Commonwealth of Pennsylvania
State Employees' Retirement System

Comprehensive Annual Financial Report

For the year ended December 31, 2009

09

A Component Unit of the Commonwealth of Pennsylvania

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State Employees' Retirement System

Comprehensive Annual Financial Report

For the year ended December 31, 2009

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

Leonard Knepp
Executive Director

Anthony J. Faiola
Chief Financial Officer

State Employees' Retirement System
30 North Third Street, Suite 150
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A Component Unit of the Commonwealth of Pennsylvania

Commonwealth of Pennsylvania
State Employees' Retirement System
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Nicholas J. Maiale
Chairman

May 28, 2010

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 2009. The CAFR provides us with a vehicle to compile and publicly disclose extensive financial, investment and actuarial reports with introductions from SERS management and the Fund's consulting actuary.

This report reflects a recovery in SERS' investment performance in 2009. The SERS Fund achieved a 9.1% return for the calendar year. The Fund's 2009 performance exceeded the assumed rate of return, which is 8%. This marks the 11th time in the last 15 years that SERS has out-performed its assumed rate of return. Over the last 20 years, including two steep economic downturns, the Fund has delivered an annualized compounded return of 8.6%.

Still, the investment losses suffered by SERS (along with virtually all other institutional investors) in 2008 continue to weigh on the Fund. Those losses are a major factor in what we anticipate will be a steep increase in employer contribution rates, with the most pronounced rate spike expected in fiscal year 2012-13, to be followed by a sustained period of high rates. The rate, currently 4%, is expected to peak at 29.2% in fiscal year 2013-14.

We recognize that increases of the magnitude being projected would impose a great and perhaps unsustainable budgetary burden on our member employers. As discussed in the Transmittal Letter, both the Governor and legislative leaders have put forth proposals to phase in the rate increase, and SERS has been working closely with all interested parties to help the Commonwealth address this serious fiscal challenge.

On behalf of the 11-member SERS Board and the SERS staff, I assure you we will continue working with the General Assembly and the Administration to explore options for moderating the impact on our participating employers. Unfortunately, however, there is no realistic scenario under which SERS employers will not be facing a sustained period of much higher rates.

Board and staff also 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, 2008

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.

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2009

Presented to

Pennsylvania State Employees' Retirement System

In recognition of meeting professional standards for plan funding 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)

Alan H. Winkle
Program Administrator

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May 28, 2010

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 ("System" or "SERS") for the calendar year ended December 31, 2009. Although SERS is not legally required to produce a CAFR, we do so in the interest of public accountability. 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 division provides a continuing review of the adequacy and effectiveness of the System's internal control structure. Also, our independent external auditor, Clifton Gunderson LLP, conducts 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 annual financial audits show that the money entrusted to SERS is being properly managed so that we can continue meeting our obligation to our Active and retired members, and their Beneficiaries. Our members can be reassured that their retirement System is well managed and their benefits are secure.

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 and collective trust 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, 2009 the System had 110,107 Active Members and 109,639 Annuitants and Beneficiaries.

The System is administered by an independent 11-member administrative board comprised of: the State Treasurer, ex officio; two state 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 SERS Fund ("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: $2.3 billion in payouts versus $602 million in contributions in 2009. The difference must come from the Fund's earnings and accumulated reserves, necessitating an investment policy that maintains short-term liquidity while pursuing long-term returns of at least the actuarially assumed rate (currently 8.0%).

The Fund's 2009 investment performance marked a positive improvement over the losses suffered in 2008, when the global economic collapse resulted in a return of -28.7%. Although the downturn extended deep into the first quarter of 2009, resulting in a first-quarter loss to the Fund of 7.5%, the Fund recovered strongly over the remainder of the year, with earnings during those three quarters totaling almost 18%. The result was a gain for the year of 9.1%, a full percentage point better than the assumed rate of return of 8%. This marked the 11th time in the last 15 years that SERS has out-performed its assumed rate of return. Despite the unprecedented losses of 2008, the SERS Fund's actual long-term performance continues to exceed assumptions: The estimated compounded rate of return for the 20 years ended December 31, 2009 is 8.6%.

The System ended 2009 with an actuarial funded ratio of 84.4%, down slightly from the prior year's 89.0%. Both figures can be misleading, however, as the full effect of the 2008 losses have yet to be felt in the actuarial funded ratio due to the Fund's statutory five-year smoothing methodology. Based on the market value of assets, the funded ratio at the end of 2009 was 68.9%, up slightly from the previous year's 66.2%.

Although the purpose of the CAFR is to provide information regarding SERS' status as of December 31, 2009, readers also should be aware of two anticipated future developments:

First, as the System continues to mature, the number of retired members is expected to continue to grow, while the number of Active Members is expected to remain relatively constant. As noted above, as of December 31, 2009, SERS had 110,107 Active Members and 109,639 Annuitants and Beneficiaries (and 6,190 inactive and vested members). We expect that by the end of 2010, the number of Annuitants and Beneficiaries will for the first time exceed the number of Active Members. That difference is expected to grow wider in future years. 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 2014 annual benefit payments will reach $3 billion, 56% more than in 2006.

Second, the System continues to face a severe "spike" in employer contribution rates, beginning in 2012, to be followed by a projected decades-long period of high rates (see table, pg. 73). The composite rate, which has been at the 4% statutory floor for four years, has been certified at 5.6% for the Commonwealth's 2010-11 Fiscal Year and is projected to climb to 8% for 2011-12, then spike upward to 26.7% for 2012-13, peak at 29.2% the following year and remain above 20% through 2031-32. It must be emphasized that these projections assume, first, that the System will continue to achieve its assumed rate of return; second, that employers will pay in full each year's rate as projected; and, third, that no new supplemental annuities ("COLAs") are granted. If earnings fall short of assumptions, if actuarially required rates are not paid in any given year or years, or if supplemental annuities are granted, rates in future years could be even higher than currently projected. Should earnings exceed the assumption, rate projections could decline.

Additionally, future rates could be dramatically impacted by statutory changes to the system's rate-setting methodology. As this letter is being prepared, the Legislature is discussing the possible imposition of statutory "collars" that would override actuarial calculations and permit the rate to rise by only specified amounts each year. Should that occur, it would moderate the spike so that the rate climb would occur in a series of collared steps, rather than jump almost 20 percentage points in one year as now forecast. This would make the increase more manageable for employers but would, by deferring the collection of needed additional revenues, also add to the System's liabilities.

Initiatives

In 2009, the System worked very closely with various legislative committees considering pension funding reform. This included numerous presentations and frequent correspondence detailing the underlying causes of the expected employer contribution rate "spike," and providing analysis and calculations of the impact potential legislative changes would have on the Fund and future employer rates. While pension funding reform was a focus of attention in 2009, staff also worked to strengthen its continuity of operations plan by expanding the inventory and documentation of the work processes that drive the day-to-day operation of the agency, and expanding the SERS Professional Development Program with a training curriculum structured to support the further development of critical staff knowledge and skills.

Awards

We are very pleased to note that the Government Finance Officers Association of the United States and Canada (GFOA) again awarded SERS with a Certificate of Achievement for Excellence in Financial Reporting for SERS' 2008 CAFR. The certificate of achievement is a national award, recognizing conformance with the highest standards in government accounting and financial reporting. We believe our current CAFR meets GFOA requirements and will submit it to the GFOA for review.

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 the vast majority of public employees in the U.S.

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.

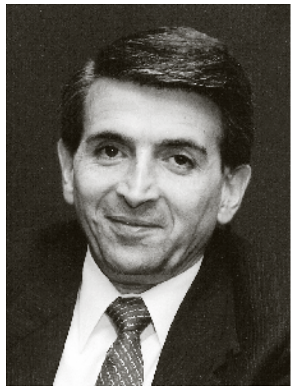
Respectfully submitted,

Leonard Knepp
Executive Director

Anthony J. Faiola
Chief Financial Officer

Honorable Nicholas J. Maiale

Chairman



Honorable Robert A. Bittenbender

Former State Secretary of the Budget

David R. Fillman

Executive Director, AFSCME Council 13

Ms. Lynne P. Fox

Manager, International VP Phila. Joint Board UNITE HERE!

Honorable Michael F. Gerber

State Representative

Honorable Robert W. Godshall

State Representative

Honorable Robert M. McCord

State Treasurer

Honorable Charles T. McIlhinney, Jr.

State Senator

Oliver C. Mitchell, Jr.

Attorney

Honorable Raphael J. Musto

State Senator

Honorable M. Joseph Rocks

Retired Member and Former State Senator

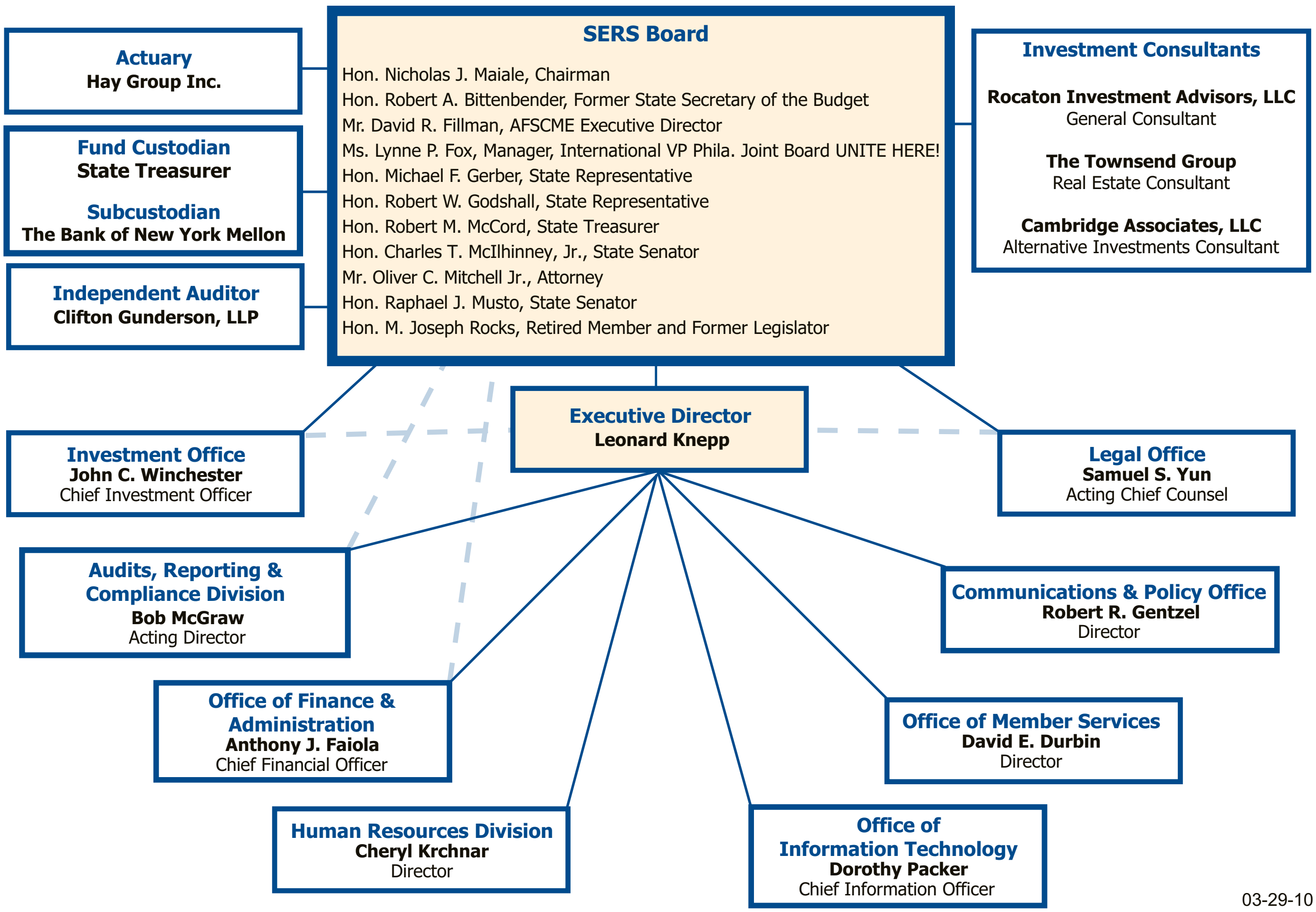
SERS' Vision

By 2014, SERS will have addressed the funding, policy, and operational challenges and implemented programs to address personnel and leadership transitions.

SERS' Mission

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

SERS' Organizational Chart



Financial Section

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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 (the System), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended December 31, 2009 and 2008, 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 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, 2009 and 2008, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 Supplemental Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
May 11, 2010

Offices in 17 states and Washington, DC

Member of HLB International

This section presents Management's Discussion and Analysis of the Pennsylvania State Employees' Retirement System's (the System) financial statements and the significant events and conditions which affected the operations and performance of the System during the years ended December 31, 2009 and 2008.

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, 2009 and 2008 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 uses 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 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 limited use of derivatives in managing the System's assets, contingencies and commitments, actuarial methods, assumptions, and funding.

3) **Required Supplementary Information.** The required supplementary information consists of:
   - A schedule reflecting the funding progress of the System
   - A schedule showing the employer required contributions in dollars and percentage
   - This Management's Discussion and Analysis.

4) **Other Supplemental Schedules.** Other schedules include detailed information on administrative expenses incurred by the System, a breakout of investment related expenses, 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 $1.9 billion for the year ended December 31, 2009 compared to the decrease of approximately $12.7 billion for the year ended December 31, 2008, as reflected in the table on page 7. The global recession that began in late 2008 continued into the first quarter of 2009, decreasing the System's Fund (Fund), but as the markets began to recover over the subsequent three quarters, so did the Fund. The System's 2009 actuarial funded status of 84.4% decreased from 89.0% in 2008. By comparison, as reported in the Wilshire Associates' ***2010 Wilshire Report on State Retirement Systems***, a compilation of 2009 data on 57 state pension plans, the average funding level of state plans was 72%.

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 period 2001 - 2005 was completed in 2006. An interim review was completed in 2009 due to the unprecedented one-year asset value declines. The actuary, in coordination with Board oversight, reviewed the assumed future investment returns on Fund assets as well as economic assumptions regarding salary increases, turnover, retirement, disability, and death rates. This review resulted in a recommendation and adoption of a reduction in the actuarial assumed rate of return on assets to 8.0% from 8.5%.

Annually, the System reviews and modifies, if necessary, its ***Annual Strategic Investment Plan***. This process enables the System to position itself to respond to changing dynamics and fulfill its primary mission of meeting its benefit obligations to the System's members. Benefit expenses, including refunds of contributions, were $2.3 billion in 2009. This expense level represents an increase in benefit expenses of 3.1% from the $2.2 billion for 2008. The number of retirement age employees as of December 31, 2009 and 2008 were approximately 7,000 and 6,900, respectively. This compares to approximately 6,400 as of December 31, 2007.

Funded Ratio

The funded ratio of the System measures the ratio of actuarially determined assets against actuarial liabilities and is a good indicator of a pension System'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, salary growth, inflation, and demographics. In addition, the selection of methods such as amortization periods affects employer contribution rates and the funded ratio of the System. The System's funded ratio as of December 31, 2009 was 84.4%, a decrease from 89.0% at December 31, 2008 and 97.1% at December 31, 2007. The funded ratio of the System changed due to a decrease in actuarial assets and an increase in actuarial liabilities.

Actuarial assets decreased from $30.6 billion at December 31, 2008 to $30.2 billion at December 31, 2009 for a 1.4% decrease. At December 31, 2007 the actuarial assets were $30.8 billion. The decrease in 2009 is primarily attributable to the amortization of investment returns well below the actuarial assumed rate of 8.5% in 2008. The drop in actuarial value of assets was not significant when compared to the significant negative 37.2% variance between the assumed actuarial rate of return and actual investment return for 2008. The fact that the actuarial assets did not drop in proportion to the level of negative returns is due to the five-year smoothing of investment returns as mandated by the Retirement Code. As a result of this smoothing, only 20% of the 2008 loss was recognized in 2008, another 20% in the current year, with the remaining 60% to be recognized over the next three years. We would expect to see an additional decrease in the actuarial value of assets in future years as the remaining 60% of the loss is amortized. This is also demonstrated in the market value funded ratio that was 111.8% at December 31, 2007, 66.2% at December 31, 2008 and 68.9% at December 31, 2009. The increase in actuarial liabilities from $31.8 billion at December 31, 2007, and from $34.4 billion at December 31, 2008 to $35.8 billion at December 31, 2009 or 3.9%, is primarily attributable to the change in the assumed rate from 8.5% to 8.0%, the cost of additional benefits that accrued during the year, and the general interest growth in active liabilities (due to a shorter period of time until payments are expected to be made to future retirees).

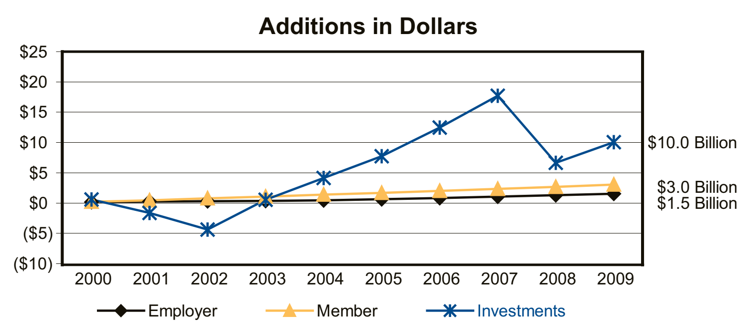
Member Contributions

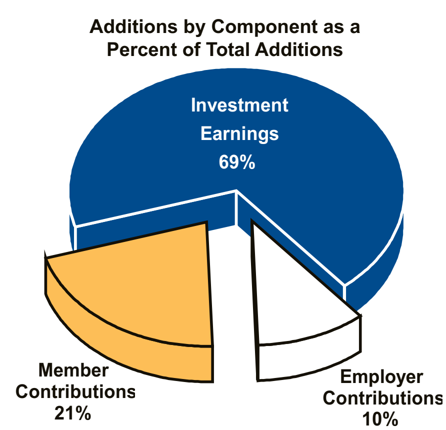
Additions to plan net assets include employer and member contributions, and net income from investment activities. Member contributions were approximately $349 million, $337 million, and $334 million, for the years ended December 31, 2009, 2008 and 2007, respectively, with 2009 contributions representing an increase of approximately $12 million compared to 2008. The member rate of 6.25% of gross salary for most members is set by statute and has remained unchanged. The increase in gross salary of active members was the primary reason for the increase in contributions. Gross salary increased to $5.6 billion in 2009 from $5.4 billion in 2008. This increase, despite the across-the-board management employee salary freezes, was primarily a result of there having been 27 pays in 2009 as compared to the normal 26 pays.

Employer Contributions

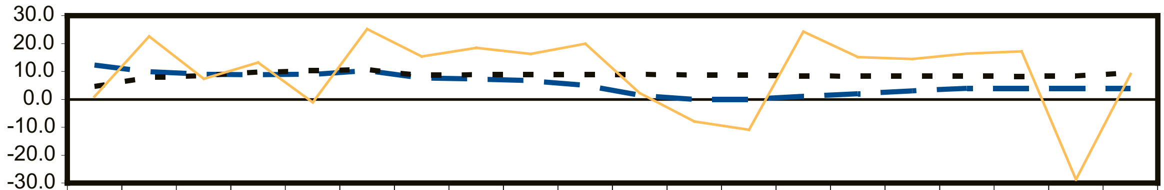
Employer contributions were approximately $253 million, $235 million, and $244 million for the years ended December 31, 2009, 2008 and 2007, respectively, with 2009 contributions representing an increase of $18 million compared to 2008. The increase is a result of an increase in inter-agency receipts for multiple service payouts due to increased retirements from 2008 to 2009. The employer composite rate as of December 31, 2009, 2008 and 2007 was 4.0% each year of total employer payroll. The employer contribution rate floor, originally established by Act 40 in 2003 was made permanent at 4.0% by Act 8 of 2007. The employer contributions represent less than half of the Employer Normal Cost and have been low when compared to historical standards. Over the last ten years, employer contributions have been the smallest component of additions to the System's plan net assets. From 2000 through 2009, employer contributions totaled $1.5 billion, representing 10% of total additions to plan net assets, compared to $3.0 billion or 21% of total additions attributed to member contributions, and $10.0 billion or 69% of total additions attributed to investment earnings as demonstrated in the following charts:

Ten Year Cumulative Additions to Plan Net Assets





History of SERS Employer Contribution Rates and Investment Returns



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09
Employer Contribution Rates %	12.3	9.9	8.9	8.9	8.9	10.3	7.7	7.3	6.7	5.0	1.4	-	-	1.1	2.0	3.0	4.0	4.0	4.0	4.0
Employer Normal Cost Rates %	4.7	7.9	8.5	9.8	10.2	10.7	8.5	8.9	9.0	9.0	9.0	8.7	8.6	8.4	8.3	8.3	8.4	8.2	8.4	9.5
Investment Return %	1.0	22.6	7.4	13.2	-1.1	25.2	15.4	18.5	16.3	19.9	2.2	-7.9	-10.9	24.3	15.1	14.5	16.4	17.2	-28.7	9.1

Over this time period, the active membership payroll has grown from $4.5 billion in 2000, to $5.6 billion in 2009.

With the investment return for 2009 of 9.1%, this marks 11 out of the last 15 years that the Fund's earnings not only have been positive but also have exceeded the actuarial assumed rate of return. One of the reasons for the long-term low employer contribution rate has been the System's overall positive investment returns. The benefits of reduced employer contributions pass directly back to the participating Commonwealth agencies and the taxpayers of Pennsylvania. For example, had the Commonwealth agencies paid the Employer Normal Cost over the last ten years, there would have been an additional $3.0 billion in employer contributions into the System. The Employer 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 Employer Normal Cost would be that amount required to fund the on-going liabilities for plan participants. The above chart presents the relationship between investment returns and contribution rates. When returns are strong and above the actuarial assumed rate, as they have been in 13 of the past 20 years, the employer's level of contributions will generally be below the Employer Normal Cost. Conversely, when investment returns lag the actuarially assumed rate, those losses are amortized into the Fund through increased employer contributions.

In 2007 the System's ten year annualized investment return was 10.1%. The significant losses in 2008 reduced the System's ten year annualized investment return to 4.9% and to 3.9% for 2009. The unprecedented losses of 2008 will have a significant impact on future employer contribution rates. The employer rate is expected to increase substantially; however due to Act 40 of 2003 and the actuarial five-year smoothing of investment returns, the full impact of 2008's negative investment return will not be felt until the fiscal year beginning July 1, 2012 — at which point we expect to see the employer contribution rate to spike significantly.

Net Investment Income

Investment portfolio performance produced investment returns of positive 9.1%, negative 28.7%, and positive 17.2%, for the years 2009, 2008, and 2007, respectively. Performance contributed to net investment income of approximately $3.6 billion in 2009, a net loss of $11.1 billion in 2008, and net investment income of $5.2 billion in 2007. Strong equity markets helped to fuel performance in 2009 and 2007, but in 2008 international equity performance was responsible for the largest losses. The MSCI World Index lost 40.7% in 2008 and the domestic Russell 3000 Index lost 37.3%. For the five, seven, and ten year periods ended December 31, 2009, the System earned compounded annual rates of return of 4.0%, 8.2%, and 3.9%, respectively. Below are the System's annual rates of return for the last three years by major asset class/strategy:

Annual Rates of Return

Asset Class/Strategy	2009	2008	2007
Global Stock	38.4%	-37.5%	12.3%
Domestic Stock	26.4	-45.4	9.5
International Stock	40.9	-52.4	17.0
Absolute Return Strategies	13.7	-15.9	N/A
Fixed Income	31.9	-17.5	6.1
Cash/STIF	0.5	3.4	5.1
Real Estate	-29.3	-10.8	22.6
Private Equity	-5.7	-6.8	41.0
Venture Capital	-14.8	-0.2	16.7
Inflation Protection	24.3	-31.1	31.4
Total Fund	**9.1%**	**-28.7%**	**17.2%**

Investment expense decreased $50 million in 2009 compared to a decrease of $34 million in 2008. The most significant portion of investment expense is investment manager fees. The System's assets are managed 100% by external investment managers hired by the Board. Many of these managers are paid a fee based on the assets under management. Accordingly, those managers were generally compensated less in 2008 than in prior years because of the effect of decreasing asset values. This trend continued into 2009. However, the industry practice for the limited partnership investments is for the limited partners to pay fees to the general partner based on commitments to the partnership during the initial years. Therefore, manager fees related to alternative investments increased in 2009 based on increased commitments to new and continuing limited partnerships.

Benefits, Refunds and Expenses

Benefits are the most significant recurring deduction from Plan Net Assets. During 2009 the System paid out approximately $2.3 billion in benefits and refunds compared to $2.2 billion for 2008. There were approximately 5,300 new retirees added to the annuity payroll in 2009 with an average annual benefit of $23,800. This was an increase from approximately 4,800 retirees added in 2008. These new retirees in 2009 retired with a much higher annual benefit than those removed from rolls. There were approximately 3,800 retirees removed from the rolls with an average annual benefit of $11,900. In 2009, supplemental payments decreased 3.8%, from $315 million in 2008 to $303 million in 2009. This decrease is attributable to a reduced death benefit payout in 2009 as compared to 2008. Supplemental payments are mainly the result of members withdrawing their accumulated contributions and interest from the System. Those withdrawals reduce the retirees' annuity payments over the annuitants' remaining life.

Benefit expenses increased in 2009 and going forward the System expects benefit expenses to steadily rise. This is attributable to the fact that the number of new retirees added to the rolls is expected to be about 50% higher than retirees removed from the rolls. Additionally, new retirees' monthly annuity is approximately 99% higher than the annuity of those being removed. The System was established in 1923 but did not pay more than $1 billion in annual benefits until 1997. The System's annual benefit payments reached $2 billion in 2007 and based on recent actuarial projections, it will reach $3 billion by 2014. The following table shows the increase in retirees and monthly benefit payments since 2007.

Growth in Annuity Payroll

	Dec. 2009	Dec. 2008	Dec. 2007
Monthly Annuity Payroll	$166 million	$159 million	$154 million
Retirees	109,639	108,146	107,130

The administrative costs of the System represented 0.1% of average net assets in 2009 and 2008. All costs were within budget.

Plan Assets

Investments are the most significant component of the System's assets. The fair value of investments increased to $24.3 billion in 2009 from $22.8 billion as of December 31, 2008. The $1.5 billion increase in investments was primarily due to the investment gain of $3.6 billion less benefit payments of $2.3 billion in 2009.

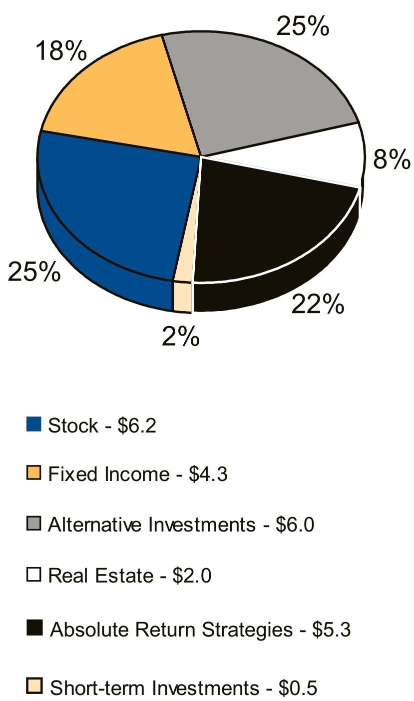
The System values its assets at "fair value" as discussed in the accounting policies footnote 2(c) to the financial statements. Fair value is the value the System expects to receive in a current sale between a willing buyer and a willing seller that are equally motivated; that is, other than a forced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

Values for Alternative Investments 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 the financial statements, and those differences could be material.

As of December 31, 2009, Absolute Return Strategies' fair values were $5.3 billion, a decrease of $1.6 billion from December 31, 2008. This decrease, despite the positive return reported earlier, was due to the System reducing its exposure to Absolute Return Strategies by more than $2 billion. Stock fair values of $6.2 billion for December 31, 2009 represent an increase of $3.2 billion from 2008. This increase is mainly from favorable market returns received. The Fixed Income fair values were $4.3 billion which is the same value at December 31, 2008. The Alternative Investment and Real Estate asset class fair values were $6.0 billion and $2.0 billion for December 31, 2009. This represents an increase of $1.1 billion for Alternative Investments and a decrease of $0.4 billion for Real Estate from 2008. The increase in Alternative Investments is a result of positive market returns while the Real Estate values are still depressed. The total investment portfolio fair value of $24.3 billion was comprised as shown by the below chart:

Investments at Fair Value
(Dollar Amounts in Billions)
As of December 31, 2009



The System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System for borrowed securities generally equal to 102% to 105% of the borrowed securities. The System invests the collateral to earn interest. Income, net of expenses, from securities lending is dependent on the volume of lending generated at the custodian bank and the spreads (profits) on those loaned securities. In 2008, certain securities purchased with cash collateral by the lending agent had values significantly less than amortized cost reflected on the custodian records. The loss to the Fund was estimated at $25 million in 2008 and was established as a liability in the financial statements. In 2009 this payable was reduced to $19 million. Since 2008, due to the increased risk associated with the recent market uncertainty, the securities lending program was scaled back in both the number of securities on loan and the market value of those securities for which cash collateral was provided. The pool's investment guidelines provide for investment of cash collateral in highly liquid, highly rated securities. As of December 31, 2009 and 2008, the fair value of loaned securities was $564 million and $841 million, respectively; the fair value of the associated collateral was $586 million and $903 million, of which $392 million and $680 million was cash, respectively.

Derivatives

Within narrowly prescribed policy guidelines, SERS permits investment advisors to use derivatives as a means to provide market exposure to various asset classes. 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. SERS adopted Governmental Accounting Statement No. 53 during the year ended December 31, 2009. The objective of this Statement is to enhance the usefulness and comparability of derivative instrument information reported by state and local governments.

Liquidity

The System's liquidity needs are met through member and employer contributions, earnings from investments, and its well diversified investment portfolio. At December 31, 2009, the Fund held over $1.5 billion in core fixed income, high quality securities. The Fund also held over $4.6 billion in highly liquid large cap equity securities. Investments in real estate and alternative investments are generally considered illiquid. Because of their characteristics, investments in emerging markets, high yield fixed income securities, and absolute return strategies, are not considered a primary source of liquidity.

Condensed Financial Information
(Dollar Amounts in Millions)

Net Assets

Assets:	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Total receivables	$544	$406	$138	$(158)	$296
Total investments	24,296	1,531	22,765	(12,934)	35,699
Securities lending collateral pool	392	(288)	680	(1,956)	2,636
Total assets	25,232	1,649	23,583	(15,048)	38,631
Liabilities:					
Accounts payable and accrued expenses	47	(1)	48	(10)	58
Securities lending collateral pool payable	19	(6)	25	25	-
Investment purchases and other liabilities	112	78	34	(387)	421
Obligations under securities lending	392	(288)	680	(1,956)	2,636
Total liabilities	570	(217)	787	(2,328)	3,115
Total net assets	**$24,662**	**$1,866**	**$22,796**	**$(12,720)**	**$35,516**

Changes in Net Assets

Additions:	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Member contributions	$349	$12	$337	$3	$334
Employer contributions	253	18	235	(9)	244
Investment gain/(loss)	3,561	14,622	(11,061)	(16,307)	5,246
Total additions	4,163	14,652	(10,489)	(16,313)	5,824
Deductions:					
Benefits and refunds	2,273	69	2,204	(132)	2,336
Administrative expenses	24	(3)	27	2	25
Total deductions	2,297	66	2,231	(130)	2,361
Increase/(decrease) in net assets	**$1,866**	**$14,586**	**$(12,720)**	**$(16,183)**	**$3,463**

Statements of Plan Net Assets
As of December 31, 2009 and 2008
(Dollar Amounts in Thousands)

	2009	2008
Assets:		
Receivables		
Plan members	$3,497	$1,034
Employers	9,310	8,544
Investment income	45,766	66,297
Investment proceeds and other receivables	470,747	50,793
Miscellaneous	14,480	10,930
Total receivables	543,800	137,598
Investments		
Short-term investments	470,403	1,310,140
United States government securities	1,485,843	1,329,730
Corporate and foreign bonds and notes	1,377,357	1,505,940
Common and preferred stocks	2,697,787	2,053,162
Collective trust funds	4,965,931	2,322,775
Fund of hedge funds	5,296,757	6,882,608
Real estate	2,003,911	2,442,613
Alternative investments	5,997,805	4,918,246
Total investments	24,295,794	22,765,214
Securities lending collateral pool	392,073	679,634
Total assets	25,231,667	23,582,446
Liabilities:		
Accounts payable and accrued expenses	46,783	47,721
Securities lending collateral pool payable	18,733	24,713
Investment purchases and other liabilities	112,129	34,565
Obligations under securities lending	392,073	679,634
Total liabilities	569,718	786,633
Net assets held in trust for pension benefits	**$24,661,949**	**$22,795,813**

These financial statements should be read only in connection with the accompanying notes to the financial statements.

Statements of Changes in Plan Net Assets
As of December 31, 2009 and 2008
(Dollar Amounts in Thousands)

	2009	2008
Additions:		
Contributions		
Plan members	$348,805	$336,833
Employers	253,250	235,288
Total contributions	602,055	572,121
Investment gain/(loss)		
Net appreciation (depreciation) in fair value of investments	2,456,209	(9,979,685)
Collective trust fund appreciation (depreciation) and income	1,063,673	(1,377,568)
Interest	149,040	342,163
Dividends	69,400	154,779
Real estate	73,561	109,523
Miscellaneous	3,499	5,969
	3,815,382	(10,744,819)
Investment expenses	(260,376)	(310,454)
Net gain/(loss) from investing activities	3,555,006	(11,055,273)
From securities lending activities		
Securities lending income	7,051	41,319
Securities lending expenses	(531)	(47,253)
Net income/(loss) from securities lending activities	6,520	(5,934)
Total net investment gain/(loss)	3,561,526	(11,061,207)
Total additions	4,163,581	(10,489,086)
Deductions:		
Benefits	2,265,404	2,195,206
Refunds of contributions	7,968	9,373
Administrative expenses	24,073	26,720
Total deductions	2,297,445	2,231,299
Net increase/(decrease)	1,866,136	(12,720,385)
Net assets held in trust for pension benefits:		
Balance, beginning of year	22,795,813	35,516,198
Balance, end of year	**$24,661,949**	**$22,795,813**

These financial statements should be read only in connection with the accompanying notes to the financial statements.

(Dollar Amounts in Thousands)

(1) Organization and Description of the System

(a) Organization

The Commonwealth of Pennsylvania 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 agency of the Board which exercises control and management of the System, including the investment of its assets. The System's Board has 11 members including the State Treasurer (ex officio), two state Senators, two members of the state House of Representatives, and six members appointed by the Governor, one of whom is an Annuitant of the System. At least five board members must be 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 plan established by the Commonwealth of Pennsylvania (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, 2009 and 2008, System membership consisted of:

System Membership

	2009	2008
Retirees and beneficiaries currently receiving benefits	109,639	108,146
Terminated employees entitled to benefits but not yet receiving them	6,190	6,009
Current active employees	110,107	110,866
Total members	**225,936**	**225,021**
Number of participating agencies	106	108

(b) Pension Benefits

The System provides retirement, death, and disability benefits. Cost of Living Adjustments (COLA) 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 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 ten years of service and 3% for subsequent years. District Judges 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 five 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 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 member 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 Employer 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:

(Dollar Amounts in Thousands)

Blended Contribution Rates

	2009	2008
Employer Normal Cost	8.97%	8.32%
Amortization of unfunded actuarial assets in excess of liabilities	-12.59	-12.83
Amortization of supplemental annuities	4.87	4.89
Minimum rate factor	2.79	3.66
Total employer cost	**4.03%**	**4.04%**

In addition to the Employer Normal Cost, the total employer cost includes other costs and credits resulting from COLA 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:

Act 40 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

Act 2007-8 established a permanent minimum employer contribution rate floor of 4%.

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 Judges 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

Act 2002-234 amended the State Employees' Retirement Code by adding Section 5941 to the Code. Section 5941 directs the 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 (BCP). The BCP is a separate trust fund established to provide benefits to all Annuitants of the System's 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 ongoing 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, 2009, there were 18 members receiving benefits from 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 based on when member salaries are earned and are recognized when due, pursuant to statutory requirements and formal commitments. 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. Because of the inherent uncertainty in valuing privately held 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 Treasurer of the Commonwealth of Pennsylvania, are reported at cost plus allocated interest, which approximates fair value. The securities 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 securities, corporate and foreign bonds and notes, common and preferred stocks, and the underlying holdings in funds-of-hedge funds, 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. 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 equity 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. Real estate investments, which are subject to annual independent audits, are primarily valued based on independent appraisals. Properties that have not been appraised are valued using the present value of the projected future net income stream. Alternative investments, which are subject to an annual independent audit, include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments, are valued based on estimated fair value established by valuation committees.

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 the CTF is based on the reported share value of the respective fund. The CTF is subject to annual independent audit.

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, 2009 and 2008, the System had contractual commitments totaling approximately $3.0 billion and $3.3 billion, respectively, to fund future alternative investments, and $354 million and $557 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, 2009 and 2008, $3.0 million and $2.9 million, respectively, were accrued for unused vacation and sick leave for System employees.

(Dollar Amounts in Thousands)

(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 IRC.

(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. The System is self-insured for fiduciary and director and officer liability. During the past three fiscal years, SERS' insurance settlements did not exceed insurance coverage.

(h) New Accounting Standards

In July 2007, the Governmental Accounting Standards Board issued Statement No. 51, ***Accounting and Financial Reporting for Intangible Assets*** (GASB 51). GASB 51 establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. After careful review, the System does not own any intangible assets.

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53, ***Accounting and Financial Reporting for Derivative Instruments*** (GASB 53). GASB 53 provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. It also enhances the usefulness and comparability of derivative instrument information reported by state and local governments. The System adopted GASB 53 during the year ended December 31, 2009.

(3) Description of Accounts

The Retirement Code requires the System to maintain the following accounts 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 balances in these accounts are 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 Reserve Account** accumulates all BCP employer contributions and net earnings of the Fund less any benefits paid out of the Fund.

Account balances at December 31, 2009 and 2008 are as follows:

Account Balances

	2009	2008
Members Savings Account	$4,280,680	$4,068,036
State Accumulation Account	3,261,104	2,995,316
Supplemental Annuity Account	(604,858)	(810,918)
Annuity Reserve Accounts:		
Annuitants and Beneficiaries	16,129,137	15,038,052
State Police	1,546,571	1,456,525
Enforcement Officers	42,076	42,109
Benefit Completion Plan Reserve Account	7,239	6,693
Total	**$24,661,949**	**$22,795,813**

(4) Investments

As provided by statute, the 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 investor" rule in establishing investment policy. The "prudent investor" rule, requires the exercise of that degree of judgment, skill and care under the circumstances then prevailing which investors 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 there from, 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, the System 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 funds-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), Standard & Poor's, and Fitch Ratings (Fitch). As directed by the System's investment policy, each year the Board approves an ***Annual Strategic Investment Plan***. This plan manages the overall credit risk of the fixed income asset class through a clearly defined long-term asset allocation policy, which established a long-term target allocation to the fixed income asset class at 15% of the Fund. Of the 15% allocation, 6% of the Fund will be allocated to a core segment of the fixed income asset class and composed of investment grade, relatively liquid public domestic securities. These securities will be comprised of two components: 1) a dedicated portfolio of Treasury inflation protected securities (TIPS) that are designed to capture unanticipated changes in inflation, and 2) Treasury and credit strategies based on the Barclays Capital Aggregate Bond Index. In addition to the core segment, the Fund 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. Fixed Income also has a dedicated 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 table on the following page discloses aggregate fair value, by the least favorable credit rating issued using Moody's, Standard & Poor's, and Fitch credit ratings at December 31, 2009 and 2008.

U.S. Treasuries with a fair value of $1.4 billion and $1.7 billion as of December 31, 2009 and 2008 respectively, were not included in Table 1 on the next page 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 the System's exposure to fair value losses arising from rising interest rates, the System's long-term asset allocation policy diversifies its fixed income core segment between intermediate duration and longer duration strategies based on the Barclays Capital 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. The System measures interest rate risk using option-adjusted duration, which considers the effect of a security's embedded options on cash flows.

(Dollar Amounts in Thousands)

At December 31, 2009 and 2008, the System's Fixed Income portfolio had the option-adjusted durations by debt sector as listed in Table 2.

Table 1
Debt Securities Exposed to Credit Risk

Rating[a.]	2009 Fair Value	2008 Fair Value
AGY[b.]	$57,199	$99,717
AAA	22,282	18,680
AA	20,466	10,213
A	88,852	90,184
BAA	291,827	170,100
BA	283,154	457,523
B	270,368	418,047
CAA	93,013	133,657
CA	19,189	8,161
C	7,341	7,195
D	5,120	5,625
NA[c.]	282,087	202,989
STIF[d.]	457,622	820,125
Total	**$1,898,520**	**$2,442,216**

[a.] *The rating represents all of the securities that fall within Moody's equivalent 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 that do not have a rating. Through recent capital injections by the U.S. government, GSEs have an implied guarantee but are still subject to credit risk.*

[c.] *NA represents securities that were either not rated or had a withdrawn rating. NA also includes the fair value of certain swaps, which by nature do not have credit quality ratings. See Note 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.*

Table 2
Debt Option-Adjusted Durations

Sector	2009 Fair Value	2009 Option-Adjusted Duration	2008 Fair Value	2008 Option-Adjusted Duration
Agencies	$17,023	1.5	$30,361	1.8
Asset Backed Securities	8,810	2.7	6,368	1.8
Corporates	649,842	3.6	842,393	3.4
Government	1,432,032	2.3	1,262,227	3.3
Sovereign Debt	384,975	4.9	416,921	4.6
Mortgage Backed Securities	101,889	2.4	74,847	2.5
U.S. Private Placements[e.]	260,932	2.5	200,832	2.9
STIF	457,622	0.1	820,125	0.1
Other Investments[f.]	20,478	N/A	491,736	N/A
Total	**$3,333,603**		**$4,145,810**	

[e.] *Private placements raise capital via offerings directly to qualified investors rather than through public offerings. Private placements do not have to register with the Securities and Exchange Commission if the securities are purchased for investment as opposed to resale. These private placements have exposure to various fixed income securities.*

[f.] *Other Investments represents certain securities with maturities ranging through the year 2019, and the value of swap agreements as of December 31.*

(Dollar Amounts in Thousands)

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. At December 31, 2009 and 2008, the System had the currency exposures listed in the below tables.

Foreign Currency Exposures 2009

Currency	Short Term Investments[a.]	Fixed Income	Stock	Real Estate	Alternative Investments	Total
Euro Currency Unit	$158	$5,456	$462,147	$22,184	$358,591	$848,536
British Pound Sterling	1,079	646	321,891	19,199	-	342,815
Japanese Yen	765	4,700	243,453	31,671	-	280,589
Hong Kong Dollar	(55)	-	138,365	36,693	-	175,003
Swiss Franc	3,168	-	141,109	1,996	-	146,273
Australian Dollar	57	-	39,507	25,729	-	65,293
Brazil Real	268	29,167	26,537	3,231	-	59,203
South Korean Won	112	-	47,448	-	-	47,560
Singapore Dollar	1,171	-	36,575	7,207	-	44,953
New Taiwan Dollar	52	-	35,653	-	-	35,705
Mexican New Peso	655	21,893	5,304	-	-	27,852
S African Comm Rand	542	14,303	12,642	-	-	27,487
Swedish Krona	-	-	23,099	1,068	2,955	27,122
Indian Rupee	24	-	24,007	-	-	24,031
Indonesian Rupian	600	14,426	7,960	-	-	22,986
Danish Krone	67	-	20,646	-	-	20,713
Norwegian Krone	1	-	15,295	2,636	-	17,932
Thailand Baht	458	8,610	7,201	-	-	16,269
Polish Zloty	370	13,554	1,666	-	-	15,590
Canadian Dollar	71	4,272	7,960	2,812	-	15,115
Other Currencies (16)	1,951	32,349	31,914	-	1	66,215
Total	**$11,514**	**$149,376**	**$1,650,379**	**$154,426**	**$361,547**	**$2,327,242**

Foreign Currency Exposures 2008

Currency	Short Term Investments[a.]	Fixed Income	Stock	Real Estate	Alternative Investments	Total
Euro Currency Unit	$7,367	$4,772	$604,864	$21,801	$274,218	$913,022
Japanese Yen	4,682	-	387,330	43,936	-	435,948
British Pound Sterling	3,862	115	363,715	10,464	-	378,156
Swiss Franc	1,958	-	169,743	2,079	-	173,780
Hong Kong Dollar	736	-	139,820	31,040	-	171,596
Australian Dollar	454	-	40,726	21,899	-	63,079
South Korean Won	3	-	58,033	-	-	58,036
Brazil Real	713	18,423	25,114	506	-	44,756
S African Comm Rand	1,297	15,584	19,798	-	-	36,679
New Taiwan Dollar	820	-	32,609	-	-	33,429
Singapore Dollar	146	-	22,361	6,010	-	28,517
Thailand Baht	1,144	11,496	11,830	-	-	24,470
Swedish Krona	532	-	18,997	2,316	1,761	23,606
Canadian Dollar	6	4,829	11,175	3,696	-	19,706
Mexican New Peso	645	14,729	4,237	-	-	19,611
Polish Zloty	619	18,175	735	-	-	19,529
Indian Rupee	110	-	17,731	-	-	17,841
Other Currencies (16)	2,293	38,670	62,401	-	-	103,364
Total	**$27,387**	**$126,793**	**$1,991,219**	**$143,747**	**$275,979**	**$2,565,125**

[a.] *Includes receivables and payables as of December 31, for securities sold and purchased.*

(5) Securities Lending

In accordance with a contract between the Commonwealth's Treasurer and its custodian, the System participates in a securities lending program.

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, 2009 and 2008, 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 loaned securities at December 31, 2009 and 2008 could be terminated on demand by either the lending agent or the borrower. Cash collateral is invested in a short-term collective investment pool. The duration of the investments in the pool at December 31, 2009 and 2008 was 21 days and 20 days, respectively. Interest rate risk may be posed by mismatched maturities and could be affected by other program features, such as the lending agent's ability to reallocate loaned securities among all of its lending customers.

In 2008, certain securities purchased with cash collateral by the lending agent, had values at levels significantly less than amortized cost reflected on the custodian records. The loss to the Fund was estimated at $25 million and is reflected as a liability in the financial statements. Subsequent securities lending income is being used to repay the liability. The balance at December 31, 2009 is $19 million.

As of December 31, 2009 and 2008, the fair value of loaned securities was $564 million and $841 million, respectively; the fair value of the associated collateral was $586 million and $903 million, of which $392 million and $680 million was cash, respectively.

(6) Derivative and Structured Financial Instruments and Restricted Assets

Within narrowly prescribed guidelines, SERS permits investment advisors to enter into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its portfolio. Typically, investment advisors enter into foreign exchange contracts to make payment for international investments, futures contracts to gain exposure to certain equity markets and to manage interest rate risk and swaps to gain equity exposure.

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 investment advisor uses these contracts primarily for its international investments to settle pending trades that occur more than two business days after trade date. To reduce the risk of counterparty nonperformance, the investment advisors generally enter 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, 2009 and 2008, the System's contracts to purchase and sell by foreign currencies are listed in the tables on the next page.

(Dollar Amounts in Thousands)

Foreign Exchange Contracts

Contracts as of December 31, 2009

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro Currency Unit	$45,836	$(847)	$25,328	$572
Malaysian Ringgit	10,847	292	229	1
Chinese Yuan Renminbi	9,944	(50)	3,577	24
New Turkish Lira	5,670	(97)	-	-
Indonesian Rupian	4,253	139	3,412	(67)
Brazil Real	3,991	113	7,867	(493)
Mexican New Peso	3,980	-	1,815	36
Hungarian Forint	3,650	38	2,963	51
South Korean Won	3,616	21	241	(1)
Philippines Peso	3,366	13	1,316	(16)
Polish Zloty	2,741	37	2,469	55
Thailand Baht	1,734	4	-	-
Chilean Peso	1,379	107	850	15
Singapore Dollar	1,197	(15)	1,133	14
Japanese Yen	785	(11)	12,803	324
British Pound Sterling	578	(2)	29,357	201
Other (9)	1,579	(5)	14,874	(199)
Total	**$105,146**	**$(263)**	**$108,234**	**$517**

Contracts as of December 31, 2008

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro Currency Unit	$18,392	$1,302	$35,576	$1,918
Brazil Real	16,139	(179)	4,131	93
Sinapore Dollar	13,433	(128)	6,846	(132)
Chinese Yuan Renminbi	13,375	(87)	4,608	72
Malaysain Ringgit	11,804	218	1,846	(53)
Mexican New Peso	8,125	(488)	8,901	294
Australian Dollar	6,694	(1,151)	3,154	(5)
Indonesian Rupian	6,319	18	1,774	(2)
British Pound Sterling	5,338	(1,126)	15,018	3,297
New Turkish Lira	4,811	141	-	-
Czech Koruna	4,661	183	4,661	(26)
Chilean Peso	4,254	(200)	-	-
Russian Rubel	4,007	(1,429)	3,577	384
Thailand Baht	3,338	(29)	2,446	(26)
Polish Zloty	2,975	(168)	3,980	301
Columbian Peso	2,192	90	1,881	(103)
Peruvian Nuevo Sol	2,123	(47)	-	-
Philippines Peso	1,294	(54)	1,303	(23)
Swiss Franc	1,077	(21)	4,990	91
Other (11)	2,043	90	17,189	(1,243)
Total	**$132,394**	**$(3,065)**	**$121,881**	**$4,837**

(Dollar Amounts in Thousands)

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 investment advisors have entered into certain futures contracts maturing through December 13, 2010. The notional value of these contracts at December 31, 2009 and 2008 is listed in the below tables.

Counterparty risk is defined as the risk that the counterparty will not perform according to its contractual obligation. The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The investment advisors pledge investment securities to provide the initial margin requirements on the futures contracts it buys.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates and credit worthiness. The investment advisors significantly reduced their swap exposure in 2009 from 2008 to only include credit default and interest rate swaps. In 2008, the System's advisors entered into total return type swaps. Total return swaps are used to gain broad market equity, fixed income, and index exposure. Under these arrangements, the System receives the return of the respective equity or indices in exchange for a short-term rate plus a spread. The System uses contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. The contracts had varying maturity dates and the final swap matured on December 31, 2009. 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's advisors use interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market. The tables at the bottom of the page present the System's futures contracts and swap exposure at December 31.

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

The System's advisors also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds and absolute return funds-of-hedge funds. These funds invest in the instruments directly, and indirectly through a securities lending collateral pool, to gain foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

Futures Contracts

	2009		2008	
	Buy Contracts	**Sell Contracts**	**Buy Contracts**	**Sell Contracts**
Treasury Futures	-	-	$194,137	-
Eurodollar Futures	$50,466	-	143,441	-
S&P Midcap Futures	-	-	-	$58,286

Swap Exposure

	Notional Value		Receivable/(Payable)	
	2009	**2008**	**2009**	**2008**
Interest Rate	$172,750	$170,000	$(106)	$6,886
Credit Default	22,500	57,300	(95)	(11,614)
Total Return Type	-	2,946,784	-	(865,402)

(Dollar Amounts in Thousands)

Derivative Instruments

	Changes in Fair Value		Fair Value at 12/31/2009		
	Classification	**Gain/(Loss)**	**Classification**	**Amount**	**Notional**
Investment derivatives:					
Futures contracts - short	Investment revenue	$(246)	Investment	$246	$50,466
Swaps - credit default	Investment revenue	95	Investment	(95)	22,500
Swaps - interest rate	Investment revenue	107	Investment	(107)	172,750

The System's advisors utilize investment derivative instruments meaning that the derivatives are primarily used for the purpose of obtaining income or profit. The derivatives are subject to credit risk, interest rate risk, and foreign currency risk. The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2009, classified by type and the changes in fair value of such derivative instruments for the year then ended as reported in the 2009 financial statements are in the above table.

Credit risk is the risk that the counterparty will not fulfill its obligations of an investment. Credit risk is measured by nationally recognized agencies such as Moody's, Standard & Poor's and Fitch. The System's policy of requiring collateral or other security to support derivatives is a hard dollar collateral threshold of $25 million for all its counterparties. The types of eligible collateral and valuations for each type vary from counterparty to counterparty, but range within a percentage point or two as follows: (A) Cash - 100% (B) Negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of not more than one year - 99% (C) Negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than one year but not more than ten years - 98% (D) Negotiable debt obligations issued by the U.S. Treasury Department having a maturity at issuance of more than ten years - 97% (E) Negotiable debt obligations which are rated AAA by Moody's and by S&P and are fully guaranteed as to both principal and interest by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation that are not pass-through, multi-class or multi-branch securities or paying interest only or principal only - 95% (F) Federal National Mortgage Association, Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation pass-through securities that are not (a) multi-class or multi-branch securities, paying interest only or principal only, or (b) Collateralized Mortgage Obligations - 92% (G) Any other item agreed upon in writing from time to time by the parties. Advisors acting on behalf of SERS typically have access to collateral at anytime since the collateral is invested in highly liquid investments. SERS does not permit master netting across accounts. For derivatives exposed to credit risk, the table below discloses aggregate fair value by the least favorable credit rating using Moody's, Standard and Poor's, and Fitch credit ratings at December 31, 2009 and 2008. In 2009, there is a futures contract with a fair value of $246,000 that is not included in the Derivatives Exposed to Counterparty Credit Risk table below since the risk is assumed by the exchange that minimizes risk by requiring margin payments and the broker did not send the margin call by year end but it was settled on January 4, 2010.

Derivatives Exposed to Counterparty Credit Risk

Rating[a.]	2009 Fair Value	2008 Fair Value
AA	-	$(75,444)
A	$(202)	(794,357)
Total	**$(202)**	**$(869,801)**

[a.] *The rating represents all of the securities that fall within Moody's equivalent subcategories of the ratings shown in this table. For example, a security with a rating of Aa1 is shown as a rating of AA in this table.*

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. Duration is used to measure the sensitivity of an investment to changes in interest rates. In the table on the next page, the System measures interest rate risk using option-adjusted duration at December 31, 2009 and 2008.

(Dollar Amounts in Thousands)

Derivative Durations

Sector	2009 Fair Value	2009 Option-Adjusted Duration	2008 Fair Value	2008 Option-Adjusted Duration
Futures	$246	0.3	-	N/A
Interest Rate Swaps	(107)	5.3	$(1,950)	16.4
Total	**$139**		**$(1,950)**	

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At December 31, 2009 and 2008, the System had the foreign currency exposures listed in the table below.

Foreign Currency Exposures - Interest Rate Swaps

Currency	2009	2008
Brazil Real	$68	$4,248
Euro Currency Unit	-	421
Mexican New Peso	(5)	-
Malaysian Ringgit	(170)	15
Total	**$(107)**	**$4,684**

(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, 2009 and 2008, the System earned $95 thousand and $200 thousand of benefits resulting from a commission recapture program, respectively. No expenditures were paid from the program in either year. At December 31, 2009 and 2008, the System has accumulated $3.7 million and $3.6 million, respectively that are available for future expenditures.

(8) Postretirement Benefits for Employees of the System

The System makes employer contributions to the pension plan. The System's employees' contribution requirements and benefits are described in Note 1 to these financial statements. The System also participates in the Commonwealth of Pennsylvania Office of Administration's (OA) Retired Employees Health Program (REHP). The REHP is a single-employer plan and provides certain healthcare benefits to qualifying individuals meeting specified age and/or service requirements. The OA, in its sole discretion, determines available REHP benefits on an ongoing basis.

The REHP is administered through the Pennsylvania Employees' Benefit Trust Fund (PEBTF) as a third-party administrator for the Commonwealth. During 2009, SERS funded REHP benefits by paying approximately $240 per pay period for each active SERS employee. The Commonwealth's latest actuarial valuation, dated October 2009, provides an Annual Required Contribution (ARC) for the REHP amounting to $850.4 million for the Commonwealth's fiscal year ending June 30, 2010; the System's allocated portion of the total REHP ARC was $2.3 million. The October 2009 valuation is available at the Office of the Budget's website at: *http://www.budget.state.pa.us/portal/server.pt/community/financial_reports/4574*.

(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) Additional Pension Disclosures

(a) Plan Description

The System is the administrator of a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, death, and disability benefits. COLAs are provided at the discretion of the General Assembly. The System was developed as an independent administrative agency of the Board which exercises control and management of the System, including the investment of its assets. The System issues a publicly available financial report that includes financial statements and required supplementary information.

The System's investments are reported at fair value as discussed in Note 2 (c) Summary of Significant Accounting Policies. The ARC is actuarially determined. There is no maximum annual contribution rate; however the minimum has been set at 4% through Act 2007- 8.

(b) Funding Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the Plan was 84.4% funded. The actuarial accrued liability for benefits was $35.8 billion, and the actuarial value of assets was $30.2 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $5.6 billion. The covered payroll (annual payroll of active employees covered by the Plan) was $5.9 billion, and the ratio of the UAAL to the covered payroll was 94.2%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

For 2009, the ARC and the percentage contributed were $643,861 and 39.1% respectively. For calendar years 2008 and 2007, the ARC was $584,248 and $617,253, respectively. The percentage contributed for the same periods were 39.9% and 39.3%.

(c) Actuarial Methods and Assumptions

In the December 31, 2009 actuarial valuation, a variation of the entry-age actuarial cost method was used. The significant difference between the method used for the System and the typical entry-age actuarial cost method is that the Employer 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's variation should produce approximately the same results as the typical method over the long run. The actuarial assumptions included (a) 8.0% investment rate of return for 2009 and 2008 (b) projected salary increases ranging from 4.9% to 20.2% with an average increase of 7.1%, and (c) a 3.0% rate of inflation. The assumptions did not include a cost-of-living adjustment. The remaining amortization period at December 31, 2009, was 2 - 30 years, closed.

The unprecedented loss of 2008 will have a significant impact on the actuarial value of assets over the next five years. The funding ratio could decrease substantially; however due to Act 40 of 2003, and the actuarial five-year smoothing of investment returns, the full impact of 2008's negative investment return will not be felt until the fiscal year beginning July 1, 2012.

(11) Reclassification

Certain amounts in the 2008 financial statements have been reclassified to be in conformity with the presentation of these amounts in the 2009 financial statements.

Schedule 1
Schedule of Funding Progress
(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
2009	$30,205	$35,797	$5,592	84.4%	$5,936	94.2%
2008	30,636	34,437	3,801	89.0	5,660	67.2
2007	30,840	31,754	914	97.1	5,529	16.5
2006	28,149	30,365	2,216	92.7	5,662	39.1
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

Schedule 2
Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended December 31	Annual Required Contributions	Percentage Contributed
2009	$643,861	39.1%
2008	584,248	39.9
2007	617,253	39.3
2006	548,745	35.6
2005	319,190	46.1
2004	105,229	100.0

GASB 25 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 minimum. This is a result of financing changes implemented by Act 2003-40 in December 2003.

After June 30, 2012, provided that employer contributions are made in accordance with current law, the employer contribution is expected to exceed the GASB minimum.

Schedule of Administrative Expenses
(Dollar Amounts in Thousands)
December 31, 2009

Personnel services:		
Salaries	$11,083	
Benefits	4,236	
Temporary personnel wages, overtime, and outservice training	51	
Total personnel services		$15,370
Professional services:		
Consultant fees	3,182	
Commonwealth services	503	
Treasury Department services	475	
Legal fees	162	
Consultant contractual services vendor provided	76	
Total professional services		4,398
Rentals:		
Real estate rent	1,671	
Other equipment rental	184	
Total rentals		1,855
Communication:		
Postage	409	
Telephone	284	
Printing and advertising	206	
Total communication		899
Other expenses:		
Maintenance	491	
Subscriptions and memberships	483	
EDP Software	188	
Supplies	188	
EDP and office equipment	145	
Travel and conferences	56	
Total other expenses		1,551
Total Administrative Expenses		**$24,073**

Summary of Investment Expenses and Consulting Fees
(Dollar Amounts in Thousands)
December 31, 2009

Investment Expenses

	Fees
Investment manager fees:	
Alternative Investments	$133,691
Absolute Return	44,963
Real Estate	28,185
Stock	22,429
Fixed Income	15,781
Inflation Protection	4,635
Total investment manager fees	249,684
Investment Related Expenses:	
Alternative Investments	7,350
Real Estate	3,010
Custodial	152
Other	180
Total investment related fees	10,692
Total Investment Expenses	**$260,376**

Consulting Fees

Firm	Category	Fees
Cambridge Associates	Alternative Investments	$1,908
Rocaton Investment Advisors	General Consultant	510
Hay Group	Actuary	344
The Townsend Group	Real Estate	244
Institutional Shareholder Services	Proxy Services	103
Other		73
Total Consulting Fees		**$3,182**

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Investment Section

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Telephone: 717-787-9657
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John C. Winchester
Chief Investment Officer

May 28, 2010

Dear Members:

The following pages provide details of the SERS investment program. 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 SERS' custodian, BNY Mellon. Performance was calculated using the Modified Dietz day–weighted return methodology.

The Fund is managed in accordance with the investment policy and objectives established by the Board, operating as fiduciaries in the sole interest of the Fund. The primary investment objective of the Fund is to assure the adequate accumulation of reserves at the least cost to the citizens of the Commonwealth, while preserving the principal of the Fund against erosion due to inflation. SERS' investment objectives further state that the Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of broad diversification of investments by type, industry, investment manager style and geographic location. As a long–term investor, this concept of diversification is a key component to achieving return objectives while controlling risk.

The SERS Investment Office, in conjunction with the System's consultants, performs an annual review of the Fund, recommending modifications to asset allocation. The results of this annual review and its recommendations are presented to the Board for comment and approval.

Asset allocation decisions are among the most important decisions the Board makes in striving to achieve the System's investment objectives. The System invests in a broad range of diversified asset classes and strategies, outlined in the following Investment Summary.

From an investor's standpoint, 2009 was a tale of two markets. The first 68 days of the year were a continuation of the market collapse of 2008. Investors were mired with concerns of the collapse of the banking sector, heightened unemployment, and fears of a depression. Global stock markets declined a further 28% during this period, on top of the 30% declines realized in 2008. At these levels, this was a correction in and of itself. On March 9, 2009 there was an abrupt about face, where investors became convinced that the Government stimulus actually had stabilized the financial sector and a depression was no longer imminent. Consequently, investors shifted from being risk avoiders to risk takers. As a result, contrary to 2008 where all asset classes declined, during the balance of 2009 all asset classes, with exception of real estate, rebounded sharply. However, this recovery was not sufficient to offset all of the losses incurred during 2008 as there still remained strong headwinds to economic recovery, namely high unemployment, excessive leverage at the banks and with consumers, and declining real estate values, in both the residential and commercial sectors.

As of the writing of this report, there are more and more signs of economic recovery in the United States and around the world. Manufacturing levels have improved, global trade is rebounding, inflation remains tame, the consumer is showing some signs of life, and banks are lending, albeit cautiously. But unemployment continues to linger at excessively high levels, banks still carry considerable non–performing loans on their balance sheets, there is a large and growing budget deficit, and the commercial real estate market is still in decline.

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The System recorded a gain of 9.1% for the year, exceeding the 8% actuarial return assumption, earning $3.6 billion. As noted, the first quarter of 2009 was negative for the capital markets and similarly for SERS. The Fund declined 7.5% during the first quarter, but rebounded 18% for the remainder of the year. The System also had employer and employee contributions of $602 million. These increases were offset by benefit and expense payments of $2.3 billion, resulting in a $1.9 billion increase in assets. While SERS' ten–year performance of 3.9% trailed the System's long–term 8% actuarial return assumption, it is important to note that SERS' long–term 15–, 20–, 25– and 30–year returns have surpassed this benchmark at 8.7%, 8.6%, 9.7% and 9.9%, respectively.

As mentioned last year, SERS has instituted an aggressive cash management program. One of the objectives of this initiative was to ensure that cash flows matched SERS' benefit obligations for 2009 and 2010 in the wake of the liquidity crisis. The System achieved this objective in 2009, and is well on its way to meeting the goal for 2010.

The Fund is uniquely positioned at this time. The over–weight exposures in private equity and absolute return strategies resulting from the severe 2008 worldwide market correction represent the highest performing, and lower risk strategies, respectively, in the portfolio. As a result, with the markets recovering, the Fund is currently well positioned to benefit from positive returns at modest levels of risk, while also offering some downside protection due to the broad diversification inherent in the portfolio.

Despite the effects of the market downturn on the Fund, the employer contribution rate for 2009 remained at the statutorily required floor, still well below the actuarially determined normal employer contribution rate, due in large part to the Fund's exceptional long–term performance, but also due to the statutory rate suppression that will expire in two years.

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 $1.3 billion, or 5.5% of the Fund invested in Pennsylvania. Investments include stocks, fixed income, real estate, venture capital and private equity. In addition, SERS invested with 29 investment managers domiciled in Pennsylvania.

SERS' Investment Office continuously monitors economic and market events, working to position the Fund through a broad diversification strategy in order to perform well under a wide variety of economic scenarios. Under the supervision and guidance of the Board, be assured that SERS' is making every effort to ensure that members receive the financial security they have earned and deserve.

Sincerely,

John C. Winchester

John C. Winchester
Chief Investment Officer

The Board originally adopted a formal ***Statement of Investment Policy*** in 1979. It has been revised periodically, to reflect and incorporate legislative changes governing investments and amendments to policies and procedures guiding the investment of the defined benefit portfolio. The latest ***Statement of Investment Policy*** was adopted in 2009. 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 investors 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 strategic investment plan is prepared to establish the allocation of funds among investment advisors and categories of assets during the year;

- Objectives are established for each category of assets used by the Fund's investment advisors to provide a framework for monitoring quality, diversification and liquidity;

- SERS is committed to promoting and improving good corporate governance practices of companies within the portfolio; 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.

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 for the Fund, are:

- Achieve a net total return equivalent to the actuarial return assumption, or preferably in excess of this rate over market cycles in order to improve the funded ratio of the System through investment earnings;
- Achieve in Global Stock a total return that exceeds the total return of the MSCI World Index Standard;
- Achieve in U.S. Stock a total return that exceeds the total return of the Russell 3000 Index;
- Achieve in Non–U.S. Stock a total return that exceeds the total return of the MSCI AC World Index ex USA IMI;
- Achieve in the stand alone Absolute Return Strategy a total return that exceeds the 90 Day LIBOR + 300 bps;
- Achieve in the Fixed Income asset class a total return that exceeds the total return of the SERS Custom Fixed Income Benchmark;
- Achieve in the Real Estate asset class a total return that exceeds the total return of the Townsend Stylized Benchmark;
- Achieve in the Private Equity asset class a total return that exceeds the Cambridge Private Equity Benchmark;
- Achieve in the Venture Capital asset class a total return that exceeds the Cambridge Venture Capital Benchmark;
- Achieve in Inflation Protection a total return that exceeds the total return of the SERS Custom Inflation Protection Benchmark;
- Achieve in the Cash asset class a total return that exceeds the total return on U.S. Treasury Bills (90 days);

Total return includes income, 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.

Schedule of Portfolio Returns* After Fees

For the period ending December 31, 2009

Asset Class/Strategy	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 Year Total Return
Global Stock[a.]	38.4%	-0.9%	N/A	N/A
MSCI World Index Standard	*30.0*	*-5.6*	*N/A*	*N/A*
U.S. Stock	26.4	-8.6	-0.6%	0.1%
Russell 3000 Index	*28.3*	*-5.4*	*0.8*	*-0.2*
Non–U.S. Stock	40.9	-7.8	3.5	2.9
MSCI AC World Index ex USA IMI[b.]	*43.6*	*-3.9*	*6.5*	*3.8*
Fixed Income	31.9	4.9	5.5	6.7
SERS Custom Fixed Income Benchmark	*27.9*	*6.3*	*6.1*	*6.6*
Absolute Return[c.]	13.7	N/A	N/A	N/A
90 Day LIBOR + 300 bps	*3.7*	*N/A*	*N/A*	*N/A*
Cash	0.5	3.0	3.4	3.2
90 day U.S. T–bills	*0.2*	*2.4*	*3.0*	*3.0*
Real Estate[d.]	-29.3	-8.2	3.5	6.7
Townsend Stylized Benchmark	*-19.0*	*-2.1*	*6.4*	*8.5*
Private Equity[d.]	-5.7	7.4	15.6	11.3
Cambridge Private Equity Benchmark	*-9.9*	*3.5*	*13.1*	*9.1*
Venture Capital[d.]	-14.8	-0.3	3.4	-1.3
Cambridge Venture Capital Benchmark	*-12.9*	*2.1*	*5.8*	*2.6*
Inflation Protection[e.]	24.3	4.0	5.6	N/A
SERS Custom Inflation Protection Benchmark	*22.7*	*-0.9*	*2.6*	*N/A*
Total Fund	**9.1%**	**-3.0%**	**4.0%**	**3.9%**
Total Fund Benchmark	***18.6%***	***0.0%***	***5.7%***	***4.2%***

**Returns for periods longer than one year are annualized.*

[a.] Global Stock was initially funded in November 2006.

[b.] The Non–U.S. Stock asset and the SERS Custom International Stock Benchmark were hedged between May 1, 1996 ending January 31, 2007.

[c.] Absolute Return was initially funded in August, 2007.

[d.] Results for the Real Estate, Private Equity, Venture Capital and Benchmarks are lagged one quarter.

[e.] Inflation Protection was initially funded in November, 2001.

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

Domestic Stock

Holding	Fair Value
Simon PPTY Group Inc	$15,605,455
Ansys Inc	12,590,188
Crown Holdings Inc	11,974,382
Amerisourcebergen Corp	9,580,725
Mastercard Inc	9,061,692
Vornado Realty Trust	8,950,811
Nike Inc	8,489,995
Walmart Stores Inc	8,423,720
Abbott Labs	8,417,041
Johnson & Johnson	8,276,685

International Stock

Holding	Fair Value
Nestle SA	$36,483,830
Novartis AG	30,691,401
DBS Holdings	23,150,183
Bayer AG	19,171,507
Reckitt Benckiser Group PLC	17,682,213
Mitsubishi Estate Co	17,374,973
Imperial Tobacco Group	17,259,355
Roche Holdings AG	15,173,474
Cnooc Ltd	14,680,381
Keyence Corp	13,803,705

International Fixed Income

Holding	Fair Value
Russian Federation Bond, Variable Rate March 31, 2030	$34,340,074
Brazilian National Treasury Note, 10.000% January 1, 2017	24,255,776
Republic of Venezuela, Variable Rate April 20, 2011	14,898,400
Standard Bank South Africa Ltd, 7.500% January 15, 2014	13,592,836
United Mexican States, 7.750% December 14, 2017	12,988,920
Republic of Indonesia, 7.750% January 17, 2038	12,577,500
United Mexican States, 8.300% August 15, 2031	12,303,963
Federative Republic of Brazil, 8.750% February 4, 2025	11,842,775
Government of Poland, 5.250% April 25, 2013	7,578,228
Republic of Philippines, 7.500% September 26, 2024	6,775,274

US Government and Government Related

Holding	Fair Value
US Treasury Inflation Index Note, 2.000% January 15, 2014	$181,436,668
US Treasury Inflation Index Note, 0.625% April 15, 2013	155,535,869
US Treasury Inflation Index Note, 1.625% January 15, 2015	148,658,934
US Treasury Inflation Index Note, 2.000% January 15, 2016	137,530,745
US Treasury Inflation Index Note, 2.000% April 15, 2012	136,647,818
US Treasury Inflation Index Note, 2.000% July 15, 2014	127,990,155
US Treasury Inflation Index Note, 1.875% July 15, 2013	126,710,689
US Treasury Inflation Index Note, 1.875% July 15, 2015	117,636,576
US Treasury Inflation Index Note, 1.250% April 15, 2014	113,051,610
US Treasury Inflation Index Note, 3.000% July 15, 2012	101,193,560

Domestic Corporate Fixed Income

Holding	Fair Value
Texas Competitive Electric Term Loan, October 10, 2014	$18,265,455
Lyondell Chemical Co Term Loan, December 20, 2014	10,024,247
Ford Motor Credit Co, 7.500% August 1, 2012	9,933,331
Texas Competitive Electric, 10.250% November 1, 2015	6,561,000
Xerox Capital Trust I, 8.000% February 1, 2027	6,534,000
Credit-Suisse First Boston, 6.000% May 17, 2040	6,476,316
Lyondell Chemical Co D.I.P. Term Loan, June 3, 2010	5,705,275
AES Corp Senior Note, 8.000% October 15, 2017	5,618,719
HCA Inc Senior Note, 9.250% November 15, 2016	5,556,656
Lyondell Chemical Co D.I.P. Term Loan Rollup, June 3, 2010	5,286,103

Note: A detailed list of SERS' investment holdings at December 31, 2009, may be viewed at www.sers.state.pa.us

Schedule of Trading Broker Commissions
Year Ended December 31, 2009

Broker fees on equity investment transactions for the year ended December 31, 2009 were $5.2 million. Below is a list of the brokers receiving fees in excess of $25,000 during the year.

Broker	Commissions	Broker	Commissions
Merrill Lynch	$353,894	Mizuho Securities	$38,929
Credit Suisse	337,245	Daiwa Bank	36,129
JP Morgan	306,327	Raymond James & Associates	35,816
Morgan Stanley	263,176	KBC Bank NV	35,346
Citigroup Global Markets	242,546	McDonald & Company Securities	34,503
Deutsche Bank	235,926	Cantor Fitzgerald	34,470
UBS Securities	222,441	ABN AMRO	33,496
Goldman Sachs	215,159	HSBC Securities	33,290
Banc One Capital Markets	181,509	Investment Technology Group	32,537
Macquarie Bank	134,342	Thomas & Weisel	32,350
Bloomberg Tradebook	108,337	Sanford C Bernstein & Company	30,389
Nomura Bank International	104,758	RBC Dominion Securities	30,103
Liquidnet	98,114	King C L & Associates	29,528
Credit Lyonnais	94,708	Robert W Baird & Company	29,521
Credit Agricole	75,282	Cazenove	29,404
SG Securities	64,315	Oddo Securities	28,910
Pershing	55,861	Barclays	28,433
Jefferies & Company	47,353	Wells Fargo Securities	28,353
Keefe Bruyette & Woods	44,992	Union Bank of Switzerland	26,537
Weeden & Company	43,575	Berenborg Gossler	26,187
Exane	43,502	Citation Group	25,382
Janney Montgomery Scott	43,162		

The assets of SERS are administered by the Board. The Board 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. SERS' investment plan is reviewed and updated annually for strategic asset allocation purposes, as well as for diversification needs within each asset class.

Market Exposure as of December 31, 2009: SERS' assets had an unaudited market exposure of approximately $24,644.2 million.

SERS Asset Allocation

	Market Exposure* (Unaudited)		2009
Asset Class/Strategy	**($ Millions)**	**%**	**Long-Term Target Allocation**
Global Stock	$831.5	3.4%	5.0%
U.S. Stock	2,730.5	11.1	21.0
Non-U.S. Stock	2,680.6	10.9	21.0
Absolute Return	5,589.9	22.7	9.0
Fixed Income	2,907.3	11.8	15.0
Real Estate	2,007.8	8.1	8.0
Alternative Investments	5,997.8	24.3	14.0
Inflation Protection	1,580.9	6.4	7.0
Cash	318.0	1.3	0.0
Total	**$24,644.2**	**100.0%**	**100.0%**

**Numbers may not add due to rounding.*

Number of Investment Advisors: Many advisors manage multiple portfolios across and within asset classes. SERS had 192 unique external investment advisory firms managing portfolios. There are 29 advisors in the public markets domain, 158 in private markets, and five in both, public and private markets. Of these, 18 advisors manage 40 portfolios across asset classes.

- 2 Global Stock advisors
- 8 U.S. Stock advisors
- 7 Non-U.S. Stock advisors
- 6 Absolute Return advisors
- 13 Fixed Income advisors
- 1 Cash advisor
- 3 Inflation Protection advisors
- 26 Real Estate advisors
- 57 Venture Capital general partners managing limited partnerships
- 91 Private Equity general partners managing limited partnerships

In addition, Board appointments included two new fixed income advisors.

Number of Investment Portfolios: SERS had 455 investment portfolios. Of these, 50 portfolios are public market investments and 405 cover private markets.

- 2 Global Stock portfolios
- 10 U.S. Stock portfolios
- 12 Non-U.S. Stock portfolios
- 6 Absolute Return portfolios
- 16 Fixed Income portfolios
- 1 Cash portfolio
- 3 Inflation Protection portfolios
- 60 Real Estate portfolios
- 119 Venture Capital limited partnership interests
- 226 Private Equity limited partnership interests

Global Stock is a component of the stock asset class, one of six 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 benchmarks. SERS contracts with external investment advisors to manage the portfolios.

Investment Objective: Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The Global Stock accounts are managed on a total return basis.

SERS' long-term investment objective for the Global Stock component of the stock asset class is to achieve a total return, net of fees, that exceeds the total return of the MSCI World Index Standard.

SERS' ***2009 Investment Plan*** targets an allocation of 5.0% of Fund assets to global stocks.

Market Exposure as of December 31, 2009: Global Stock had a $831.5 million market exposure, 3.4% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with two external investment advisors.

Number of Investment Portfolios: SERS had two Global Stock portfolios managed by two investment advisors.

Type of Investment Portfolios: As of December 31, 2009, SERS Global Stock allocation was invested in large/mid-capitalization strategies.

SERS Global Stock Investments

Global Stock Investment Advisor	Investment Style	Market Exposure* as of 12/31/09 ($ Millions)
1. Walter Scott & Partners	Growth	$413.9
2. Marathon-London Global Fund	Contrarian sector relative value	417.6
Total Global Stock Investments		**$831.5**

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

U.S. Stock is a component of the stock asset class, one of six 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.

Investment Objective: Stock investments are employed by the System primarily because their expected 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 may include, but not be limited to, publicly traded securities which provide SERS with an equity interest, (e.g., common stock, preferred stock, convertible preferred stock, and convertible bonds); as well as S&P 500 Index swaps that provide S&P 500 Index returns.

SERS' ***2009 Investment Plan*** targets a long-term allocation of 21.0% of assets to U.S. Stock, 16.8% of the Fund to large cap and 4.2% of the Fund to mid/small cap, approximating the composition of the Russell 3000 Index.

The large cap U.S. stocks, benchmarked to the S&P 500 Index may use: S&P 500 Index swaps, index funds, a fund of hedge funds, and an enhanced S&P 500 Index strategy. The mid/small cap U.S. stocks, benchmarked to the Russell 2500 Index, uses an index fund, and active strategies benchmarked to the Russell Midcap Index, the Russell 2500 Index, and the Russell Microcap Growth Index.

Market Exposure as of December 31, 2009: U.S. Stock had a $2,730.5 million market exposure, 11.1% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with eight external investment advisors.

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

Type of Investment Portfolios: As of December 31, 2009, 8.0% of the Fund was in large cap U.S. stocks, and 3.1% of SERS Fund was in mid/small cap U.S. stocks.

SERS U.S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	Market Exposure* As of 12/31/09 ($ Millions)
All cap		
1. BlackRock/Russell 3000 Index Non-Lendable Fund	Russell 3000 Index	$246.4
Large cap		
2. NISA	S&P 500 Index	63.8
3. Robeco Sage Capital	Fund-of-Hedge Funds	6.9
BlackRock/Equity Index Non-Lendable Fund-S&P 500	S&P 500 Index	1,583.2
BlackRock/Alpha Tilts Fund-S&P 500	Enhanced S&P 500 Index	141.2
Mid/small cap		
4. Iridian Asset Management	Midcap private business value	163.5
5. AXA Rosenberg Investment Management	Risk-controlled Russell 2500	125.8
6. Emerald Advisers	Pennsylvania companies	243.4
7. Mellon Capital Management Corporation	Pennsylvania companies	130.9
8. Turner Investment Partners	Quantitative microcap growth	25.4
Total U.S. Stock Investments		**$2,730.5**

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

Non-U.S. Stock is a component of the stock asset class, one of six 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.

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

SERS' long-term investment objective for the Non-U.S. Stock component of the stock asset class is to achieve a total return, net of fees, that exceeds the total return of the MSCI AC World Index ex USA IMI (66.3% developed large/mid, 11.7% developed small, 22.0% emerging markets).

SERS' ***2009 Investment Plan*** targets a long-term allocation of 21.0% of assets to Non-U.S. Stock, 14.4% of the Fund to large/mid cap stocks in developed markets, 2.6% of the Fund to small cap stocks in developed markets, and 4.0% of the Fund to stocks in emerging markets.

The large/mid cap stocks in non-U.S. developed markets, benchmarked to the MSCI EAFE Index, uses indexed products and active strategies. The small cap stocks in non-U.S. developed markets, benchmarked to the MSCI EAFE Small Cap Index, uses active strategies. The emerging markets stocks allocation is benchmarked to the MSCI Emerging Markets Index and uses an MSCI Emerging Markets Index fund as well as active strategies.

Market Exposure as of December 31, 2009: Non-U.S. Stock had a $2,680.6 million market exposure which was 10.9% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with seven external investment advisors.

Number of Investment Portfolios: SERS had 12 portfolios managed by the seven investment advisors.

Type of Investment Portfolios: As of December 31, 2009, 6.6% of total Fund assets were allocated to large/mid cap stocks in non-U.S. developed markets; 1.4% of total Fund assets were allocated to small cap stocks in non-U.S. developed markets; and 3.0% of total Fund assets were allocated to emerging markets.

SERS Non-U.S. Stock Investments

	Non-U.S. Stock Investment Advisor	Investment Style	Market Exposure* as of 12/31/09 ($ Millions)
Large/mid cap			
1.	BlackRock/MSCI ACWI ex-U.S. Index Non-Lendable Fund	MSCI ACWI ex-U.S. Index	$881.2
2.	Artisan Partners	Global ex-U.S. growth	282.8
3.	Templeton Investment Counsel	Global ex-U.S. value	317.5
4.	Morgan Stanley Investment Management	EAFE value	316.5
Small cap			
	BlackRock Investment Management International	(liquidating-accruals)	0.9
5.	Pictet Asset Management	Value with growth	134.7
6.	Harris Associates	Intrinsic value	210.7
Emerging markets			
	BlackRock/Emerging Markets Index Non-Lendable Fund	MSCI Emerging Markets Index	104.4
7.	Rexiter Capital Management	Core	179.0
	Pictet Asset Management	Value	159.6
	Templeton Strategic Emerging Markets Fund II	Private placements with public companies	65.6
	Templeton Strategic Emerging Markets Fund III	Private placements with public companies	27.8
	Total Non–U.S. Stock Investments		**$2,680.6**

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

Absolute Return Strategies are used to diversify the investments of the Fund. This mandate is expected to enhance the Fund's overall risk-adjusted profile, thereby increasing the Fund's long-term efficiency, as measured by the Fund's expected return per unit of risk (information ratio). SERS contracts with external fund-of-hedge funds (FOHF) investment advisors to manage these portfolios.

Investment Objective: Absolute Return Strategies are intended to produce uncorrelated diversified return streams in the portfolio to help preserve and enhance the real value of the Fund over long periods of time. Absolute Return Strategies are managed on a total return basis.

SERS' long-term investment objective for the Absolute Return Strategies is to achieve a total return, net-of-fees, that exceeds 90 Day LIBOR + 300 bps.

SERS' ***2009 Investment Plan*** targets a long-term allocation of 9.0% of Fund assets to Absolute Return Strategies.

Market Exposure as of December 31, 2009: Absolute Return Strategies had a $5,589.9 million market exposure, 22.7% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with six external investment advisors, but is in the process of redeeming portfolios in order to rebalance the Fund towards SERS 9.0% long-term allocation.

Number of Investment Portfolios: SERS had six Absolute Return Strategies portfolios managed by the six investment advisors.

Type of Investment Portfolios: As of December 31, 2009, SERS' Absolute Return Strategies were globally diversified across all major asset classes, including exposure to eight major strategies and 21 sub-strategies.

SERS Absolute Return Strategies

	Investment Advisor	Investment Style	Market Exposure* as of 12/31/09 ($ Millions)
1.	Arden	Absolute Return	$373.8
2.	Blackstone Alternative Asset Management	Absolute Return	1,420.9
3.	Mesirow	Absolute Return	1,130.2
4.	Morgan Stanley Alternative Investment Partners	Absolute Return	697.5
5.	Pacific Alternative Asset Management Company	Absolute Return	1,543.0
6.	Rock Creek	Absolute Return	424.6
	Total Absolute Return Strategies		**$5,589.9**

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

Fixed Income is one of six 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.

Investment Objective: The Fixed Income asset class is employed by the System 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 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 Benchmark which is comprised of the Barclay's Capital Aggregate Index, the Custom Intermediate TIPS, the Citigroup High Yield Market and JP Morgan Emerging Market Bond indices.

SERS' ***2009 Investment Plan*** targets a long–term allocation of 15.0% of assets of the total Fund to the Fixed Income asset class. Of this amount, 6.0% is targeted to the core strategies and 9.0% to specialty strategies (high–yield and emerging market debt).

Market Exposure as of December 31, 2009: Fixed Income had a $2,907.3 million market exposure, 11.8% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with 13 external investment advisors.

Number of Investment Portfolios: SERS had a total of 16 portfolios within the Fixed Income asset class managed by the 13 investment advisors.

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, high quality liquidity and diversification needs of the Fund. SERS had two actively managed core bond portfolios; one Custom Intermediate Duration Treasury Inflation Protected (TIPS) portfolio and one portfolio indexed to Barclay's Capital Aggregate Index. The two actively managed core portfolios totaled $897.8 million. In addition, SERS had one $93.3 million passively managed account benchmarked to the Barclay's Capital Aggregate Index. The combination of core portfolios represented 34.1% of the asset class.

Specialty: The specialty strategy portfolios (high–yield, emerging market debt, subordinated debt, mezzanine debt, and bank loan structured credit) focus on debt instruments offering higher return premiums and different risk characteristics than core fixed income securities. SERS had four corporate high yield portfolios with a market exposure of $621.8 million, one high yield commercial mortgage–backed securities portfolio with a market exposure of $239.7 million, one structured credit portfolio with a market exposure of $63.9 million, and six emerging market debt portfolios with a market exposure of $984.4 million. The specialty portfolios represent 65.9% of the asset class.

SERS Fixed Income Investments

	Fixed Income Investment Advisor	Investment Style	Market Exposure* as of 12/31/09 ($ Millions)
Core			
1.	Standish Mellon	Domestic - Index	$93.3
	BNY Mellon	Liquidation Account	1.0
2.	Taplin, Canida & Habacht	Active Domestic	123.2
3.	NISA Investment Advisors	Active Intermediate Duration TIPS	774.6
Specialty			
4.	Berwind - PA Capital Fund	PA Capital Fund (inactive)	4.8
5.	Pyramis Global Advisors	Commercial Mortgage-backed Securities	239.7
6.	Oaktree Capital Management	Mezzanine Fund (liquidating)	0.6
7.	Stone Harbor	Global High Yield	537.6
	Stone Harbor	Emerging Market Debt	254.3
8.	Ashmore AEMDF	Emerging Market Debt - U.S. dollars	144.0
	Ashmore LCD	Emerging Market Debt - local currency	180.5
9.	W.R. Huff	High Yield (liquidating)	84.2
10.	SEI Structured Credit Fund	High Yield Bank Loans	63.9
11.	Gramercy Advisors	Emerging Market Debt - Absolute Return (liquidating)	74.2
12.	Greylock Capital Management	Emerging Market Debt - Absolute Return (liquidating)	89.5
13.	PIMCO	Emerging Market Debt	241.9
	Total Fixed Income Investments		**$2,907.3**

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

Cash is one of six asset classes that SERS uses to diversify the investments of the Fund. Historically, the Cash asset class has been employed by the System to provide for SERS' liquidity needs as well as accumulate funds for future investment.

The asset class emphasizes the use of higher credit quality debt instruments which are liquid and have short maturities and durations, or which have floating rates and have historically been invested in the Treasury's Short–Term Investment Fund (STIF).

Investment Objective: On an asset allocation basis, cash has the lowest expected return of all asset classes. Therefore, since SERS is a long–term investor, the objective is to minimize exposure to this asset and maintain a long–term allocation to the Cash asset class of zero.

Cash payments to meet the System's benefit payments and other obligations are sourced through employee and employer contributions, limited partnership distributions, and raising cash from public market managers from time to time. Contributions are a predictable source of cash flow, but are inadequate to meet continuing benefit obligations. Distributions from limited partnerships are unpredictable and dependent on market conditions and terms of partnership agreements. Accordingly, raising cash from public market equity, fixed income, and fund–of–hedge funds managers is required to meet monthly cash flow requirements.

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.

Market Exposure as of December 31, 2009: The effective cash exposure was $318.0 million or 1.3% of the total Fund's $24,644.2 million.

Number of Investment Advisors: The cash strategy uses The Pennsylvania State Treasury Department to manage the uninvested cash in the liquidity accounts.

Number of Investment Portfolios: SERS' cash portfolio is managed primarily by the Treasurer.

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. Cash is invested in high-quality, highly liquid, short-term investments.

In the aggregate, the State Treasury managed approximately $448 million on behalf of SERS and SERS' external investment advisors as of December 31, 2009.

Real Estate is one of six 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 investment plan, SERS contracts with external investment advisors to manage portfolios.

Investment Objective: 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 Real Estate asset class is managed on a total return basis.

In the Real Estate asset class, SERS' long–term investment objective is to achieve a total net return that exceeds the total return of the Townsend Stylized Benchmark for rolling five year periods. SERS' ***2009 Investment Plan*** targets a long–term allocation of 8.0% of assets to the 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' Real Estate portfolio provides for diversification by:

- Transaction structure
- Property type
- Geographic location
- Development phase

Fair Value as of December 31, 2009: Real Estate had $2,007.8 million fair value, 8.1% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with 26 external investment advisors to manage Real Estate portfolios as of December 31, 2009.

Number of Investment Portfolios: SERS had investments in 60 Real Estate portfolios managed by the 26 investment advisors.

Type of Investment Portfolios: The most recent property diversification data is as follows:

- 33% pooled funds, 67% separate accounts
- 23% office, 4% industrial, 8% retail, 24% residential, 14% hotel, 10% timber, 17% other (including senior and student housing, land and various niche property investments)
- 12% Pennsylvania, 29% East excluding PA, 27% West, 15% South, 6% Midwest, 11% International
- 23% of the fair value of the separate accounts was invested in 17 investments located in Pennsylvania

SERS Real Estate Investments

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value* as of 12/31/09 ($ Millions)
1.	AG Asia Realty Fund	2007	Diversified	Limited Partnership	$23.7
2.	Apollo Real Estate Fund III	1998	Diversified	Limited Partnership	9.9
3.	Berwind Investment Partnership V	1999	Diversified	Limited Partnership	9.6*
	Berwind Investment Partnership VI	2002	Diversified	Limited Partnership	9.4*
	Berwind Investment Partnership VII	2005	Diversified	Limited Partnership	12.5*
	Berwind Investment Partnership VIII	2007	Diversified	Limited Partnership	5.9*
4.	Blackstone Real Estate Partners III	1999	Diversified	Limited Partnership	0.6
	Blackstone Real Estate Partners IV	2003	Diversified	Limited Partnership	12.0
	Blackstone Real Estate Partners V	2006	Diversified	Limited Partnership	26.7
	Blackstone Real Estate Partners VI	2007	Diversified	Limited Partnership	15.4
5.	Clerestory Small Cap Fund I	2007	Diversified	Limited Partnership	(2.1)*
6.	Colony Investors VIII	2007	Diversified	Limited Partnership	5.3*
7.	Fidelity Real Estate Opportunistic Income Fund	2007	Debt	Limited Partnership	30.3
8.	Fillmore East Fund	2005	Debt	Limited Partnership	4.3
	Fillmore West Fund	2008	Debt	Limited Partnership	2.1
9.	Forest I.M.A.	1992	Timber	Separate Account	206.0
10.	Goldman Sachs Whitehall V & VI	1994	Diversified	Limited Partnership	0.2
	Goldman Sachs Whitehall VII & VIII	1996	Diversified	Limited Partnership	0.4
11.	Grosvenor I.M.A.	1994	Diversified	Separate Account	264.8
	Grosvenor Residential Investment Partners I	2007	Residential	Limited Partnership	2.2
12.	Hawkeye Scout Fund I	2006	Diversified	Limited Partnership	11.4
13.	Heitman America Real Estate Trust	2007	Diversified	Limited Partnership	60.2
	Heitman I.M.A.	1988	Diversified	Separate Account	43.4
14.	ING Clarion Real Estate Securities	1996	REITs	Separate Account	249.1
15.	LaSalle I.M.A.	1994	Diversified	Separate Account	185.0
16.	Lowe I.M.A.	1994	Diversified	Separate Account	336.6
17.	Lubert Adler Fund II	1998	Diversified	Limited Partnership	1.0
	Lubert Adler Fund III	2000	Diversified	Limited Partnership	2.4*
	Lubert Adler Fund IV	2004	Diversified	Limited Partnership	9.6*
	Lubert Adler Fund V	2006	Diversified	Limited Partnership	13.5
	Lubert Adler Fund VI	2008	Diversified	Limited Partnership	9.5*
18.	OCM Real Estate Opp Fund A	1996	Diversified	Limited Partnership	1.9
	OCM Real Estate Opp Fund II	1998	Diversified	Limited Partnership	1.5
	OCM Real Estate Opp Fund III	2003	Diversified	Limited Partnership	14.7
	TCW Special Credits Trust VI	1994	Diversified	Limited Partnership	0.3
19.	The Oxford Fund	2006	Diversified	Limited Partnership	20.3
20.	Prudential Latin America Residential Fund III	2007	Residential	Limited Partnership	16.2*
	Prudential Latin America Retail Fund I	2006	Retail	Limited Partnership	21.0*
	Prudential Senior Housing Fund II	2001	Senior housing	Limited Partnership	17.9
	Prudential Senior Housing Fund III	2006	Senior housing	Limited Partnership	26.8

SERS Real Estate Investments (continued)

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value* as of 12/31/09 ($ Millions)
21.	Rockpoint Finance Fund I	2006	Diversified	Limited Partnership	$1.8
	Rockpoint Real Estate Fund I	2004	Diversified	Limited Partnership	3.2
	Rockpoint Real Estate Fund II	2005	Diversified	Limited Partnership	12.2
	Rockpoint Real Estate Fund III	2007	Diversified	Limited Partnership	3.5
22.	Sentinel Real Estate Fund	1986	Residential	Open-Ended Fund	45.3
23.	Starwood Fund IV	1997	Diversified	Limited Partnership	1.6
	Starwood Fund V	1999	Diversified	Limited Partnership	1.2
	Starwood Fund VI	2001	Diversified	Limited Partnership	19.4
	Starwood Fund VII	2005	Diversified	Limited Partnership	22.5
	Starwood Fund VIII	2007	Diversified	Limited Partnership	10.1
24.	UBS Multi-Family Trust	1999	Residential	Limited Partnership	0.3
	UBS Trumbull Property Fund	1988	Diversified	Open-Ended Fund	62.6
	UBS Trumbull Property Income Fund	1988	Diversified	Open-Ended Fund	57.4
25.	Urdang Real Estate Securities	2002	REITs	Separate Account	40.3
26.	Westbrook Fund II	1997	Diversified	Limited Partnership	1.6
	Westbrook Fund III	1998	Diversified	Limited Partnership	2.8
	Westbrook Fund IV	2000	Diversified	Limited Partnership	0.5
	Westbrook Fund V	2004	Diversified	Limited Partnership	1.8*
	Westbrook Fund VI	2005	Diversified	Limited Partnership	12.5*
	Westbrook Fund VII	2006	Diversified	Limited Partnership	25.7*
	Total Real Estate Investments				**$2,007.8**

** Fair values for these advisors have not been received as of year end. The values are third quarter fair values adjusted by fourth quarter cash flows.*

Alternative Investments is comprised of Venture Capital and Private Equity investments, both of which take the form of limited partnerships, and is one of six 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 Stage 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 and management buyouts 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) deleveraging 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 can be 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 Cambridge Private Equity Benchmark and the Cambridge Venture Capital Benchmark for respective holdings. SERS' ***2009 Investment Plan*** anticipates an Alternative Investment long–term allocation range with a midpoint of 14.0%.

Fair Value as of December 31, 2009: Alternative Investments had $5,997.8 million fair value, 24.3% of the total Fund's $24,644.2 million. Sub–asset class fair values and fund percentages were as follows:

SERS Alternative Investments

	Unfunded Commitments ($ Millions)	Fair Value ($ Millions)	Percent of Total Fund
Venture Capital	$653.6	$1,448.1	5.9%
Private Equity	2,364.3	4,549.7	18.4
Total Alternative Investments	**$3,017.9**	**$5,997.8**	**24.3%**

Number of Limited Partnerships: As of December 31, 2009, SERS had commitments to 345 active Alternative Investments limited partnerships, 119 to Venture Capital partnerships and 226 to Private Equity partnerships.

Portfolio: SERS' Alternative Investment Program's scope has expanded over the years to include top investment funds nationally and internationally. The Program holds indirect investment interests in over 4,500 companies. The Venture Capital Program includes investments working to commercialize novel solutions to current and future challenges in information technology, communications, and medicine. In addition to direct fund investments, the Venture Capital Program includes investments in several fund–of–funds. A fund–of–funds is a limited partnership that, in turn, invests in other limited partnerships. Five 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. Another two of these commitments are to funds investing in minority–focused venture capital funds.

The Private Equity Program invests in buyout, distressed, international, and secondary oriented partnerships. Buyout transactions are privately negotiated or result from investment bank sponsored auctions, and are usually completed with present management in place; hostile acquisitions are generally avoided. Distressed investment managers employ differentiated strategies, i.e., they employ control or non–control approaches, and accordingly, have differing degrees of active influence over the companies in which they invest. European funds are attempting to capitalize on trends favoring the restructuring of large companies, generational succession in businesses established after World War II, cross–border business opportunities within the region since the formation of the European Union and currency harmonization. Asian investments focus on the expanded opportunities in the region created by changing attitudes in many Asian countries regarding foreign investment, favorable demographic trends, globalization opportunities, and economic growth. The Program typically gains initial exposure to emerging markets and other target regions through the use of fund–of–funds. The portfolio's exposure to energy markets is also expanding. Additionally, SERS utilizes one manager to oversee stock distributions and another manager for co–investment opportunities.

Alternative Investment Portfolio Exposure: The Alternative Investment Program is well–diversified by stage of investment, industry focus, and geography. As of September 30, 2009, based on fair value, the Program's exposure was as follows:

By Fund Sub Sector:

U.S. Private Equity	41.5%
U.S. Venture Capital	22.3
Non-U.S.[a]	17.4
Distressed/Opportunistic	11.4
Pennsylvania Related	5.2
Other	2.2

By Fund Style:

LBO	40.7%
Expansion Stage	18.1
Early Stage	9.3
Start–Up	7.5
Acquisition/Platform	6.6
Senior Debt LBO	5.4
Other	12.4

By Portfolio Company Geography:

U.S. West Coast	13.8%
U.S. Northeast	13.5
U.S. Southwest/Rockies	11.6
U.S. Southeast	9.9
U.S. Midwest/Plains	8.9
U.S. Mid-Atlantic	8.2
U.S. Pacific Northwest	1.8
United Kingdom	5.9
Denmark	3.3
Germany	3.3
France	2.0
Netherlands	1.3
Rest of World	16.5

By Portfolio Company Industry:

Healthcare	21.4%
Consumer/Retail & Services	20.2
Information Technology	14.1
Financial Services	8.8
Software	8.0
Media/Communications	6.2
Manufacturing	6.4
Energy	6.0
Electronics	2.4
Other	6.5

[a] *Some managers with a domestic investment focus may invest globally. Thus, Non-U.S. exposure measured on a portfolio company basis will be greater.*

SERS Venture Capital Committed, Drawn and Distributed

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 capital and profits returned to SERS.

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1.	ABS Capital Partners VI	Later Stage	3/13/2009	$40,000,000	$8,602,655	$0
2.	Adams Capital Management II	Early Stage	10/1/1999	30,000,000	30,000,000	0
	Adams Capital Management III	Early Stage	11/21/2000	30,000,000	30,000,000	4,761,905
3.	Advanced Technology Ventures VI	Multi-Stage	3/9/2000	10,000,000	10,000,000	240,896
	Advanced Technology Ventures VII	Multi-Stage	7/11/2001	27,000,000	25,784,700	6,580,846
4.	Alloy Annex I	Seed/Early Stage	10/31/2003	5,000,000	4,500,000	0
	Alloy Ventures 2000	Early Stage	5/19/2000	20,000,000	20,000,000	2,674,620
	Alloy Ventures 2002	Early Stage	7/22/2002	25,000,000	23,000,000	5,604,706
	Alloy Ventures 2005	Seed/Early Stage	8/11/2005	25,000,000	17,750,000	0
5.	APAX Excelsior VI	Later Stage	7/3/2000	35,000,000	33,874,204	39,390,042
	P/A Fund I	Later Stage	6/30/1993	30,000,000	30,000,000	66,195,539
	P/A Fund III	Later Stage	3/31/1997	100,000,000	100,000,000	160,057,955
6.	APEX Investment Fund IV	Early Stage	9/17/1999	25,000,000	25,743,967	2,014,209
	APEX Investment Fund V	Early Stage	4/19/2002	20,000,000	20,000,000	1,707,066
7.	Artiman Ventures II	Seed/Early Stage	10/27/2006	25,000,000	11,625,000	0
8.	Atlas Venture Fund IV	Early Stage	3/31/1999	26,000,000	23,809,496	6,135,410
	Atlas Venture Fund V	Early Stage	2/7/2000	37,200,000	36,880,800	12,826,952
	Atlas Venture Fund VI	Early Stage	8/1/2001	24,800,000	24,800,000	4,386,035
9.	Austin Ventures IX	Early Stage	1/9/2006	15,000,000	10,228,162	881,830
	Austin Ventures VIII	Early Stage	7/26/2001	20,932,140	21,100,362	5,988,820
10.	Battery Ventures VIII	Diversified	8/13/2007	25,000,000	13,000,000	0
	Battery Ventures VIII Side Car Fund	Diversified	8/29/2008	9,000,000	2,718,000	0
11.	Birchmere Ventures III	Early Stage	5/5/2005	10,000,000	7,235,444	2,695,041
12.	Care Capital Investments III	Middle/Later Stage	2/8/2006	25,000,000	7,651,454	0
13.	Charles River Partnership XI	Early Stage	2/15/2001	11,032,259	10,188,333	13,505,316
14.	Clearstone Venture Partners III-A	Early/Late Stage	12/22/2004	25,000,000	21,750,000	0
15.	Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	20,149,041	18,951,638
	Cross Atlantic Technology Fund II	Early Stage	1/28/2002	32,900,000	32,900,000	16,442,911
	Novo Vita	Early Stage	12/26/2000	11,616,498	11,616,498	1,792,200
16.	Devon Park Bioventures	Early/Late Stage	12/15/2006	10,842,697	4,049,127	701,849
17.	Draper Fisher Jurvetson Fund VI	Early Stage	8/13/1999	8,000,000	8,000,000	3,127,845
	Draper Fisher Jurvetson Fund VII	Early Stage	9/22/2000	20,000,000	19,800,000	3,178,088
18.	Draper Triangle Ventures	Early Stage	12/20/1999	20,000,000	19,373,628	4,062,521
	Draper Triangle Ventures II	Early Stage	10/13/2004	12,000,000	8,294,841	0
19.	Edison Venture Fund III	Later Stage	3/31/1994	25,000,000	25,000,000	48,431,091
20.	Fairview Capital	Fund of Funds	9/30/1994	10,000,000	10,000,000	4,543,128
	Fairview II	Fund of Funds	3/31/1998	10,000,000	9,850,000	2,941,704

SERS Venture Capital Committed, Drawn and Distributed (continued)

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
21.	Frazier Healthcare III	Early Stage	3/31/1999	$30,000,000	$29,925,000	$10,090,022
	Frazier Healthcare IV	Early Stage	9/27/2001	30,000,000	28,095,000	9,875,811
	Frazier Healthcare V	Early/Late Stage	5/10/2005	30,000,000	21,660,000	2,742,043
22.	Grotech PA III	Later Stage	6/29/1990	3,000,000	3,014,865	2,910,452
	Grotech Partners V	Later Stage	9/30/1998	25,000,000	25,000,000	24,521,934
23.	Guggenheim Technology Ventures I	Early/Late Stage	11/17/2008	2,000,000	760,000	281,530
24.	Halpern Denny Fund II	Later Stage	3/31/1998	25,000,000	24,999,991	5,234,363
	Halpern Denny Fund III	Later Stage	4/26/2000	25,000,000	24,212,500	18,274,268
25.	HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	188,586,055	90,909,622
	HarbourVest Partners VII	Fund of Funds	3/24/2003	75,000,000	56,625,000	2,577,151
	HarbourVest Partners VIII	Fund of Funds	10/5/2006	100,000,000	42,000,000	0
26.	Healthcare Ventures III	Early Stage	9/30/1992	15,000,000	15,000,000	30,778,200
	Healthcare Ventures V	Early Stage	12/31/1997	25,000,000	25,000,000	52,285,824
	Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	35,000,000	3,462,611
	Healthcare Ventures VII	Early Stage	10/29/2002	35,000,000	30,450,000	1,167,015
	Healthcare Ventures VIII	Early Stage	8/22/2005	30,000,000	15,525,000	2,568,786
27.	Highland Capital Partners VI	Early Stage	10/25/2001	25,000,000	24,437,500	18,788,669
	Highland Capital Partners VII	Early Stage	10/13/2006	35,000,000	18,812,500	1,390,491
	Highland Consumer Fund I	Diversified	5/4/2007	25,000,000	12,763,199	0
28.	I.P. II	Early Stage	12/17/2001	8,600,000	8,498,074	1,006,296
	I.P. III	Seed/Early Stage	11/19/2004	10,500,000	8,610,000	519,843
	I.P. IV	Seed/Early Stage	9/21/2007	14,000,000	3,920,000	0
29.	Insight Venture Partners VI	Buyouts	8/21/2007	30,000,000	12,210,000	0
30.	InterWest Partners IX	Early Stage	10/19/2005	20,000,000	14,000,000	1,106,563
	InterWest Partners VIII	Early Stage	8/25/2000	25,000,000	22,500,000	5,323,829
	InterWest Partners X	Early Stage	10/30/2008	30,000,000	4,500,000	0
31.	J.H. Whitney Equity Fund III	Later Stage	3/31/1998	20,000,000	20,171,316	50,600,435
	J.H. Whitney IV	Later Stage	2/1/2000	20,000,000	17,958,772	6,208,847
32.	JMI Equity Fund V	Early/Late Stage	6/7/2005	24,000,000	22,157,205	12,977,009
	JMI Equity Fund VI	Early/Late Stage	6/27/2007	40,000,000	18,720,000	0
33.	JP Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	103,938,838	33,715,962
	JP Morgan Venture Capital Investors II	Fund of Funds	9/8/2000	100,000,000	95,203,551	25,852,624
	JP Morgan Venture Capital Investors III	Fund of Funds	6/20/2006	100,000,000	41,316,194	1,720,354
34.	Keystone V	Later Stage	3/31/1998	25,000,000	25,000,000	2,082,064
35.	Kline Hawkes Pacific	Early Stage	8/30/2000	15,000,000	15,100,498	5,089,301
36.	Knightsbridge Venture Capital VI	Fund of Funds	12/7/2004	20,000,000	12,800,000	0
37.	Lightspeed Venture Partners VII	Early Stage	2/27/2006	18,000,000	12,967,490	917,875
	Lightspeed Venture Partners VIII	Early Stage	6/27/2008	15,000,000	3,037,500	0
38.	Meritech Capital Partners II	Later Stage	1/2/2001	26,475,166	23,915,898	16,203,258
	Meritech Capital Partners III	Later Stage	4/5/2006	35,000,000	25,025,000	966,232

SERS Venture Capital Committed, Drawn and Distributed (continued)

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
39.	Mid-Atlantic III	Early Stage	6/30/1997	$20,008,308	$20,000,000	$5,654,702
	Mid-Atlantic Venture Fund IV	Early Stage	5/4/2000	30,000,000	30,000,000	1,835,977
	NEPA Venture-II	Early Stage	12/31/1992	7,500,000	7,500,000	34,879,769
40.	Morgenthaler Partners IX	Early Stage	11/25/2008	20,000,000	2,000,000	0
	Morgenthaler Partners VII	Early Stage	7/26/2001	35,000,000	33,250,000	11,337,692
	Morgenthaler Partners VIII	Diversified	10/3/2005	35,000,000	21,000,000	2,602,501
41.	New Enterprise Associates 11	Early/Late Stage	3/1/2004	25,000,000	23,125,000	8,660,262
	New Enterprise Associates 12	Early/Late Stage	6/26/2006	35,000,000	22,579,833	1,711,074
	New Enterprise Associates IX	Early Stage	11/15/1999	20,000,000	19,600,000	3,333,252
	New Enterprise Associates VI	Early Stage	3/31/1994	25,000,000	25,000,000	198,305,408
	New Enterprise Associates VII	Early Stage	12/31/1996	30,000,000	30,000,000	97,217,571
	New Enterprise Associates X	Early/Late Stage	12/11/2000	35,000,000	33,803,000	24,334,629
42.	NewSpring Ventures II	Later Stage	12/5/2006	10,000,000	3,200,000	0
43.	Novitas Capital III	Early Stage	4/17/2003	10,000,000	7,175,000	1,317,533
44.	Oak Investment Partners XI	Later Stage	7/21/2004	35,000,000	35,000,000	7,401,464
	Oak Investment Partners XII	Early/Late Stage	7/10/2006	40,000,000	25,384,613	1,562,915
45.	Polaris Venture Partners II	Early Stage	9/30/1998	25,000,000	24,750,000	24,859,455
	Polaris Venture Partners III	Early Stage	1/21/2000	50,000,000	49,500,000	14,911,870
	Polaris Venture Partners IV	Early Stage	9/30/2002	50,000,000	49,750,000	10,327,495
	Polaris Venture Partners V	Diversified	8/8/2006	50,000,000	25,000,000	0
46.	Quaker BioVentures	Early Stage	2/20/2003	20,000,000	19,200,000	3,526,430
	Quaker BioVentures II	Middle/Later Stage	4/3/2007	25,000,000	5,975,016	117,850
47.	Sofinnova Venture Partners VII	Early Stage	1/18/2007	20,000,000	7,800,000	0
48.	Sprout VII	Early Stage	3/31/1995	18,000,000	18,000,000	43,102,148
49.	Summit Accelerator Fund	Early Stage	11/15/1999	8,000,000	7,609,500	7,166,347
	Summit IV	Later Stage	9/30/1995	25,000,000	24,250,000	182,700,129
	Summit Partners Venture Capital Fund II	Diversified	9/22/2006	15,000,000	6,525,000	0
	Summit V	Later Stage	3/31/1998	37,500,000	36,187,500	48,685,566
50.	T.Rowe Price Stock Distribution Account	Stock Distribution	1/3/2005	0	301,565,535	279,668,840
51.	TA/Advent VIII	Later Stage	6/30/1997	30,000,000	29,400,000	64,581,735
52.	Three Arch Capital	Early Stage	12/20/2000	20,000,000	18,650,000	3,322,275
	Three Arch Partners IV	Early/Late Stage	6/4/2004	20,000,000	13,050,000	1,941,653
53.	TL Ventures III	Early Stage	3/31/1997	15,000,000	15,062,614	20,677,658
	TL Ventures IV	Early Stage	5/13/1999	35,000,000	35,000,000	25,582,809
	TL Ventures V	Early Stage	10/18/2000	40,000,000	36,848,219	9,854,612
54.	US Venture Partners VII	Early Stage	2/18/2000	13,750,000	13,750,000	2,015,871
	US Venture Partners VIII	Early Stage	6/1/2001	26,250,000	25,830,000	7,152,911
55.	Weathergage Venture Capital	Fund of Funds	6/26/2007	25,000,000	6,750,000	0

SERS Venture Capital Committed, Drawn and Distributed (continued)

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
56.	Weston Presidio III	Later Stage	12/31/1998	$35,000,000	$31,989,586	$22,536,318
	Weston Presidio IV	Later Stage	6/21/2000	35,000,000	33,547,500	16,595,504
	Weston Presidio V	Later Stage	12/8/2005	50,000,000	31,100,000	0
57.	Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	16,951,175	3,484,303
	Total Active Venture Capital			**$3,442,037,091**	**$3,095,351,749**	**$2,074,935,975**

Commitments as of 12/31/09
Cash flows as of 9/30/09

Inactive Venture Capital Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
Total Inactive Venture Capital	**$214,700,000**	**$203,789,346**	**$445,692,391**

SERS Private Equity Committed, Drawn and Distributed

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 capital and profits returned to SERS.

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1.	Abingworth Bioventures IV	Multi-Stage	9/1/2003	$20,000,000	$17,400,000	$1,946,463
	Abingworth Bioventures V	Multi-Stage	1/23/2007	33,775,000	11,941,494	541
2.	ABRY Advanced Securities Fund	Senior Debt	8/1/2008	25,000,000	9,098,395	0
	ABRY Broadcast Partners III	Buyouts	3/31/1997	25,000,000	22,490,420	21,761,021
	ABRY Broadcast Partners IV	Buyouts	3/30/2001	35,000,000	24,773,600	25,865,780
	ABRY Mezzanine Partners	Mezzanine	3/15/2002	30,000,000	26,379,295	27,795,020
	ABRY Partners V	Buyouts	7/29/2005	45,000,000	42,273,290	202,738
	ABRY Partners VI	Mid Market Buyouts	3/26/2008	50,000,000	14,468,076	0
	ABRY Senior Equity II	Private Equity	7/27/2006	30,000,000	20,847,667	1,610,043
3.	ABS Capital Partners III	Buyouts	3/31/1999	35,000,000	29,428,915	17,343,591
	ABS Capital Partners IV	Buyouts	10/13/2000	35,000,000	30,984,280	52,079,592
	ABS Capital Partners V	Buyouts	11/14/2005	20,000,000	18,998,852	1,304,092
4.	Accel Europe	Early Stage	7/2/2001	15,000,000	11,350,000	0
5.	Advent International GPE VI-A	Mid Market Buyouts	7/7/2008	35,000,000	7,000,000	0
	Advent Latin American Private Equity Fund IV	Buyouts	8/2/2007	30,000,000	21,600,000	0
6.	AG Capital Recovery Partners II	Distressed Debt	10/1/2001	17,600,000	17,695,470	26,989,866
	AG Capital Recovery Partners IV	Distressed Debt	2/4/2003	50,000,000	35,415,216	54,685,621
	AG Capital Recovery Partners V	Distressed Debt	4/17/2006	20,000,000	18,700,000	1,180,000
7.	Alpha Private Equity Fund 4	Mid Market Buyouts	5/15/2002	26,580,000	35,443,050	71,115,386
	Alpha Private Equity Fund 5	Mid Market Buyouts	4/1/2006	67,660,800	47,354,529	8,015,060
8.	APAX Europe IV	Buyouts	3/31/1999	35,000,000	29,909,800	37,636,346
	APAX Europe V	Buyouts	4/27/2001	70,000,000	70,385,477	125,087,449
	APAX Europe VI	Buyouts	5/19/2005	76,349,190	65,298,970	25,394,049
	APAX Europe VII	Buyouts	6/27/2007	132,900,000	67,536,250	0
	APAX Germany II	Middle/Later Stage	6/30/1997	8,737,262	8,455,477	17,228,871
	APAX UK Ventures VI	Middle/Later Stage	12/31/1997	6,918,899	6,933,887	13,109,711
9.	Apollo Investment Fund IV	Buyouts	9/30/1998	75,000,000	74,823,494	99,551,642
	Apollo Investment Fund V	Buyouts	8/23/2001	50,000,000	46,528,159	88,495,748
	Apollo Investment Fund VI	Buyouts	7/19/2006	40,000,000	34,815,442	794,337
10.	Asia Alternatives Capital Partners	Fund of Funds	6/26/2007	50,000,000	13,567,265	542,196
	Asia Alternatives Capital Partners II	Fund of Funds	3/7/2008	50,000,000	2,927,419	136,628
11.	Asia Pacific Growth Fund III	Global Situations	9/28/1999	15,000,000	15,330,077	8,031,451
12.	Audax Private Equity Fund	Mid Market Buyouts	5/25/2000	35,000,000	36,712,082	50,009,158
	Audax Private Equity Fund II	Mid Market Buyouts	6/17/2005	25,000,000	25,517,169	5,243,759
	Audax Private Equity Fund III	Mid Market Buyouts	11/7/2007	37,000,000	21,388,017	190,528

SERS Private Equity Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
13.	Avenue Asia Special Situations Fund IV	Distressed Debt	6/30/2006	$50,000,000	$25,907,432	$1,303,520
	Avenue Europe Special Situations Fund	Distressed Debt	7/30/2008	34,750,000	27,249,392	96,125
	Avenue Special Situations Fund III	Distressed Debt	8/25/2003	50,000,000	40,080,214	62,038,320
	Avenue Special Situations Fund IV	Distressed Debt	3/27/2006	50,000,000	50,000,000	0
	Avenue Special Situations Fund V	Distressed Debt	6/4/2007	70,000,000	61,392,880	233,973
14.	AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	19,894,989	25,926,454
	AXA Secondary Fund III-2	Secondaries	11/24/2004	14,000,000	10,572,592	13,266,873
	AXA Secondary Fund IV	Secondaries	2/26/2007	80,000,000	24,284,312	868,236
15.	B III Capital Partners	Distressed Debt	9/30/1997	35,000,000	34,503,390	50,307,727
16.	Bain Capital Asia Fund	Distressed Debt	10/18/2007	12,000,000	5,520,000	0
	Bain Capital Europe III	Buyouts	7/10/2008	76,555,500	5,876,025	0
	Bain Capital Fund IX	Buyouts	4/10/2006	75,000,000	72,937,500	4,937,278
	Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	24,812,500	40,556,249
	Bain Capital Fund VIII-E	Buyouts	12/15/2004	13,405,000	12,415,468	2,967,960
	Bain Capital Fund X	Buyouts	1/15/2008	90,000,000	24,075,000	0
	Bain Capital IX Coinvestment Fund	Buyouts	4/20/2006	15,000,000	14,550,000	0
	Bain Capital X Coinvestment Fund	Buyouts	7/28/2008	5,000,000	700,000	0
17.	Baring India Private Equity Fund III Limited	Mid Market Buyouts	10/10/2008	5,000,000	542,697	0
	Baring Vostok Private Equity Fund IV	Buyouts	3/10/2008	30,000,000	7,421,371	0
18.	BC European Capital VII	Buyouts	7/28/2000	37,740,202	37,754,746	59,068,229
	BC European Capital VII Top Up	Buyouts	7/2/2001	12,278,596	12,278,596	16,619,528
	BC European Capital VIII	Buyouts	12/13/2005	97,635,000	58,856,889	544,258
19.	Berkshire Fund VI	Mid Market Buyouts	7/11/2002	20,000,000	18,294,834	13,900,023
	Berkshire Fund VII	Mid Market Buyouts	11/15/2006	32,000,000	8,378,359	687,574
20.	Blackstone Capital II	Buyouts	9/30/1994	40,000,000	42,842,270	93,290,357
	Blackstone Capital III	Buyouts	12/31/1997	75,000,000	74,694,157	115,185,603
	Blackstone Capital IV	Buyouts	2/26/2003	75,000,000	62,060,926	84,155,235
	Blackstone Capital Partners V	Buyouts	5/30/2006	150,000,000	120,862,388	6,958,275
	Blackstone Communications Partners I	Buyouts	8/29/2000	25,000,000	24,747,542	20,987,871
21.	Brait IV	Mid Market Buyouts	12/11/2006	25,000,000	16,052,245	597,087
22.	Brynwood Partners V	Mid Market Buyouts	7/31/2005	10,000,000	9,330,819	757,118
	Brynwood Partners VI	Mid Market Buyouts	*	10,000,000	0	0
23.	Centerbridge Capital Partners I	Distressed Debt	2/27/2007	50,000,000	37,052,691	38,555
24.	Cerberus Institutional Partners	Distressed Debt	3/5/1999	35,000,000	35,000,000	76,576,855
	Cerberus Institutional Partners Series Four	Distressed Debt	11/27/2006	75,000,000	61,875,000	0
	Cerberus Institutional Partners Series Three	Distressed Debt	11/13/2003	35,000,000	22,321,354	12,824,153
	Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	68,626,640
25.	Charterhouse Capital Partners IX	Buyouts	4/28/2009	79,290,000	4,423,872	0
	Charterhouse Capital Partners VII	Buyouts	1/17/2003	52,120,000	53,121,806	86,164,523
	Charterhouse Capital Partners VIII	Buyouts	4/19/2006	74,400,000	64,014,184	0
26.	Charterhouse Equity Partners II	Buyouts	3/31/1994	40,000,000	43,908,228	100,919,498
	Charterhouse Equity Partners III	Buyouts	12/31/1997	50,000,000	55,395,586	74,801,860
27.	Chequers Capital XV	Buyouts	7/5/2006	31,434,000	14,969,348	934,078

SERS Private Equity Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
28.	CID Greater China Venture Capital Fund II	Early Stage	8/10/2007	$20,000,000	$15,000,000	$5,922,676
29.	Clayton Dubilier & Rice V	Buyouts	6/30/1995	50,000,000	49,756,029	49,826,483
	Clayton Dubilier & Rice VI	Buyouts	12/31/1998	50,000,000	36,211,768	55,410,949
30.	Clessidra Capital Partners II	Buyouts	11/5/2008	31,716,000	4,808,044	3,150
31.	Code Hennessy & Simmons	Mid Market Buyouts	9/28/1989	10,000,000	9,650,000	29,205,907
	Code Hennessy & Simmons II	Mid Market Buyouts	6/30/1994	20,000,000	20,000,000	69,692,351
	Code Hennessy & Simmons III	Mid Market Buyouts	9/30/1997	40,000,000	38,724,000	55,634,838
	Code Hennessy & Simmons IV	Mid Market Buyouts	9/16/1999	100,000,000	100,000,000	132,813,640
	Code Hennessy & Simmons V	Mid Market Buyouts	11/10/2005	50,000,000	40,259,408	0
32.	Cognetas Fund II	Buyouts	11/2/2005	49,468,400	35,091,911	2,566,249
33.	CVI Global Value Fund	Distressed Debt	2/23/2007	60,000,000	55,151,667	825,601
34.	DLJ Merchant Banking Fund II	Buyouts	3/31/1997	75,000,000	82,833,683	98,557,046
	DLJ Merchant Banking Fund III	Buyouts	8/14/2001	85,000,000	85,633,849	106,865,434
35.	Dover Street VII	Secondaries	7/2/2008	30,000,000	5,720,287	215,069
36.	Elevation Partners	Private Equity	11/10/2005	35,000,000	22,869,332	4,697,976
37.	Energy Spectrum Partners IV	Mid Market Buyouts	12/15/2004	50,000,000	51,261,408	23,946,324
	Energy Spectrum Partners V	Mid Market Buyouts	7/9/2007	30,000,000	14,137,651	1,748
38.	Eureka II	Small Buyouts	1/30/2006	20,000,000	8,655,307	291,601
39.	Excelsior Capital Asia Partners III	Growth Equity	8/17/2006	25,000,000	14,293,800	82,385
40.	First Reserve Fund X	Buyouts	10/28/2004	30,000,000	30,000,000	34,603,899
	First Reserve Fund XI	Buyouts	12/14/2006	60,000,000	46,241,847	0
	First Reserve Fund XII	Buyouts	11/19/2008	50,000,000	14,736,844	5,288
41.	Francisco Partners	Mid Market Buyouts	7/27/2000	50,000,000	44,239,282	31,172,489
	Francisco Partners II	Mid Market Buyouts	7/10/2006	30,000,000	21,000,000	6,355,957
42.	Frontenac VII	Buyouts	9/30/1997	40,000,000	40,000,000	55,213,406
43.	Great Hill Equity Partners	Mid Market Buyouts	4/12/1999	30,000,000	30,000,000	29,994,856
	Great Hill Equity Partners II	Mid Market Buyouts	3/28/2001	35,000,000	35,063,336	44,268,235
	Great Hill Equity Partners III	Mid Market Buyouts	3/7/2006	35,000,000	29,575,000	4,200,000
	Great Hill Equity Partners IV	Mid Market Buyouts	9/8/2008	25,000,000	2,500,000	0
44.	Gryphon Partners II	Mid Market Buyouts	11/3/1999	35,000,000	33,714,209	28,683,854
	Gryphon Partners III	Mid Market Buyouts	9/8/2004	30,000,000	24,149,592	8,659,227
45.	GTC&R V	Buyouts	3/31/1997	11,400,000	11,400,000	20,502,976
	GTC&R VI	Buyouts	9/30/1998	50,000,000	50,000,000	41,712,557
	GTC&R VII	Buyouts	3/15/2000	55,000,000	50,074,671	120,566,849
	GTCR IX	Buyouts	12/1/2006	50,000,000	21,628,046	3,161,153
	GTCR VIII	Buyouts	7/7/2003	75,000,000	69,393,599	79,862,235
46.	H.I.G. Bayside Debt & LBO Fund II	Distressed Debt	6/17/2008	30,000,000	6,050,000	0
47.	Hancock IPEP II (Harbourvest II)	Fund of Funds	6/30/1997	25,000,000	24,357,775	32,886,929
	Harbourvest IPEP IV	Fund of Funds	4/9/2001	40,000,000	36,000,000	32,483,252
	HarbourVest IPEP lll	Fund of Funds	6/30/1998	40,000,000	38,800,000	42,699,083
	HIPEP V-Asia Pacifc & Rest of World Partnership Fund	Buyouts	5/9/2006	30,000,000	17,595,316	0

SERS Private Equity Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
48.	Hellman & Friedman Capital Partners VI	Buyouts	6/5/2007	$125,000,000	$79,236,588	$1,237,580
	Hellman Friedman IV	Buyouts	2/14/2000	75,000,000	67,317,209	175,097,414
	Hellman Friedman V	Buyouts	12/20/2004	80,000,000	70,554,601	66,263,337
49.	InterMedia Partners VII	Diversified	1/5/2007	15,000,000	12,731,737	142,200
50.	Invemed Catalyst Fund	Mid Market Buyouts	10/19/1999	16,754,888	13,707,572	8,614,423
51.	J.H. Whitney V	Later Stage	3/29/2001	20,000,000	22,848,040	36,652,415
	J.H. Whitney VI	Buyouts	1/5/2006	50,000,000	42,043,322	8,221,368
52.	J.W. Childs Equity Partners III	Mid Market Buyouts	8/20/2002	40,000,000	39,572,228	28,352,594
53.	JP Morgan US Corp Finance Investors II	Fund of Funds	1/14/2003	50,000,000	49,119,086	19,972,070
54.	Kelso VI	Buyouts	9/30/1998	75,000,000	68,484,560	84,793,059
	Kelso VII	Buyouts	10/18/2004	40,000,000	39,443,518	17,202,231
	Kelso VIII	Buyouts	11/29/2007	150,000,000	14,899,026	110,938
55.	Landmark Equity IV	Secondaries	3/31/1995	14,923,291	12,495,850	18,587,584
	Landmark Equity Partners V	Secondaries	12/31/1995	19,624,113	19,434,947	23,369,953
56.	Leeds Equity Partners IV	Mid Market Buyouts	11/12/2004	20,000,000	19,867,964	2,153,155
57.	Lexington Capital Partners II	Secondaries	6/30/1998	40,000,000	39,538,000	47,187,388
	Lexington Capital Partners III	Secondaries	1/26/1999	35,000,000	34,516,449	37,808,959
	Lexington Capital Partners V	Secondaries	1/17/2002	75,000,000	73,149,242	80,689,506
	Lexington Capital Partners VI	Secondaries	10/21/2005	50,000,000	39,702,839	8,411,855
58.	Lime Rock Partners III	Later Stage	3/7/2005	15,000,000	14,263,143	2,886,836
	Lime Rock Partners IV	Later Stage	11/16/2006	25,000,000	18,630,793	0
	Lime Rock Partners V	Later Stage	10/2/2008	42,500,000	10,567,559	0
	Lime Rock Resources	Diversified	12/28/2005	20,000,000	15,415,302	3,139,316
59.	LLR Equity Partners	Mid Market Buyouts	2/4/2000	25,000,000	24,357,320	47,151,516
	LLR Equity Partners II	Mid Market Buyouts	1/29/2004	25,000,000	23,750,000	4,526,511
	LLR Equity Partners III	Mid Market Buyouts	7/24/2008	30,000,000	6,567,002	419,302
60.	Madison Dearborn Capital Partners	Buyouts	3/31/1993	15,000,000	14,449,521	49,148,757
	Madison Dearborn Capital Partners II	Buyouts	3/31/1997	40,000,000	39,999,996	91,309,942
	Madison Dearborn Capital Partners III	Buyouts	4/6/1999	75,000,000	75,186,728	104,981,618
	Madison Dearborn Capital Partners IV	Buyouts	4/2/2001	90,000,000	90,032,956	69,666,693
	Madison Dearborn Capital Partners V	Buyouts	12/14/2006	75,000,000	61,665,050	1,474,818
	Madison Dearborn Capital Partners VI	Buyouts	5/27/2008	50,000,000	7,331,269	0
61.	Matlin Patterson Global Opportunities Partners	Distressed Debt	5/31/2001	35,000,000	30,007,727	49,391,121
	Matlin Patterson Global Opportunities Partners II	Distressed Debt	6/30/2004	30,000,000	30,410,597	11,377,019
62.	Media/Communication III	Buyouts	6/30/1997	25,000,000	23,750,000	36,758,894
	Media/Communications IV	Buyouts	3/31/1999	25,000,000	23,125,000	5,010,893
	Media/Communications Ventures Fund V	Buyouts	9/27/2000	35,000,000	34,549,705	14,935,375
63.	Meridian Venture Partners II	Buyouts	2/11/2005	10,000,000	10,000,000	823,344
64.	New York Life Capital Partners III	Co-investments	6/30/2006	50,000,000	42,770,705	1,531,440
	New York Life Capital Partners IV	Co-investments	4/4/2008	100,000,000	20,485,437	6,969
65.	Newbridge Asia III	Buyouts	2/15/2001	15,000,000	14,608,577	12,354,711
	Newbridge Asia IV	Buyouts	9/27/2005	40,000,000	38,946,562	5,407,310

SERS Private Equity Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
66.	Nordic Capital V	Buyouts	5/7/2004	$40,000,000	$44,158,023	$16,980,854
	Nordic Capital VI	Buyouts	7/25/2006	54,441,000	61,525,770	0
	Nordic Capital VII	Buyouts	5/2/2008	100,237,900	23,890,053	0
67.	Oakhill Capital Partners	Buyouts	5/17/1999	50,000,000	53,640,806	66,351,420
68.	Oaktree Capital Management	Diversified	5/28/2004	40,000,000	40,581,778	28,758,165
	OCM Opportunities Fund	Distressed Debt	1/31/1996	24,000,000	24,000,000	39,136,887
	OCM Opportunities Fund II	Distressed Debt	3/31/1998	40,000,000	40,000,000	59,916,358
	OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	88,384,584
	OCM Opportunities Fund IV	Distressed Debt	9/26/2001	70,000,000	68,250,000	113,482,950
	OCM Opportunities Fund V	Distressed Debt	8/12/2004	40,000,000	40,003,507	52,963,140
	OCM Opportunities Fund VI	Distressed Debt	9/28/2005	40,000,000	40,000,000	4,014,848
	OCM Opportunities Fund VII	Distressed Debt	5/16/2007	40,000,000	40,000,000	233,643
	OCM Opportunities Fund VII b	Distressed Debt	6/3/2008	40,000,000	32,000,000	0
	OCM Principal Opportunities	Distressed Debt	12/31/1996	25,000,000	25,000,000	36,194,086
	OCM Principal Opportunities Fund IV	Distressed Debt	1/24/2007	20,000,000	20,000,000	38,751
	OCM Principal Opportunities II	Distressed Debt	4/24/2001	25,000,000	25,000,000	34,191,420
	OCM/GFI Power Opportunities Fund II	Buyouts	5/9/2005	25,000,000	12,568,107	20,060,096
69.	Palamon European Equity	Buyouts	7/23/1999	31,499,291	36,305,881	26,637,626
	Palamon European Equity II	Diversified	10/25/2005	40,114,200	25,163,337	0
70.	Parthenon Investors II	Mid Market Buyouts	8/9/2001	20,000,000	21,544,332	13,902,439
71.	Patriot Financial Partners	Mid Market Buyouts	6/12/2008	25,000,000	4,916,141	45,041
72.	Permira European Fund	Buyouts	9/30/1997	33,789,023	32,159,947	84,005,717
	Permira European Fund II	Buyouts	6/7/2000	47,979,751	45,672,612	78,101,935
	Permira European Fund III	Buyouts	1/12/2004	112,640,170	111,535,500	147,341,067
	Permira IV	Buyouts	12/14/2006	126,870,000	83,923,230	0
	Permira UK Venture Fund III	Middle/Later Stage	3/31/1991	9,063,438	8,946,988	26,106,191
	Permira UK Venture Fund IV	Middle/Later Stage	12/31/1995	15,000,000	15,993,572	22,721,533
73.	Pitango Venture Capital Fund IV	Diversified	7/19/2004	20,000,000	16,851,534	5,476,274
	Pitango Venture Capital Fund V	Seed/Early Stage	8/22/2007	30,000,000	10,350,000	0
74.	PNC Equity Partners II	Mid Market Buyouts	8/30/2007	15,000,000	6,562,297	60,437
75.	Providence Equity Partners IV	Mid Market Buyouts	11/27/2000	25,000,000	22,891,342	30,006,046
	Providence Equity Partners V	Mid Market Buyouts	4/4/2005	45,000,000	40,059,259	0
	Providence Equity Partners VI	Buyouts	3/16/2007	50,000,000	24,972,277	185,621
76.	S.B. Energy Partners I	Buyouts	7/27/2007	25,000,000	6,056,281	0
77.	Sankaty Credit Opportunities III	Distressed Debt	3/8/2007	50,000,000	50,000,000	563,636
	Sankaty Credit Opportunities IV	Distressed Debt	7/15/2008	40,000,000	24,000,000	0
78.	SCP Private Equity Partners II	Buyouts	6/15/2000	25,000,000	23,991,072	5,972,493
79.	Segulah IV	Mid Market Buyouts	9/25/2008	15,688,890	2,165,089	0
80.	ShoreView Capital Partners	Buyouts	6/16/2003	38,000,000	29,611,278	31,948,748
	ShoreView Capital Partners II	Buyouts	3/27/2008	40,000,000	5,357,024	162,182
81.	Siguler Guff BRIC Opportunities Fund	Fund of Funds	5/8/2006	10,000,000	7,358,299	1,072,430
	Siguler Guff BRIC Opportunities Fund II	Fund of Funds	4/9/2008	25,000,000	5,503,075	72,541

SERS Private Equity Committed, Drawn and Distributed (continued)

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
82. Sterling Capital Partners I	Buyouts	10/31/2002	$15,000,000	$14,979,168	$12,498,483
Sterling Capital Partners II	Buyouts	8/18/2005	30,000,000	26,282,498	5,873,791
Sterling Capital Partners III	Buyouts	8/13/2007	32,000,000	12,708,414	0
83. Summit Partners Private Equity Fund VII	Buyouts	2/9/2006	97,134,500	51,966,960	3,809,790
Summit Ventures VI	Later Stage	3/23/2001	62,000,000	63,343,733	51,506,187
84. TA IX	Later Stage	9/20/2000	45,000,000	43,650,000	58,991,188
TA X	Middle/Later Stage	4/25/2006	70,000,000	61,075,000	8,050,000
85. Thomas H. Lee Equity Fund V	Buyouts	7/3/2001	100,000,000	101,811,753	89,659,664
Thomas H. Lee Equity Fund VI	Mid Market Buyouts	11/14/2006	50,000,000	27,174,823	342,587
86. TPG Asia V	Buyouts	2/19/2008	22,500,000	6,029,779	7,383
TPG Partners II	Buyouts	6/30/1997	75,000,000	72,111,267	126,658,006
TPG Partners III	Buyouts	1/13/2000	75,000,000	64,318,624	134,879,777
TPG Partners IV	Buyouts	12/29/2003	30,000,000	27,545,405	14,423,247
TPG Partners V	Buyouts	6/27/2006	100,000,000	71,821,425	3,603,749
TPG Partners VI	Buyouts	5/22/2008	45,000,000	5,086,884	11,366
87. UMS Partners Fund I	Distressed Debt	2/15/2005	5,000,000	5,000,000	3,004,752
88. Versa Capital Partners	Distressed Debt	10/16/2005	20,000,000	19,811,753	7,181,739
Versa Capital Partners II	Distressed Debt	7/31/2008	15,000,000	903,689	0
89. Vestar Capital Partners III	Buyouts	6/30/1997	25,000,000	24,362,534	23,541,126
Vestar Capital Partners IV	Mid Market Buyouts	1/25/2000	100,000,000	96,364,785	100,629,722
Vestar Capital Partners V	Mid Market Buyouts	1/25/2006	50,000,000	37,617,568	3,081,338
90. W Capital Partners II	Secondaries	8/8/2007	40,000,000	18,020,761	231,909
91. Yucaipa American Alliance Fund II	Mid Market Buyouts	1/13/2009	25,000,000	9,997,816	14,385
Total Active Private Equity			**$9,625,474,304**	**$7,325,456,257**	**$5,933,338,156**

**Not Funded as of 9/30/09*

Commitments as of 12/31/09
Cash flows as of 9/30/09

Inactive Private Equity Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
Total Inactive Private Equity	**$318,830,323**	**$315,731,667**	**$525,066,137**

Inflation Protection is one of six 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. In accordance with SERS' investment plan, SERS contracts with external investment advisors to manage portfolios.

Investment Objective: Inflation Protection investments are employed by the System to provide diversification within the total Fund and to act as a hedge against inflation. The asset class is composed of actively managed commodities; TIPS; and a diversified inflation protection portfolio that includes commodities, inflation–sensitive stocks, and bonds. The strategies that make up the asset class were chosen for their inflation protection properties; commodities historically have the highest correlation to inflation, and TIPS are adjusted periodically for actual changes in inflation. The Inflation Protection strategies also provide diversification and low correlation to other assets in the portfolio, and are expected to outperform stocks and bonds during periods of rising inflation, but may underperform when inflation is stable or falling.

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 SERS Custom Inflation Protection Benchmark.

SERS' ***2009 Investment Plan*** targets a long–term allocation of 7.0% of assets to Inflation Protection. Within this 7.0% allocation, 28.0% is targeted to the TIPS portfolio, 36.0% is targeted to the active diversified inflation protection portfolio, and the remaining 36.0% is targeted to the active multi–manager commodity portfolio.

Market Exposure as of December 31, 2009: Inflation Protection strategies had a $1,580.9 million market exposure, 6.4% of the total Fund's $24,644.2 million.

Number of Investment Advisors: SERS had contracts with three external investment advisors.

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

Types of Investment Portfolios: As of December 31, 2009, 40.1% of SERS' Inflation Protection allocation was invested in intermediate–duration TIPS that generate higher incremental return above typical cash instruments. Another 27.4% of the Inflation Protection allocation was in the actively managed diversified inflation protection portfolio which invests in commodities, inflation–sensitive global equity and TIPS. The remaining 32.5% was in the multi–manager commodity product, which employs five underlying commodities managers across the various commodity sectors (energy, precious metals, industrial metals and agriculture).

SERS Inflation Protection Investments

	Inflation Protection Investment Advisor	Investment Style	Market Exposure* As of 12/31/09 ($ Millions)
1.	NISA Investment Advisors	TIPS	$634.9
2.	Wellington Management Company	Diversified inflation protection portfolio	432.6
3.	Blackstone Alternative Asset Management	Fund-of-commodity funds	513.3
	Total Inflation Protection Investments		**$1,580.9**

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

Actuarial Section

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

April 28, 2010

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

HayGroup®

Dear Mr. Knepp:

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, 2009 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 for the fiscal year beginning July 1, 2010:

(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 remaining applicable amortization periods. The employer cost is determined as a percent of payroll. The total employer cost is the average contribution amount that needs to be received from the employer groups participating in the system. Some employer groups contribute a higher percent of pay, and some employer groups contribute a lower percent of pay depending on the benefits payable to their employees.

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 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.

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. With the exception of the investment return assumption, the current set of assumptions used in the December 31, 2009 actuarial valuation was adopted by the Board and was based on actual experience of SERS

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Mr. Leonard M. Knepp
April 28, 2010
Page 2

during the years 2001 through 2005. In April of 2009, the Board lowered the annual investment return assumption from 8.5% to 8.0% for use in the December 31, 2008 actuarial valuation, and this 8.0% assumption was again used in the December 31, 2009 actuarial valuation. 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 result of financing changes implemented by Act 2003-40 in December 2003. After June 30, 2012, provided that employer contributions are made in accordance with current law, we expect SERS contributions 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, 2009 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, 2009 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. Thereafter, provided that employer contributions are made in accordance with current law, we expect SERS contributions to exceed the GASB #25 minimum.

It should be noted that the SERS annual employer contribution requirement is expected to increase dramatically (from the current level of 5.64 percent of payroll to a level near 27 percent of payroll) beginning July 1, 2012 when credit for the pre-Act 9 surplus has been completely amortized (pursuant to the 10-year amortization schedule established under Act 2003-40). The SERS Board and staff are actively pursuing this issue with other concerned parties.

Respectfully submitted,
Hay Group, Inc.

By ______________________
Brent M. Mowery, F.S.A.
Member American Academy of Actuaries
Enrolled Actuary No. 08-3885

By ______________________
Adam J. Reese, F.S.A.
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- In April of 2009, the Board lowered the annual investment return assumption from 8.5% to 8.0% for use in the December 31, 2008 actuarial valuation, and this 8.0% assumption was again used in the December 31, 2009 actuarial valuation.

- 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.

- 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.

- The Plan uses a variation of the entry-age normal 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 July 1, 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 July 1, 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, 2009. 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 (MAAA).

Table A[a.]
Withdrawal From Active Employment Before Age & Service Retirement
Annual Rate of Active Members Separating Within the Next Year

Sample Age	Male Withdrawal Years of Service 0	5	9	14+	Male Death	Male Disability	Female Withdrawal Years of Service 0	5	9	14+	Female Death	Female Disability
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	0.99	1.05	0.05	0.16	10.24	2.21	1.41	1.55	0.03	0.29
40	10.86	1.28	0.99	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	-

Table B[a.]
Annual Rate of Retirement

Sample Age	Full Benefits Male	Full Benefits 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

Table C
Annual Rate of Salary Increase

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

Table D
Reduced Benefits

Sample Age	5 - 14 Years of Service Male	5 - 14 Years of Service Female	15 or More Years of Service Male	15 or More Years of Service 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

[a.] *The assumptions presented in Table A and Table B on this page were based on a review of SERS's experience from 2001 through 2005. The rates are the probabilities that an event wll 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.*

Active Members by Age and Years of Service - Male

	Years of Service								
Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus	Total	Average Salary
< 20	8	-	-	-	-	-	-	8	$24,972
20 - 24	1,056	9	-	-	-	-	-	1,065	30,907
25 - 29	3,451	636	6	-	-	-	-	4,093	39,495
30 - 34	2,767	1,920	426	9	-	-	-	5,122	44,965
35 - 39	2,124	1,986	1,973	776	28	-	-	6,887	51,708
40 - 44	1,967	1,693	1,830	2,704	1,073	20	-	9,287	57,265
45 - 49	1,781	1,585	1,267	1,849	2,297	859	58	9,696	57,181
50 - 54	1,625	1,509	1,224	1,366	1,786	1,627	823	9,960	56,668
55 - 59	1,446	1,423	1,116	1,327	1,347	1,246	1,709	9,614	58,451
60 - 64	954	926	816	789	660	470	839	5,454	58,734
65+	383	385	290	256	144	113	295	1,866	62,594
Total	**17,562**	**12,072**	**8,948**	**9,076**	**7,335**	**4,335**	**3,724**	**63,052**	**$54,414**

Average Age: 46.50
Average Service: 12.35

Active Members by Age and Years of Service - Female

	Years of Service								
Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus	Total	Average Salary
< 20	28	-	-	-	-	-	-	28	$24,041
20 - 24	1,032	18	-	-	-	-	-	1,050	28,127
25 - 29	2,426	636	21	-	-	-	-	3,083	34,674
30 - 34	1,966	1,458	398	26	-	-	-	3,848	40,215
35 - 39	1,774	1,339	906	503	51	-	-	4,573	42,817
40 - 44	1,734	1,296	902	989	714	45	-	5,680	45,059
45 - 49	1,929	1,428	973	1,043	1,132	912	98	7,515	47,121
50 - 54	1,596	1,489	1,018	1,168	1,123	1,182	1,103	8,679	49,460
55 - 59	1,238	1,208	942	1,108	1,158	1,007	1,467	8,128	50,969
60 - 64	544	666	502	511	511	328	445	3,507	50,057
65+	120	199	192	154	118	64	117	964	48,866
Total	**14,387**	**9,737**	**5,854**	**5,502**	**4,807**	**3,538**	**3,230**	**47,055**	**$45,987**

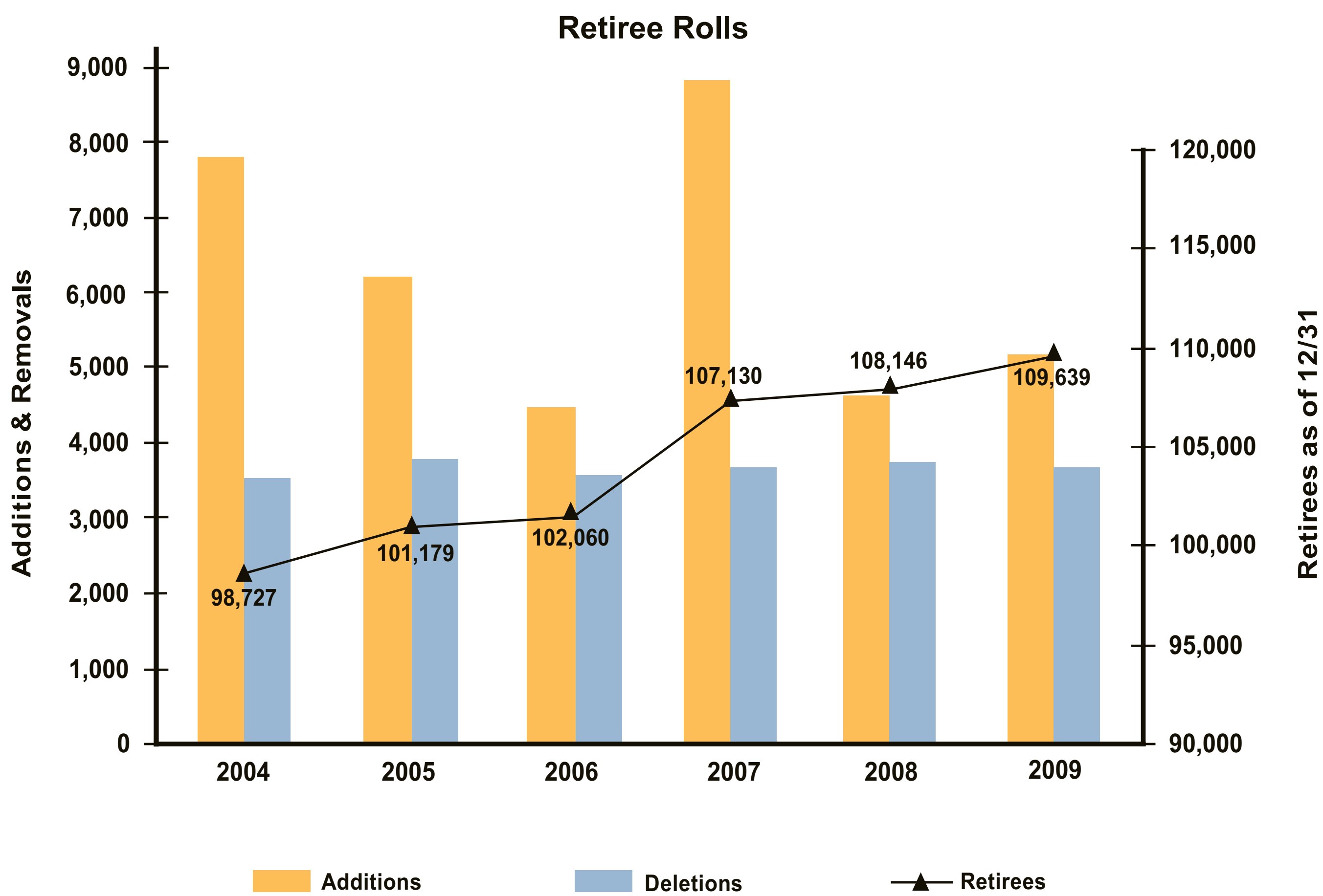
Average Age: 46.52
Average Service: 12.00

Aggregate Active Member Valuation Data

Valuation Date	Number Employers	Number Active Members	Annual Payroll	Annual Average Pay	% Increase/(Decrease) in Average Pay
31-Dec-09	106	110,107	$5,595,000,000	$50,813	3.8%
31-Dec-08	108	110,866	5,428,000,000	48,957	1.3
31-Dec-07	108	109,610	5,299,000,000	48,345	4.8
31-Dec-06	108	110,972	5,118,000,000	46,118	2.9
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

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
Six Years Ended December 31, 2009

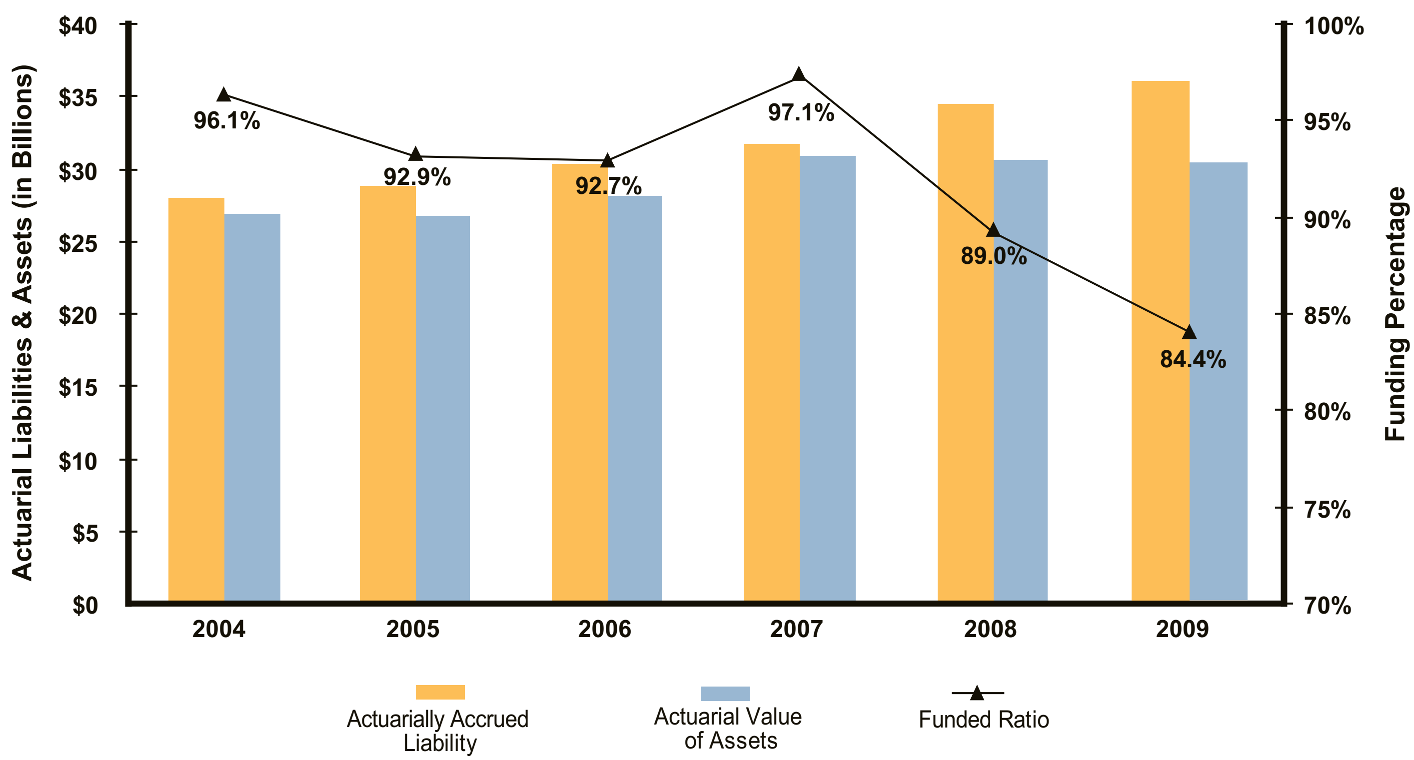
	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percentage Change	
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
2009	5,278	$125,610,303	3,785	$45,195,072	109,639	$1,987,109,540	1.38%	4.19%
2008	4,841	105,374,596	3,825	45,068,366	108,146	1,907,133,859	0.95	3.22
2007	8,761	234,585,550	3,691	42,238,843	107,130	1,847,681,816	4.97	11.58
2006	4,514	96,324,336	3,633	40,351,097	102,060	1,655,881,296	0.87	3.44
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



Solvency Test
Six Years Ended December 31, 2009
(Dollar Amounts in Thousands)

	Aggregate Accrued Liabilities For								
	(1)	(2)	(3)			Portion of Accrued Liabilities Covered by Reported Assets			
Valuation Date	Active Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed Portion)	Total Actuarial Accrued Liability (AAL)	Actuarial Valuation of Assets	(1)	(2)	(3)	Funded Ratio
31-Dec-09	$4,280,680	$17,962,741	$13,553,596	**$35,797,017**	$30,204,693	100.0%	100.0%	58.7%	84.4%
31-Dec-08	4,068,036	17,305,971	13,063,389	**34,437,396**	30,635,621	100.0	100.0	70.9	89.0
31-Dec-07	3,849,293	16,255,843	11,648,835	**31,753,971**	30,839,877	100.0	100.0	92.2	97.1
31-Dec-06	3,916,841	14,474,525	11,973,631	**30,364,997**	28,148,834	100.0	100.0	81.5	92.7
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

Fund Solvency



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

Type of Activity	2009	2008	2007	2006
Gain/(Loss) from Investment Earnings	$(1,118,036)	$(1,094,334)	$2,158,662	$568,176
Changes in Demographics of New Entrants	11,597	(62,587)	113,435	(92,597)
Pay Increases Different than Assumptions	(84,681)	144,913	43,448	(213,715)
Retirements Different than Expected and Other Demographic Changes	37,289	365,487	(468,497)	-
Other	-	-	-	73,112
Gain/(Loss) During Year from Financial Experience	(1,153,831)	(646,521)	1,847,048	334,976
Non Recurring Items:				
Changes in Actuarial Assumptions and Methods	-	(1,634,988)[a.]	-	6,546
Composite Gain/(Loss)	**$(1,153,831)**	**$(2,281,509)**	**$1,847,048**	**$341,522**

[a.] *Adoption of an 8.0% annual investment return assumption effective December 31, 2008 (versus 8.5% assumed in prior years) resulted in this increase in accrued liability.*

History and Projection of Contribution Rates and Funded Ratios[a.]
(Dollar Amounts in Thousands)

Valuation Year Ended Dec 31	Covered Payroll	Contribution Rates[b.] Member[c.] Contribution Rate	Employer Normal Cost Rate	Unfunded[d.] Liability Rate	Preliminary[e.] Employer Contribution Rate	Final Employer Contribution Rate	Funded Ratio
2000	$4,769,180	5.00%	8.72%	(10.36)%	(1.64)%	0.00%	132.4%
2001	4,872,375	5.00	8.64	(12.03)	(3.39)	0.00	116.3
2002	5,093,454	6.25	8.43	(7.39)	1.04	1.04	107.2
2003[f.]	4,965,360	6.25	8.32	(11.12)	(2.80)	2.00	104.9
2004[f.]	5,093,573	6.25	8.25	(7.29)	0.96	3.00	96.1
2005[f.]	5,138,377	6.25	8.39	(6.32)	2.07	4.00	92.9
2006[g.]	5,661,675	6.25	8.21	(6.30)	1.91	4.00	92.7
2007	5,529,069	6.25	8.42	(9.57)	(1.15)	4.00	97.1
2008	5,660,319	6.25	9.51	(5.88)	3.63	4.00	89.0
2009	**5,935,988**	**6.25**	**9.53**	**(3.89)**	**5.64**	**5.64**	**84.4**
2010[h.]	6,131,900	6.25	9.53	(1.55)	7.98	7.98	79.0
2011	6,334,200	6.25	9.53	17.13	26.66	26.66	72.3
2012	6,543,300	6.25	9.53	19.69	29.22	29.22	66.4
2013	6,759,200	6.25	9.53	18.19	27.72	27.72	68.0
2014	6,982,200	6.25	9.53	17.93	27.46	27.46	68.8
2015	7,212,700	6.25	9.53	17.56	27.09	27.09	69.8
2016	7,450,700	6.25	9.53	17.11	26.64	26.64	70.9
2017	7,696,500	6.25	9.53	16.63	26.16	26.16	72.0
2018	7,950,500	6.25	9.53	16.16	25.69	25.69	73.2
2019	8,212,900	6.25	9.53	15.69	25.22	25.22	74.3
2020	8,483,900	6.25	9.53	15.23	24.76	24.76	75.5

[a.] *The projection of contribution rates is based on the assumption that there are no changes in SERS statutory funding methodology, no changes in demographics or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets.*

[b.] *Rates and values are for the fiscal year beginning July 1st following the valuation year and do not include the Benefit Completion Plan contribution.*

[c.] *The member contribution rate is for Class AA employees as they comprise most of the SERS membership.*

[d.] *Act 2003-40 also imposed a split amortization that recognized COLAs and certain large gains over 10 years, while recognizing other gains and losses over 30 years. The effect has been to suppress the unfunded liability rate for 10 years ending in 2011.*

[e.] *Actuarial rate before the floor and a 0% minimum rate.*

[f.] *Act 2003-40 amended the code to place a floor of 2.00%, 3.00%, and 4.00% for fiscal years beginning July 1, 2004, 2005, and 2006, respectively, for the employer contribution rate.*

[g.] *Act 2007-8 amended the code to place a permanent floor of 4.00% on the employer contribution rate.*

[h.] *Numbers are projected from 2010 to 2020 based on December 31, 2009 actuarial valuation.*

Benefit and Contribution Provisions
as of December 31, 2009

The State Employees' Retirement System makes provision for retirement, disability, and death benefits for all State employees, except for those specifically excluded under section 5301 of the State Code, and certain other eligible groups. The major provisions may be summarized as follows:

Eligible Employees

Class A
All regular State employees, employees of certain Commissions and Authorities, employees of state-owned educational institutions, and the Pennsylvania State University (unless such employees have joined the Public School Employees' Retirement System (PSERS), TIAA-CREF, or Alternative Retirement Program (ARP)) hired before July 1, 2001, who did not elect into the Class AA membership as of December 31, 2001. This excludes Judges and Magisterial District Judges who have elected Class E-1 or Class E-2.

Class AA
All regular State employees who are hired after June 30, 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, employees of state-owned educational institutions, and the Pennsylvania State University (unless such employees have joined PSERS, TIAA-CREF, or ARP), but excludes State Police Troopers, Judges, Magisterial District Judges, and Legislators with Class D-3 or D-4.

Class C
Liquor Law enforcement officers, 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 coming into service after June 30, 2001, who elect to be SERS members, and legislators who elected Class D-4 before July 1, 2001.

Class E-1
Judges who elect class E-1.

Class E-2
Magisterial District Judges who elect Class E-2.

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.

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 multipier for each of the major classes are as follows:

Multiplier for Major Classes

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.

NOTE: 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 SERS.

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Statistical Section

The Statistical Section of SERS' CAFR 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, 2009. 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, 2009. The System's investment returns have the most significant impact on 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, 2009. Of these three categories, 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 Net Assets by Type** presents the amount of benefit payments and refunds by type for the ten years ended December 31, 2009. Most benefit types are either superannuated or early which is determined by the number of years of service and/or age at retirement.

The **Schedule of Total Changes in Plan Net Assets** combines 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 of changes in plan net assets for the ten years ended December 31, 2009.

Revenue Capacity

The **Schedule of Investment Income/Loss** presents the details of the total net investment gain/loss for the ten years ended December 31, 2009. 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, are the two outside sources of revenue, and investment income is the System's own-source revenue. Since investment income/loss has the greatest impact to the System, this schedule provides more detail on the major components of the investment income/loss, 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, 2009.

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, 2009.

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, 2009.

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, 2009.

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, 2009, as well as a listing of additional employers participating with SERS as of December 31, 2009.

Sources: Unless otherwise noted, the information of these schedules is derived from the Financial Section and Actuarial Section of the Comprehensive Annual Financial Report for the relevant year.

Schedule of Trend Data[a]
Ten Years Ended December 31, 2009

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Contribution Rates:										
Employer[b]	4.01%[e]	4.04%[e]	4.04%[e]	4.02%[d]	3.02%[d]	2.03%[d]	1.07%	0.00%	0.00%	1.39%
Member	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	5.00%	5.00%
Contributions:										
Employer	$253,250	$235,288	$243,936	$196,420	$148,375	$106,703	$68,604	$50,831	$76,710	$168,002
Member	$348,805	$336,833	$333,818	$317,790	$305,624	$309,923	$308,014	$304,233	$240,528	$231,666
Average Annual Compensation	$50,813	$48,957	$48,345	$46,118	$44,815	$45,382	$44,519	$43,631	$42,172	$41,110
Market Value of Assets	$24,661,949	$22,795,813	$35,516,198	$32,052,830	$28,751,871	$26,641,399	$24,535,949	$20,879,559	$24,706,063	$27,880,467
Actuarial Value of Assets	$30,204,693	$30,635,621	$30,839,877	$28,148,834	$26,793,782	$26,900,027	$27,465,615	$27,497,464	$27,505,494	$26,094,306
Accrued Actuarial Liability	$35,797,017	$34,437,396	$31,753,971	$30,364,997	$28,851,716	$27,999,026	$26,179,761	$25,650,389	$23,658,757	$19,702,278
Funded Ratio	84.4%	89.0%	97.1%	92.7%	92.9%	96.1%	104.9%	107.2%	116.3%	132.4%
Total Benefits and Refunds	$2,273,372	$2,204,579	$2,336,368	$1,919,426	$1,943,643	$1,859,255	$1,632,281	$1,430,417	$1,245,129	$1,176,785
Average Pension[c]	$22,695	$21,965	$21,326	$20,025	$19,372	$18,414	$17,192	$15,445	$13,656	$12,935
Annuitants and Beneficiaries	109,639	108,146	107,130	102,060	101,179	98,727	94,412	91,228	89,217	88,392
Active Participants	110,107	110,866	109,610	110,972	109,981	108,405	109,018	111,059	109,716	109,469

[a] *All dollar amounts are in thousands, except Average Pension and Average Annual Compensation.*
[b] *Employer rate represents total contributions as a percent of covered payroll as of 12/31.*
[c] *Average pension amount represents average annual pension only for 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.*
[e] *Act 2007-8 established a permanent minimum employer contribution rate floor of 4%.*

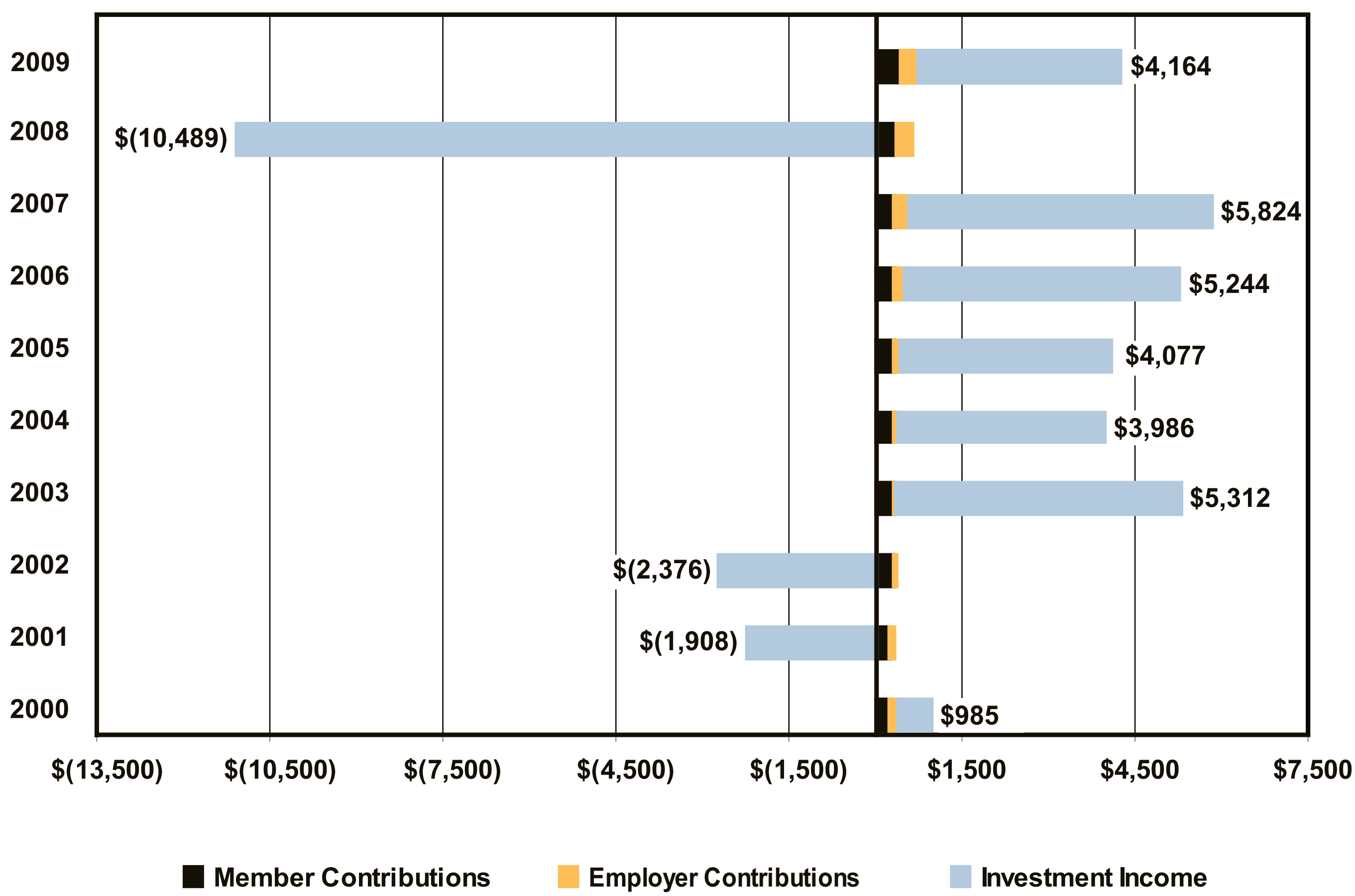
Source: State Employees' Retirement System

Schedule of Additions to Plan Net Assets
Ten Years Ended December 31, 2009
(Dollar Amounts in Thousands)

Year Ending	Member Contributions	Employer Contributions: Dollar Amount	Employer Contributions: % of Annual Payroll	Net Investment Gain/(Loss)	Total
2009	$348,805	$253,250	4.5%	$3,561,526	**$4,163,581**
2008	336,833	235,288	4.3	(11,061,207)	**(10,489,086)**
2007	333,818	243,936	4.6	5,246,730	**5,824,484**
2006	317,790	196,420	3.8	4,730,043	**5,244,253**
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**

[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

Schedule of Deductions from Plan Net Assets
Ten Years Ended December 31, 2009
(Dollar Amounts in Thousands)

Year	Benefits	Refund of Contributions	Administrative	Total
2009	$2,265,404	$7,968	$24,073	**$2,297,445**
2008	2,195,206	9,373	26,720	**2,231,299**
2007	2,328,185[a]	8,183	24,748	**2,361,116**
2006	1,911,330	8,096	23,868	**1,943,294**
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[b]	5,115	23,646	**1,655,927**
2002	1,426,257[c]	4,160	19,856	**1,450,273**
2001	1,237,953[d]	7,176[e]	20,887	**1,266,016**
2000	1,166,897	9,888	21,309	**1,198,094**

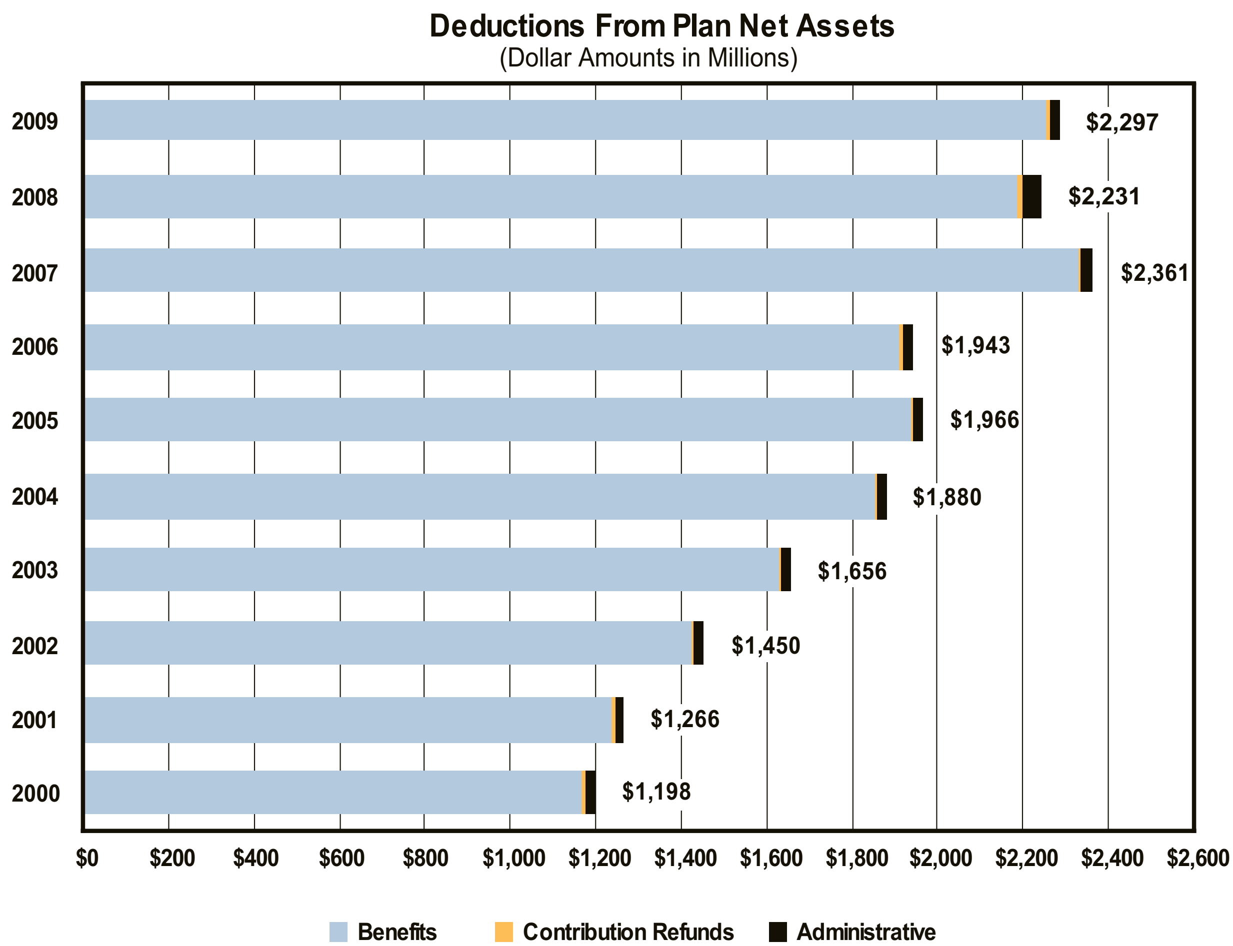
[a] *22% increase from prior year is due to large number of employees retiring as a result of changes in health care benefits.*

[b] *Phase two of Cost of Living Adjustment (COLA) for members who retired between July 2, 1990, and July 1, 2002, became effective July 2, 2003.*

[c] *Phase one of two-phase COLA for members who retired before July 2, 1990, became effective July 1, 2002.*

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

[e] *Act 9 of 2001 also lowered the amount of years required to vest benefits from ten years to five years.*



Source: State Employees' Retirement System

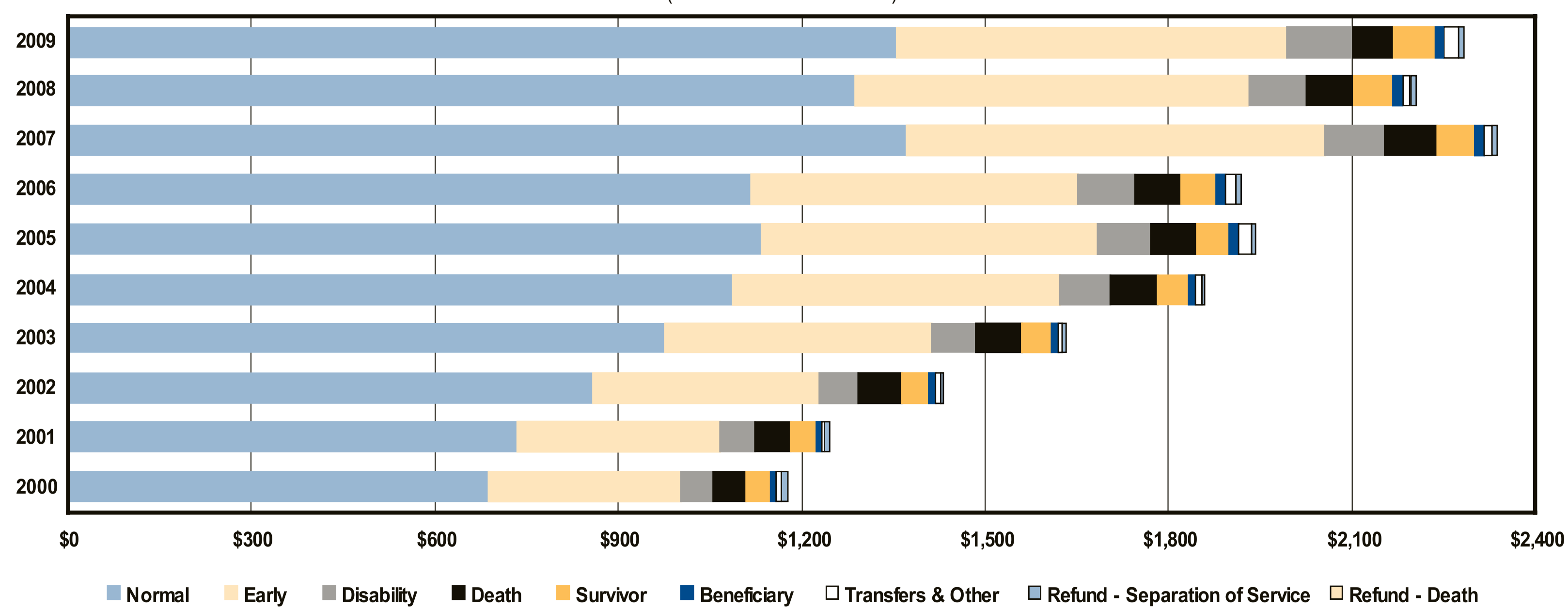
Schedule of Benefit and Refund Deductions from Plan Net Assets by Type

Ten Years Ended December 31, 2009
(Dollar Amounts in Thousands)

	Retirement								Refunds		
Year	Normal	Early	Disability	Death	Survivor	Beneficiary	Transfers & Other	Total Benefit Deductions	Separation of Service	Death	Total Refunds
2009	$1,351,710	$633,880	$105,207	$65,873	$72,466	$14,143	$22,125	**$2,265,404**	$7,824	$144	**$7,968**
2008	1,300,312	618,027	102,250	81,728	67,623	14,209	11,057	**2,195,206**	9,222	151	**9,373**
2007	1,372,909	683,467	98,605	83,687	62,726	13,949	12,842	**2,328,185**[a]	8,007	176	**8,183**
2006	1,117,801	535,156	93,358	73,885	58,038	14,988	18,104	**1,911,330**	7,971	125	**8,096**
2005	1,133,694	550,437	88,250	74,312	53,873	14,650	21,212	**1,936,428**	7,086	129	**7,215**
2004	1,088,129	534,674	82,515	76,216	51,946	10,818	8,819	**1,853,117**	6,013	125	**6,138**
2003	976,102	436,325	72,880	75,368	48,687	9,876	7,928	**1,627,166**	4,994	121	**5,115**
2002	859,078	368,778	64,789	70,703	45,439	8,902	8,568	**1,426,257**	4,024	136	**4,160**
2001	735,919	331,445	57,254	57,744	42,689	8,115	4,787	**1,237,953**	6,753	423	**7,176**
2000	688,410	314,014	54,112	53,785	40,037	7,948	8,591	**1,166,897**	9,548	340	**9,888**

[a] *For most members who retired after July 1, 2007, member must contribute to medical insurance premiums as a result of AFSCME agreement dated July 1, 2007.*

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
Ten Years Ended December 31, 2009
(Dollar Amounts in Thousands)

	Additions to Plan Net Assets				Deductions from Plan Net Assets				
Year Ending	Member Contributions	Employer Contributions	Net Investment Income	Total Additions	Benefits	Refund of Contributions	Administrative	Total Deductions	Net Increase/ (Decrease)
2009	$348,805	$253,250	$3,561,526	**$4,163,581**	$2,265,404	$7,968	$24,073	**$2,297,445**	**$1,866,136**
2008	336,833	235,288	(11,061,207)	**(10,489,086)**	2,195,206	9,373	26,720	**2,231,299**	**(12,720,385)**
2007	333,818	243,936	5,246,730	**5,824,484**	2,328,185	8,183	24,748	**2,361,116**	**3,463,368**
2006	317,790	196,420	4,730,043	**5,244,253**	1,911,330	8,096	23,868	**1,943,294**	**3,300,959**
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)**

Source: State Employees' Retirement System

Schedule of Investment Income
Ten Years ended December 31, 2009
(Dollar Amounts in Thousands)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Investment gain/(loss):										
Net appreciation/(depreciation) in fair value of investments	$2,456,209	$(9,979,685)	$4,164,231	$3,723,160	$2,811,470	$2,807,290	$3,423,081	$(1,915,634)	$(1,790,575)	$774,998
Collective trust fund appreciation/ (depreciation) and income	1,063,673	(1,377,568)	798,941	641,718	420,888	391,248	1,165,463	(1,310,044)	(1,014,578)	(825,600)
Interest	149,040	342,163	347,507	350,783	368,610	280,221	237,786	303,421	388,626	412,933
Dividends	69,400	154,779	149,488	152,690	128,480	124,099	113,634	112,015	106,253	113,293
Real estate	73,561	109,523	112,148	145,871	112,057	148,133	168,427	193,719	182,423	203,308
Miscellaneous	3,499	5,969	6,149	3,519	3,537	6,722	7,138	30,035	41,111	37,377
	3,815,382	(10,744,819)	5,578,464	5,017,741	3,845,042	3,757,713	5,115,529	(2,586,488)	(2,086,740)	716,309
Investment expenses	(260,376)	(310,454)	(344,707)	(298,204)	(234,760)	(196,859)	(187,139)	(153,211)	(148,778)	(140,526)
Net gain/(loss) from investing activities	3,555,006	(11,055,273)	5,233,757	4,719,537	3,610,282	3,560,854	4,928,390	(2,739,699)	(2,235,518)	575,783
From securities lending activities:										
Securities lending income	7,051	41,319	155,067	170,675	116,477	40,854	16,163	26,696	54,813	87,874
Securities lending expenses	(531)	(47,253)	(142,094)	(160,169)	(103,939)	(32,385)	(8,854)	(18,292)	(44,922)	(77,945)
Net income from securities lending activities	6,520	(5,934)	12,973	10,506	12,538	8,469	7,309	8,404	9,891	9,929
Total net investment gain/(loss)	**$3,561,526**	**$(11,061,207)**	**$5,246,730**	**$4,730,043**	**$3,622,820**	**$3,569,323**	**$4,935,699**	**$(2,731,295)**	**$(2,225,627)**	**$585,712**

Source: State Employees' Retirement System

Schedule of Active Member Statistics
Ten Years Ended December 31, 2009

	Male			Female			Total Number of Active Members
	Average Age	Average Service	Average Salary	Average Age	Average Service	Average Salary	
2009	46.50	12.35	$54,414	46.52	12.00	$45,987	110,107
2008	46.23	12.21	52,536	46.18	11.79	44,176	110,866
2007	46.11	12.22	51,663	45.95	11.76	43,888	109,610
2006	46.39	12.80	49,455	46.20	12.49	41,616	110,972
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

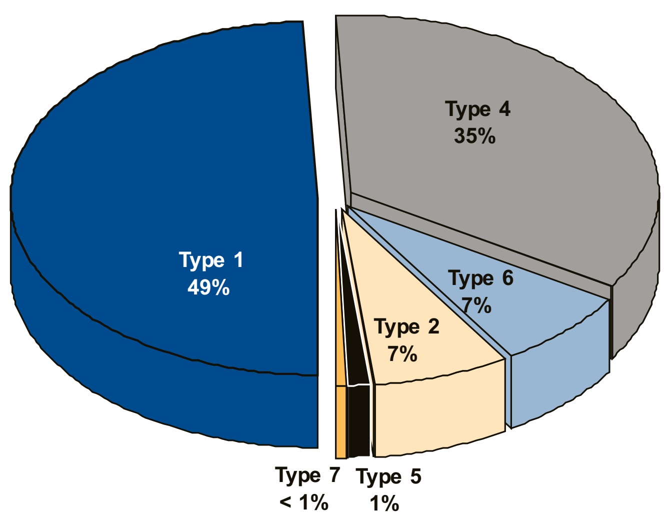
Source: State Employees' Retirement System

Schedule of Retired Members by Type of Benefit
As of December 31, 2009

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Type of Benefit					
			1	2	4	5	6	7
< $500	$7,033,894	**28,200**	7,121	672	15,774	524	3,817	292
> 500 to 1,000	17,157,139	**23,245**	11,661	3,750	5,105	287	2,196	246
> 1,000 to 1,500	20,024,432	**16,242**	9,033	1,625	4,348	126	985	125
> 1,500 to 2,000	20,204,601	**11,611**	6,158	819	4,101	52	426	55
> 2,000 to 2,500	19,678,325	**8,792**	4,883	404	3,178	36	274	17
> 2,500 to 3,000	17,245,343	**6,298**	3,800	221	2,122	22	129	4
> 3,000	64,248,728	**15,251**	10,822	184	3,995	44	199	7
Totals	**$165,592,462**	**109,639**	**53,478**	**7,675**	**38,623**	**1,091**	**8,026**	**746**

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

Retired Members by Type of Benefit



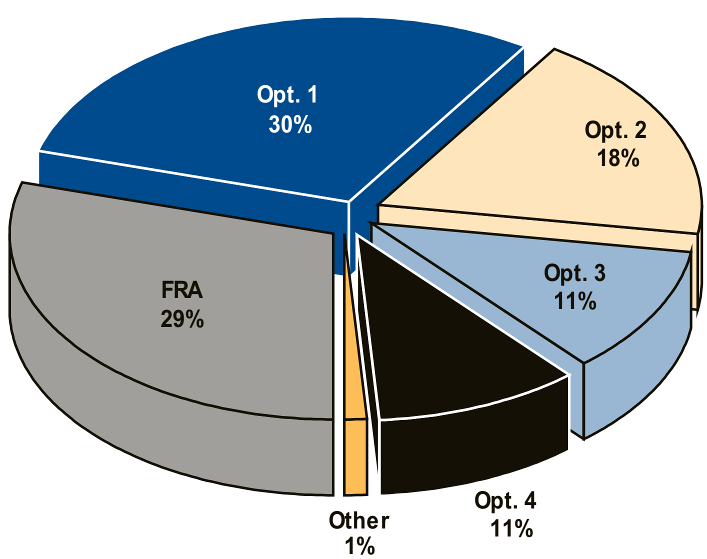
Source: State Employees' Retirement System

Schedule of Retired Members by Option
As of December 31, 2009

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Option Selected: FRA	1	2	3	4	Other
< $500	$7,033,894	**28,200**	6,642	11,255	6,313	2,239	1,194	557
> 500 to 1,000	17,157,139	**23,245**	7,823	6,782	4,382	2,269	1,659	330
> 1,000 to 1,500	20,024,432	**16,242**	4,727	4,641	3,142	1,774	1,807	151
> 1,500 to 2,000	20,204,601	**11,611**	3,439	3,152	1,966	1,487	1,498	69
> 2,000 to 2,500	19,678,325	**8,792**	2,552	2,229	1,423	1,193	1,353	42
> 2,500 to 3,000	17,245,343	**6,298**	1,876	1,518	968	883	1,024	29
> 3,000	64,248,728	**15,251**	5,118	3,259	1,780	2,219	2,824	51
Totals	**$165,592,462**	**109,639**	**32,177**	**32,836**	**19,974**	**12,064**	**11,359**	**1,229**

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

Retired Members by Option



Source: State Employees' Retirement System

Schedule of Average Monthly Benefit Payments[a.]
Ten Years Ended December 31, 2009

Retirement Effective Dates	Years Credited Service < 5	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/2009 to 12/31/2009							
Average monthly benefit	$209	$374	$740	$1,337	$1,936	$2,919	$3,767
Average final average salary	$32,925	$38,184	$43,520	$50,161	$55,113	$65,193	$64,685
Number of retired members	60	543	448	545	539	710	1,287
Period 1/1/2008 to 12/31/2008							
Average monthly benefit	$198	$340	$729	$1,266	$1,903	$2,968	$3,782
Average final average salary	$30,280	$39,066	$45,753	$48,823	$55,471	$65,893	$65,569
Number of retired members	64	646	484	788	586	705	938
Period 1/1/2007 to 12/31/2007							
Average monthly benefit	$219	$322	$674	$1,214	$1,883	$2,538	$3,464
Average final average salary	$31,359	$37,629	$42,759	$45,817	$53,241	$58,974	$60,726
Number of retired members	53	637	476	1,057	759	1,258	3,384
Period 1/1/2006 to 12/31/2006							
Average monthly benefit	$174	$316	$690	$1,171	$1,878	$2,487	$3,489
Average final average salary	$27,898	$35,283	$42,358	$45,225	$53,513	$58,031	$60,582
Number of retired members	51	584	491	667	471	627	1,205
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

[a.] *Includes Normal Retirement, Early Retirement and Disability Benefits for new retirees in the years listed.*
Source: State Employees' Retirement System

Schedule of Average Annual Benefit Payments
As of December 31, 2009

	Superannuation		Early Retirement		Disability		Beneficiary and Survivor	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
Under 25	-	-	-	-	-	-	$7,184	$5,006
25-29	-	-	$664	$525	$10,215	-	20,319	14,394
30-34	-	-	982	832	11,751	$11,593	12,824	16,388
35-39	-	-	2,013	1,587	12,389	10,823	17,993	10,107
40-44	-	-	4,564	2,422	14,336	11,001	8,809	8,870
45-49	-	-	14,236	5,050	16,060	13,440	8,761	7,735
50-54	$35,906	$30,264	16,853	8,823	17,309	15,080	6,291	10,640
55-59	35,821	36,375	18,640	14,467	16,568	15,588	8,877	10,672
60-64	34,522	28,095	22,827	16,162	15,338	14,421	8,582	12,622
65-69	30,482	22,292	19,466	13,266	11,611	10,543	10,436	13,524
70-74	25,988	17,385	14,990	10,070	9,572	9,135	7,895	11,457
75-79	21,623	13,329	14,282	9,367	9,205	7,815	8,837	10,121
80-84	18,134	11,097	13,656	8,161	9,789	7,412	8,016	8,316
85-89	15,509	9,288	12,859	7,689	9,492	6,580	6,593	7,187
90 and over	12,813	7,985	11,407	8,758	6,605	6,302	5,217	6,077
Total Average	**$26,364**	**$17,716**	**$17,858**	**$11,820**	**$14,183**	**$12,764**	**$8,629**	**$9,575**

	Superannuation	Early Retirement	Disability	Beneficiary and Survivor
Average Pension	$22,695	$14,955	$13,443	$9,481
Average Age: Male & Female	72.8	62.2	61.1	74.9

Source: State Employees' Retirement System

Schedule of SERS Agency Participation - Twenty Largest Employers

Ten Years Ended December 31, 2009

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

	2009		2008		2007		2006		2005		2004		2003		2002		2001		2000	
Employer Name	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Dept of Public Welfare	18,201	16.53	18,618	16.79	18,761	17.12	19,355	17.44	19,781	17.99	20,175	18.61	20,417	18.73	21,242	19.13	21,507	19.60	21,766	19.88
Dept of Corrections	16,174	14.69	16,075	14.50	15,523	14.16	15,151	13.65	15,126	13.75	14,463	13.34	14,267	13.09	14,839	13.36	14,416	13.14	14,123	12.90
Dept of Transportation	12,548	11.40	12,494	11.27	12,264	11.19	12,484	11.25	12,388	11.26	12,428	11.46	12,603	11.56	12,768	11.50	12,623	11.51	12,748	11.65
Pennsylvania State University	6,608	6.00	6,468	5.83	6,210	5.67	6,265	5.65	6,210	5.65	6,085	5.61	6,102	5.60	6,071	5.47	6,099	5.56	6,117	5.59
Pennsylvania State Police	6,102	5.54	6,222	5.61	6,266	5.72	6,172	5.56	6,127	5.57	5,885	5.43	5,803	5.32	5,807	5.23	5,650	5.15	5,632	5.14
Dept of Labor and Industry	5,719	5.19	5,178	4.67	5,234	4.78	5,692	5.13	5,608	5.10	5,648	5.21	5,823	5.34	5,938	5.35	5,416	4.94	5,467	4.99
State System of Higher Education	5,556	5.05	5,521	4.98	5,316	4.85	5,344	4.82	5,240	4.76	5,248	4.84	5,432	4.98	5,565	5.01	5,697	5.19	5,897	5.39
Liquor Control Board	4,303	3.91	4,097	3.70	3,969	3.62	4,102	3.70	3,994	3.63	3,840	3.54	3,686	3.38	3,672	3.31	3,523	3.21	3,576	3.27
Dept of Environmental Protection	2,677	2.43	2,802	2.53	2,767	2.52	2,921	2.63	2,836	2.58	2,854	2.63	2,916	2.67	2,973	2.68	3,016	2.75	3,004	2.74
Dept of Military and Veterans Affairs	2,478	2.25	2,568	2.32	2,545	2.32	2,540	2.29	2,492	2.27	2,402	2.22	2,291	2.10	2,220	2.00	2,127	1.94	2,057	1.88
PA Higher Education Assistance Agency	2,230	2.03	2,135	1.93	2,494	2.28	2,524	2.27	2,378	2.16	1,968	1.82	1,957	1.80	1,908	1.72	1,811	1.65	1,544	1.41
Dept of Revenue	2,170	1.97	2,366	2.13	2,289	2.09	2,319	2.09	2,322	2.11	2,238	2.06	2,312	2.12	2,462	2.22	2,493	2.27	2,431	2.22
PA Turnpike Commission	2,164	1.97	2,254	2.03	2,232	2.04	2,276	2.05	2,227	2.02	2,282	2.11	2,354	2.16	2,330	2.10	2,404	2.19	2,406	2.20
Executive Offices	2,155	1.96	2,257	2.04	2,201	2.01	2,247	2.02	2,246	2.04	2,237	2.06	2,351	2.16	2,349	2.12	2,374	2.16	2,335	2.13
Dept of Conservation & Natural Resources	2,031	1.84	2,111	1.90	2,080	1.90	2,093	1.89	1,971	1.79	1,927	1.78	2,009	1.84	2,079	1.87	2,045	1.86	2,019	1.84
Administrative Office of PA Courts	1,992	1.81	2,015	1.82	1,988	1.81	1,989	1.79	1,953	1.78	1,957	1.81	1,884	1.73	1,883	1.70	1,834	1.67	1,836	1.68
House of Representatives	1,779	1.62	1,736	1.57	1,758	1.60	1,701	1.53	1,706	1.55	1,662	1.53	1,619	1.49	1,568	1.41	1,544	1.41	1,496	1.37
Dept of Health	1,409	1.28	1,473	1.33	1,433	1.31	1,479	1.33	1,435	1.30	1,386	1.28	1,393	1.28	1,378	1.24	1,330	1.21	1,271	1.16
Dept of General Services	1,208	1.10	1,270	1.15	1,267	1.16	1,340	1.21	1,306	1.19	1,230	1.13	1,281	1.18	1,357	1.22	1,350	1.23	1,333	1.22
Board of Probation and Parole	1,108	1.01	1,098	0.99	1,009	0.92	974	0.88	1,010	0.92	998	0.92	986	0.90	989	0.89	944	0.86	940	0.86
Active Employees for Twenty Largest Employers	**98,612**	**89.56**	**98,758**	**89.08**	**97,606**	**89.05**	**98,968**	**89.18**	**98,356**	**89.43**	**96,913**	**89.40**	**97,486**	**89.42**	**99,398**	**89.50**	**98,203**	**89.51**	**97,998**	**89.52**
Total Number of Active Employees	110,107		110,866		109,610		110,972		109,981		108,405		109,018		111,059		109,716		109,469	

Source: State Employees' Retirement System

Schedule of Additional Participating Employers
As of December 31, 2009

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

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