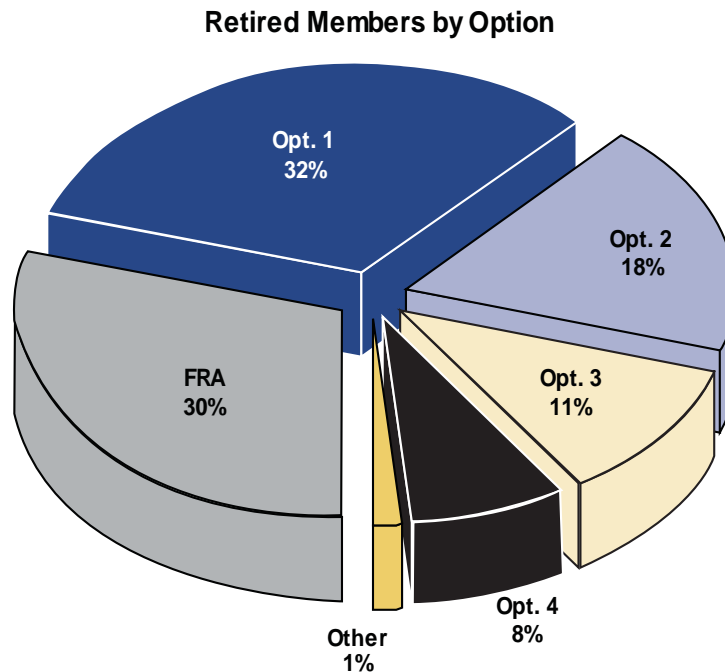
Opt. 1 - Annuity for Life with beneficiary receiving remainder of Present Value when member dies.

Opt. 2 - Annuity for Life with beneficiary receiving same annuity when member dies.

Opt. 3 - Annuity for Life with beneficiary receiving one half the members annuity amount when member dies.

Opt. 4 - Member designs a different plan approved by SERS not covered under the above option.

Other - Death Benefit and Domestic Relation Order



Source: State Employees' Retirement System

Statistical Section
Schedule of Average Monthly Benefit Payments^a
 Ten Years Ended December 31, 2005

Retirement Effective Dates	Years Credited Service						
	<5	5-10	10-15	15-20	20-25	25-30	30+
Period 1/1/2005 to 12/31/2005							
Average monthly benefit	\$197	335	695	1,161	1,844	2,409	3,464
Average final average salary	\$31,822	34,767	40,577	45,052	51,985	55,391	60,758
Number of retired members	57	579	544	785	588	885	2,034
Period 1/1/2004 to 12/31/2004							
Average monthly benefit	\$170	355	674	1,171	1,820	2,255	3,230
Average final average salary	\$26,332	34,645	39,343	44,095	49,960	53,306	56,940
Number of retired members	53	550	558	878	686	1,130	3,100
Period 1/1/2003 to 12/31/2003							
Average monthly benefit	\$201	370	661	1,126	1,721	2,201	3,179
Average final average salary	\$30,920	34,935	37,342	41,727	47,340	51,372	55,947
Number of retired members	33	514	538	851	701	984	2,633
Period 1/1/2002 to 12/31/2002							
Average monthly benefit	\$201	355	631	1,073	1,683	2,150	3,264
Average final average salary	\$25,626	33,588	37,370	41,421	45,974	49,743	56,880
Number of retired members	29	492	525	627	615	799	1,826
Period 1/1/2001 to 12/31/2001							
Average monthly benefit	\$166	413	542	967	1,445	1,874	2,959
Average final average salary	\$27,851	32,700	35,821	40,773	43,815	47,066	55,470
Number of retired members	25	399	476	594	536	805	1,332
Period 1/1/2000 to 12/31/2000							
Average monthly benefit	\$160	469	448	771	1,205	1,645	2,487
Average final average salary	\$28,373	31,567	35,508	39,153	41,765	45,709	53,923
Number of retired members	33	252	639	594	458	712	678
Period 1/1/1999 to 12/31/1999							
Average monthly benefit	\$149	453	425	798	1,132	1,567	2,235
Average final average salary	\$27,246	29,670	34,691	38,970	40,447	43,931	49,742
Number of retired members	55	268	618	613	517	776	2,140
Period 1/1/1998 to 12/31/1998							
Average monthly benefit	\$124	424	423	762	1,110	1,690	2,410
Average final average salary	\$24,114	28,296	34,841	37,288	39,524	44,937	51,200
Number of retired members	44	271	621	587	476	791	914
Period 1/1/1997 to 12/31/1997							
Average monthly benefit	\$144	421	372	620	944	1,604	2,081
Average final average salary	\$27,838	27,556	33,750	35,789	36,756	43,655	45,961
Number of retired members	37	265	760	832	625	869	1,471
Period 1/1/1996 to 12/31/1996							
Average monthly benefit	\$118	435	420	683	1,018	1,623	2,120
Average final average salary	\$23,262	27,001	33,789	33,846	35,343	41,646	46,072
Number of retired members	39	251	596	637	588	786	977

^a Normal Retirement, Early Retirement and Disability Benefits

Source: State Employees' Retirement System

Statistical Section
Schedule of Average Annual Benefit Payment Amounts
 As of December 31, 2005

Age	Superannuation		Early Retirement		Disability		Beneficiary and Survivor	
	Male	Female	Male	Female	Male	Female	Male	Female
Under 25	-	-	-	\$381	-	-	15,294	7,292
25-29	-	-	\$676	581	7,270	10,676	13,826	8,867
30-34	-	-	1,173	995	9,775	10,035	27,061	11,554
35-39	-	-	2,094	1,664	12,242	9,559	10,281	10,308
40-44	-	-	3,736	2,496	12,482	11,931	5,649	11,855
45-49	-	-	8,562	4,487	14,579	13,503	6,809	8,783
50-54	\$30,697	28,958	12,726	9,403	15,066	14,701	5,613	8,709
55-59	36,965	33,691	19,926	13,583	15,351	14,600	7,259	10,621
60-64	33,362	24,406	21,126	14,240	12,420	11,782	8,796	12,052
65-69	26,488	18,357	15,176	10,651	9,983	9,339	8,582	10,514
70-74	21,194	13,672	14,167	9,313	9,394	8,077	8,905	9,846
75-79	18,007	11,222	13,714	8,359	10,036	7,417	6,681	8,010
80-84	15,175	9,350	12,014	7,400	9,233	7,041	5,718	6,678
85-89	12,397	8,089	11,574	8,531	8,522	6,075	5,486	5,849
90 over	12,053	8,528	11,850	9,587	7,504	6,238	3,170	5,065
Total Average	\$23,080	14,499	16,358	10,352	12,836	11,876	7,682	8,013

	Superannuation	Early Retirement	Disability	Beneficiary and Survivor
Average Pension	\$19,372	13,490	12,333	7,981
Average Age: Male and Female	73.3	60.9	60.1	75.0

Source: State Employees' Retirement System

Statistical Section

Schedule of SERS Agency Participation

- Number of Active Employees
% - Percentage of Total Active Members

Schedule of SERS Agency Participation Twenty Largest Employers Ten Years Ended December 31, 2005

Employer Name	2005		2004		2003		2002		2001		2000		1999		1998		1997		1996	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Dept of Public Welfare	19,781	17.99%	20,175	18.61%	20,417	18.73%	21,242	19.13%	21,507	19.60%	21,766	19.88%	22,290	20.63%	23,378	21.47%	24,194	22.26%	25,064	22.60%
Dept of Corrections	15,126	13.75%	14,463	13.34%	14,267	13.09%	14,839	13.36%	14,416	13.14%	14,123	12.90%	13,284	12.30%	12,765	11.72%	12,070	11.11%	11,857	10.69%
Dept of Transportation	12,388	11.26%	12,428	11.46%	12,603	11.56%	12,768	11.50%	12,623	11.51%	12,748	11.65%	12,590	11.65%	12,556	11.53%	12,475	11.48%	12,582	11.34%
Pennsylvania State University	6,210	5.65%	6,085	5.61%	6,102	5.60%	6,071	5.47%	6,099	5.56%	6,117	5.59%	6,174	5.71%	6,408	5.88%	6,547	6.02%	7,915	7.14%
Pennsylvania State Police	6,127	5.57%	5,885	5.43%	5,803	5.32%	5,807	5.23%	5,650	5.15%	5,632	5.14%	5,597	5.18%	5,408	4.96%	5,313	4.89%	5,393	4.86%
Dept of Labor And Industry	5,608	5.10%	5,648	5.21%	5,823	5.34%	5,938	5.35%	5,416	4.94%	5,467	4.99%	5,624	5.21%	5,762	5.29%	5,826	5.36%	5,954	5.37%
State System of Higher Education	5,240	4.76%	5,248	4.84%	5,432	4.98%	5,565	5.01%	5,697	5.19%	5,897	5.39%	5,989	5.54%	6,331	5.81%	6,535	6.01%	6,813	6.14%
Liquor Control Board	3,994	3.63%	3,840	3.54%	3,686	3.38%	3,672	3.31%	3,523	3.21%	3,576	3.27%	3,463	3.21%	3,421	3.14%	3,417	3.14%	3,475	3.13%
Dept of Environmental Protection	2,836	2.58%	2,854	2.63%	2,916	2.67%	2,973	2.68%	3,016	2.75%	3,004	2.74%	2,922	2.70%	2,896	2.66%	2,919	2.69%	2,981	2.69%
Dept of Military And Veterans Affairs	2,492	2.27%	2,402	2.22%	2,291	2.10%	2,220	2.00%	2,127	1.94%	2,057	1.88%	1,919	1.78%	1,846	1.70%	1,712	1.58%	1,639	1.48%
PA Higher Education Assistance Agency	2,378	2.16%	1,968	1.82%	1,957	1.80%	1,908	1.72%	1,811	1.65%	1,544	1.41%	1,482	1.37%	1,303	1.20%	1,193	1.10%	1,129	1.02%
Dept of Revenue	2,322	2.11%	2,238	2.06%	2,312	2.12%	2,462	2.22%	2,493	2.27%	2,431	2.22%	2,326	2.15%	2,301	2.11%	2,344	2.16%	2,378	2.14%
Executive Offices	2,246	2.04%	2,237	2.06%	2,351	2.16%	2,351	2.16%	2,374	2.16%	2,335	2.13%	2,233	2.07%	2,194	2.01%	2,219	2.04%	2,214	2.00%
PA Turnpike Commission	2,227	2.02%	2,282	2.11%	2,354	2.16%	2,330	2.10%	2,404	2.19%	2,406	2.20%	2,228	2.06%	2,316	2.13%	2,335	2.15%	2,310	2.08%
Dept of Conserv & Natural Resources	1,971	1.79%	1,927	1.78%	2,009	1.84%	2,079	1.87%	2,045	1.86%	2,019	1.84%	1,748	1.62%	1,658	1.52%	1,563	1.44%	1,533	1.38%
Administrative Office PA Courts	1,953	1.78%	1,957	1.81%	1,884	1.73%	1,883	1.70%	1,834	1.67%	1,836	1.68%	1,621	1.50%	1,630	1.50%	1,545	1.42%	1,534	1.38%
House of Representatives	1,706	1.55%	1,662	1.53%	1,619	1.49%	1,568	1.41%	1,544	1.41%	1,496	1.37%	1,493	1.38%	1,474	1.35%	1,449	1.33%	1,435	1.29%
Dept of Health	1,435	1.30%	1,386	1.28%	1,393	1.28%	1,378	1.24%	1,330	1.21%	1,271	1.16%	1,213	1.12%	1,216	1.12%	1,221	1.12%	1,240	1.12%
Dept of General Services	1,306	1.19%	1,230	1.13%	1,281	1.18%	1,337	1.22%	1,350	1.23%	1,333	1.22%	1,270	1.18%	1,261	1.16%	1,273	1.17%	1,267	1.14%
Board of Probation And Parole	1,010	0.92%	998	0.92%	986	0.90%	989	0.89%	944	0.86%	940	0.86%	913	0.85%	892	0.82%	862	0.79%	833	0.75%
Active Employees For Twenty Largest Employers	98,356	89.43%	96,913	89.40%	97,486	89.42%	99,398	89.50%	98,203	89.51%	97,998	89.52%	96,379	89.21%	97,014	89.09%	97,012	89.26%	99,546	89.74%
Total Number Of Active Employees	109,981		108,405		109,018		111,059		109,716		109,470		108,035		108,893		108,684		110,922	

Source: State Employees' Retirement System

Statistical Section
Schedule of Additional Participating Employers
As of December 31, 2005

Bloomsburg University Community Activities	Legislative Reference Bureau
Bucks County Community College	Lehigh Carbon Community College
Bucks County Health Department	Lieutenant Governor's Office
Bucks County Intermediate Unit	Local Government Commission
California University Student Association	Lock Haven University Student Co-op
Capitol Preservation Committee	Luzerne County Community College
Center for Rural Pennsylvania	Luzerne Intermediate Unit
Central Susquehanna Intermediate Unit	Mansfield University Community Services
Chester County Health Department	Milk Marketing Board
Civil Service Commission	Millersville Student Services
Clarion University Student Association	Montgomery County Community College
Community College of Allegheny County	Northampton Community College
Community College of Philadelphia	Office of Attorney General
Delaware County Community College	Office of Liquidations
Delaware River Joint Toll Bridge	Pennsylvania College of Technology
Delaware River Port Authority	Pennsylvania Convention Center Authority
Delaware Valley Regional Planning Commission	Pennsylvania Emergency Management Agency
Department of Aging	Pennsylvania Gaming Control Board
Department of Agriculture	Pennsylvania Health Care Cost Containment Council
Department of Banking	Pennsylvania Highlands Community College
Department of Community & Economic Development	Pennsylvania Housing Finance Agency
Department of Education	Pennsylvania Infrastructure Investment Authority
Department of State	Pennsylvania Municipal Retirement System
Department of the Auditor General	Pennsylvania Port Authority
East Stroudsburg University Student Association	Pennsylvania Public Television Network Commission
Edinboro University Services Inc.	Port Authority Transit Corporation
Environmental Hearing Board	Public School Employees' Retirement System
Erie County Health Department	Public Utility Commission
Fish and Boat Commission	Reading Area Community College
Game Commission	Riverview Intermediate Unit
Governor's Office	Securities Commission
Harrisburg Area Community College	Senate of Pennsylvania
Historical and Museum Commission	Shippensburg Student Association
House Appropriations Committee (D)	Slippery Rock Student Government
Independent Regulatory Review Commission	State Employees' Retirement System
Indiana University Student Co-op	State Ethics Commission
Insurance Department	State Public School Building Authority
Intergovernmental Cooperation Authority	State Tax Equalization Board
Joint Legislative Conservation Committee	Susquehanna River Basin Commission
Joint State Government Commission	Thaddeus Stevens College of Technology
Kutztown University Student Services	Treasury Department
Lancaster-Lebanon Intermediate Unit	U.S. Property & Fiscal Office for Pennsylvania
Legislative Budget & Finance Committee	West Chester University Student Services
Legislative Data Processing Center	Westmoreland County Community College



State Employees' Retirement System
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Harrisburg, PA 17101