Commonwealth of Pennsylvania
State Employees' Retirement System

Comprehensive Annual Financial Report

For the year ended December 31, 2011

11

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, 2011

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

David E. Durbin
Executive Director

Anthony J. Faiola
Chief Financial Officer

State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, PA 17101-1716

A Component Unit of the Commonwealth of Pennsylvania

Commonwealth of Pennsylvania
State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101-1716
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www.sers.state.pa.us

May 31, 2012

The Honorable Tom Corbett
Governor, Commonwealth of Pennsylvania

The Honorable Senators and Representatives
Pennsylvania General Assembly

The Esteemed Current and Retired Commonwealth Employees

Dear Governor Corbett, Senators, Representatives, and SERS Members,

On behalf of the eleven-member Board of the Pennsylvania State Employees' Retirement System (SERS), I am pleased to provide you with this copy of SERS' calendar year 2011 Comprehensive Annual Financial Report (CAFR). I believe you will find the extensive financial, investment, and actuarial material provided here to be both interesting and useful.

SERS is not legally required to produce a CAFR but we do so in the interest of public transparency and accountability, and as a part of our continuing efforts to provide meaningful information to the General Assembly. This publication also satisfies the State Employees' Retirement Code requirement that SERS publish independently audited financial statements on or before July 1 of each year.

This year's audit confirms that the funds entrusted to SERS are properly managed and that SERS is poised to continue to meet the Commonwealth's obligations to its current and former employees. Taxpayers and policy makers can remain confident that rigorous control and oversight are exercised in the administration of these public funds. Active and retired SERS members can be reassured that their retirement system is well managed and their benefits are secure.

Despite this positive news, however, I must continue to urge caution in the assessments and forecasts associated with SERS. As of December 31, 2011, on an actuarial basis, the SERS Fund was only 65% funded, down from 75% the previous year. Moreover, SERS is still recognizing investment losses suffered in 2008 and employer contributions continue to be well below actuarially required rates, adding to the current unfunded liability.

Provided that SERS achieves its assumed rate of return over time, the increasing employer contributions and lower cost of benefits for new employees provided in Act 2010-120 do offer a slow, predictable path back to SERS' full funding. It may take as many as 40 years but – with determination and discipline – SERS can weather the current storm.

We recognize that the increasing pension burden on public funds is significant and troubling, particularly given very real and formidable fiscal constraints. Yet, for the $392 million in employer-provided funding in 2011, SERS returned $2.4 billion to Pennsylvania's economy in benefit payments to our retired members. Pension systems are long-term propositions – employee contributions, investment earnings, and time are also important components of the equation.

You'll find data that illustrates these and many other concepts throughout the pages of this publication.

As I provide you with this CAFR, I would also like to commend SERS' professional men and women who work hard every day to serve commonwealth employees and retirees. Retirement counselors, investment professionals, auditors, accountants, information technology professionals and others strive to provide careful stewardship of public dollars and exceptional service to those who have dedicated their careers to the citizens of Pennsylvania. Some of their accomplishments this year include launching a new, sophisticated general ledger system; earning investment returns in the top 20% of similarly situated public funds; and maintaining recognition from the Government Finance Officers Association with a Certificate of Achievement for Excellence in Financial Reporting.

Thank you for your interest in the operation and soundness of the State Employees' Retirement System. I assure you that the SERS Board and SERS professionals will continue to administer the system with tenacity and integrity.

Respectfully,

Nicholas J. Maiale
Chairman of the Board

Introductory Section

Financial Section

Investment Section

Actuarial Section

Statistical Section

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, 2010

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.

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2011

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

Alan H. Winkle
Program Administrator

Commonwealth of Pennsylvania
State Employees' Retirement System
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May 31, 2012

The Honorable Nicholas J. Maiale
Chairman, State Employees' Retirement Board
Commonwealth of Pennsylvania
30 North Third Street, Suite 150
Harrisburg, Pennsylvania 17101

Dear Mr. Chairman and Members of the Board,

It is our privilege to present you with this Comprehensive Annual Financial Report (CAFR) for the Pennsylvania State Employees' Retirement System (SERS) for the calendar year ended December 31, 2011.

While SERS is not legally required to produce a CAFR; we do so as part of our strong commitment to public transparency and accountability. SERS is a component unit of the Commonwealth of Pennsylvania and, for nearly 90 years, SERS has provided a cost-sharing, multiple-employer pension system for public employees. In 2011, SERS served 107 employers as well as more than 115,000 retirees and beneficiaries and 107,000 active members (see statistical section).

The SERS Board is legally empowered with "prudent investor" authority and SERS' investment program focuses on assuring adequate reserves to pay benefits at the least cost to citizens as well as preserving assets against erosion from inflation. SERS strives to achieve these objectives within acceptable risk parameters and by diversifying investments by manager, type, vintage year, strategy, geography, sector and other factors. Key drivers of this year's 2.7% return included real estate investments at 10.5%; private equity at 11.7% and venture capital at 18.0% (see investment section). These asset class returns were clearly atypical given the overall economic environment, but they serve to show the importance of a well-diversified, appropriately balanced portfolio.

At year-end 2010, the Fund returned 11.9% net of fees, net assets were $25.9 billion and the System's funded ratio was 75.2%. At year-end 2011, the Fund returned 2.7% net of fees, net assets were $24.4 billion and the System's funded ratio was 65.3% (see management's discussion and analysis).

Among SERS' key activities in 2011 were the receipt, review and adjustments to the System's underlying assumptions based on the SERS ***17th Investigation of Actuarial Experience*** (see management's discussion and analysis and actuarial section) and the completion of a comprehensive asset/liability study which is being used in 2012 to develop a new Strategic Investment Plan.

Perhaps the most notable activity in 2011 was prompted on November 23, 2010 when the General Assembly passed and the Governor signed Act 2010-120, which required major changes to the System. Highlights of the new law include lowering retirement benefits for new employees, mandating an "actuarial fresh start" and capping future employer contribution increases to predictable intervals. Among the greatest challenges of the new law, which SERS' professionals worked tirelessly to achieve, were the mandatory implementation deadlines of December 1, 2010 for legislators and January 1, 2011 for most other new SERS' members (see management's discussion and analysis).

To address these benefits changes, we are pleased to report that our member services and information technology professionals' competence, tenacity and work ethic ensured that SERS' staff was thoroughly trained and its IT systems were accurately updated to effect the new legal framework on time and on budget.

With regard to the "actuarial fresh start" and capped employer contributions, the picture is more complex. In an effort to moderate any state budget impact, the new law set and limited growth of employer contributions at levels well below the annually required levels for a number of years. While the law does acknowledge and allow for increasing employer contributions over time, one result of this particular structure is that SERS' $14.7 billion unfunded liability will continue to grow until the caps eventually increase to reach actuarially required levels. This structural underfunding is exacerbated by, among other factors, SERS' current negative cash flow (see management's discussion and analysis).

In 2011, SERS also made extensive changes in the independent professional expertise it draws upon to ensure its world-class excellence. While long-standing relationships with previous investment consultants had served SERS well, we felt that the maturity of the Fund, serious public fiscal constraints, the market environment and other factors made the timing right to take a fresh look at every aspect of our business. Thus, after a significant due diligence process, SERS engaged a new general investment consultant and a new alternative investment consultant.

Moreover, as SERS' previous contract expired, we undertook a new competitive bidding process to evaluate and select a new independent external auditor. KPMG has conducted SERS' 2011 annual audit of the financial statements in accordance with generally accepted auditing principles (see financial section). Their audit includes tests and procedures designed to assure that SERS' financial statements are fairly presented. The external auditors have full and unrestricted access to you and the Board to discuss their audit and related findings regarding the integrity of financial reporting and adequacy of SERS' internal control structure.

We are solely responsible for the contents of this report, however, we do wish to acknowledge the significant contributions of numerous SERS professionals whose work to compile, quality assure, and produce it were essential. Moreover, we are mindful and thankful for the nearly two hundred SERS employees whose daily work enables our retirement system to maintain effective internal controls that assure assets are safeguarded, transactions are properly executed and financial statements conform with generally accepted accounting principles while providing effective member services of a high quality.

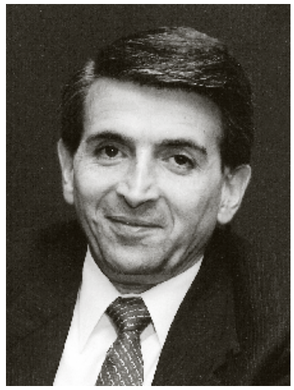
In addition to assisting with SERS' annual independent audits and preparation of this CAFR, these are the same professionals whose day-to-day hard work has rightly earned SERS the Public Pension Coordinating Council Standards Award for SERS' "high level of plan design, funding, member communications and administrative practices" as well as a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada.

There are no signs that either the Commonwealth's economy or the financial markets will make dramatic, positive, or lasting swings in the near term. Even with this added pressure, as we always do, we – and every member of SERS' staff – will continue to ensure that this retirement system provides accurate, accountable, prudent and careful stewardship of the assets entrusted to us by public employees and taxpayers.

Respectfully submitted,

David E. Durbin	Anthony J. Faiola, CPA
Executive Director	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

Honorable Michael F. Gerber
State Representative

Honorable Robert W. Godshall
State Representative

Honorable Vincent J. Hughes

State Senator

Honorable Robert M. McCord

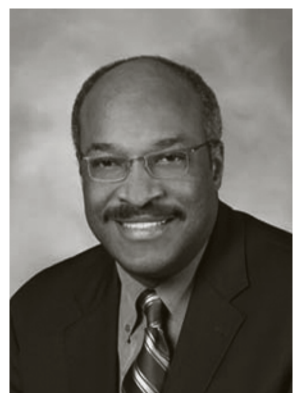
State Treasurer

Honorable Charles T. McIlhinney, Jr.

State Senator

Oliver C. Mitchell, Jr.

Attorney



Wallace H. Nunn

Retired

Honorable M. Joseph Rocks

Retired Member and Former State Senator

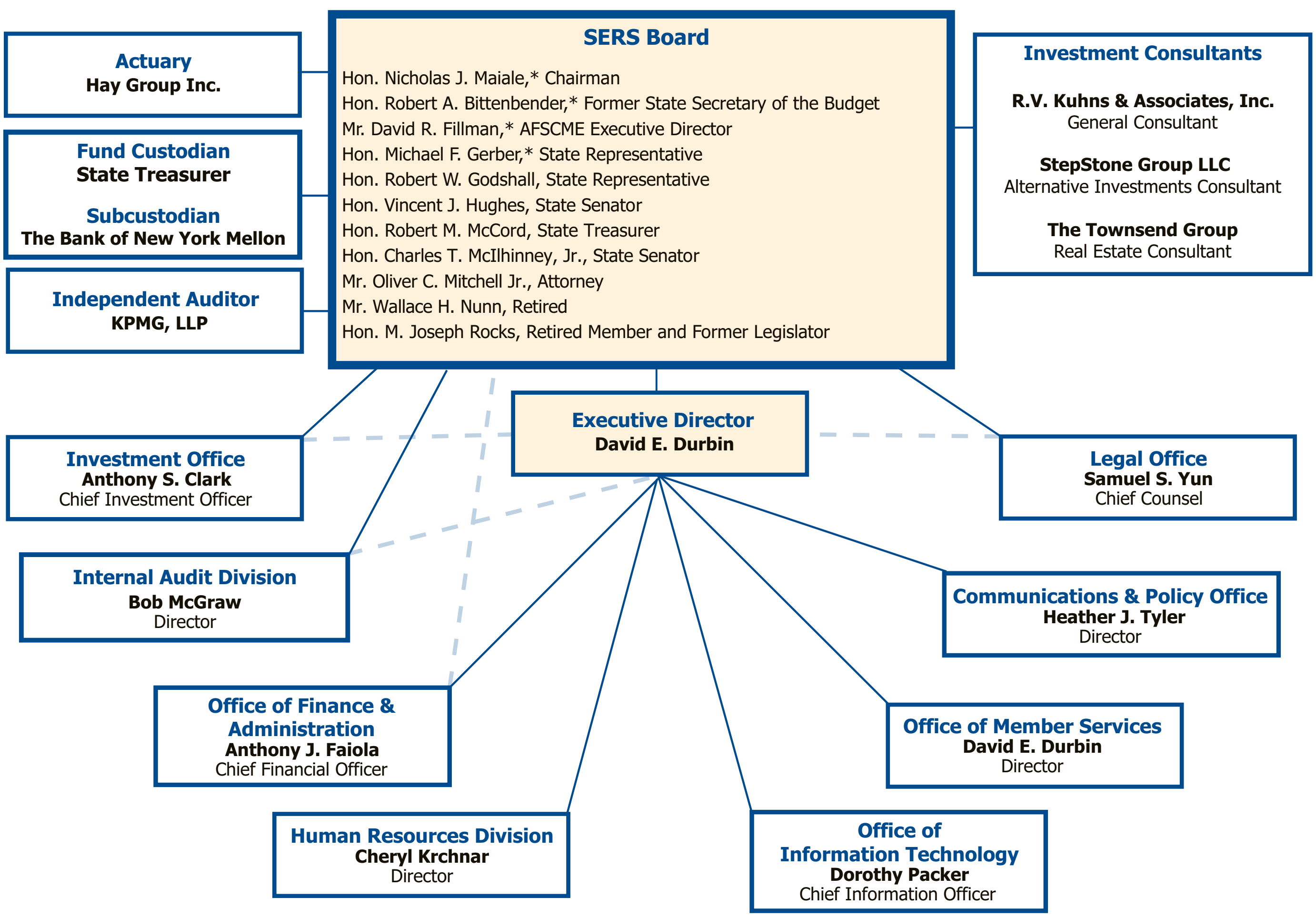
SERS' Vision

To navigate the fiscal storm in such a way that SERS emerges with a positive cash flow and enhanced member services.

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



* Audit Committee Member

05-25-12

Financial Section

KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report

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

We have audited the accompanying statement 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 year ended December 31, 2011, and the related statement of changes in plan net assets for the year 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 audit. The accompanying financial statements of the System as of December 31, 2010 were audited by another auditor whose report thereon dated May 10, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2011, and its changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–9 and Required Supplementary Schedules 1 and 2 on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Additional Financial Information on pages 25-26 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Additional Financial Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional

KPMG

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Financial Information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

KPMG LLP

May 24, 2012

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, 2011, 2010, and 2009.

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, 2011 and 2010 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:

- This Management's Discussion and Analysis;
- A schedule reflecting the funding progress of the System; and
- A schedule showing the employer required contributions in dollars and percentage.

(4) Other Supplementary Information 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 decreased approximately $1.5 billion for the year ended December 31, 2011 compared to an increase of approximately $1.2 billion for the year ended December 31, 2010, as reflected in the table on page 9. As the global markets began to recover from the 2008 recession, so did the Fund, as it earned an annual rate of return of 9.1% for 2009. The strong markets in 2010 resulted in the Fund earning a total return of 11.9%. The first two quarters of 2011 remained strong but a downturn starting in the third quarter brought the 2011 total return to 2.7%. The System's 2011 actuarial funded status of 65.3% decreased from 75.2% in 2010. By comparison, as reported in the Wilshire Associates' ***2012 Wilshire Report on State Retirement Systems***, a compilation of 2011 data on 102 state pension plans, the average funding level of state plans was 75%.

Every five years, the System is required to undergo an Actuarial Experience study to determine whether the assumptions used in the annual actuarial valuation are representative of current and anticipated trends. The latest ***17th Investigation of Actuarial Experience*** study for the period 2006 - 2010 was released in January 2011. The actuary, in coordination with Board oversight, reviewed economic assumptions such as the assumed future investment returns on Fund assets and salary increases as well as demographic assumptions regarding turnover, retirement, disability, and death rates. While some of the changes in assumptions will increase the projected cost of the System and some will decrease the cost, overall it is expected that adoption of the recommended assumptions will slightly lower costs, due primarily to the slower expected pace of future salary increases.

Economic assumption recommendations included keeping the targeted investment return rate assumption at 8.0%; decreasing the inflation rate from 3.0% to 2.75%; and decreasing the general salary growth rate from 3.3% to 3.05% for 2010. A review of these assumptions was completed in early 2012. The actuary, in coordination with Board oversight, reviewed the assumed future investment returns on fund assets. This review resulted in a recommendation and adoption by the Board of the actuarial assumed rate of return on assets to be reduced to 7.5% from 8.0%.

Most of the demographic assumptions were similar to or the same as experienced in the last five years, with two exceptions. First, the actuary recommended to add a margin to the annuitant mortality rates to anticipate continued improvement in mortality. The SERS experience showed some signs that the continuous improvement in mortality may have paused, with higher than expected mortality at both younger (under 55) and older (over 90) ages. Second, it is assumed that the rate of disability retirements will be lower, but not as large a decrease in rates as observed during the last five years. Therefore, the disability rate should be set at 85% of the experience rather than 100%.

The Board adopted the actuarial assumptions set forth in the ***17th Investigation of Actuarial Experience*** at the January 2011 meeting. The complete report can be viewed at www.sers.state.pa.us.

Biennially, the System reviews and modifies, as necessary, its 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. A restructuring of the investment strategy is under way with an emphasis on liquidity. Highlighting this decision was the fact that benefit expenses, including refunds of contributions, were $2.7 billion in 2011. This expense level represents an increase in benefit expenses of 13% from the $2.4 billion in 2010. This increase was due primarily to the large increase in the number of new retirees in 2011.

Funded Ratio

The System's funded ratio measures the ratio of actuarially determined assets against actuarial liabilities; which is a good indicator of a pension fund's fiscal strength and ability to meet its obligations to its members. The System is required by statute to perform an annual actuarial valuation. The actuarial process to develop the funded ratio is highly dependent on estimates and assumptions, particularly those regarding investment returns, 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 Plan. The Plan's funded ratio as of December 31, 2011 was 65.3%, a decrease from 75.2% at December 31, 2010 and 84.4% at December 31, 2009. The funded ratio of the Plan changed due to a decrease in actuarial assets and an increase in actuarial liabilities.

Actuarial assets decreased from $29.4 billion at December 31, 2010 to $27.6 billion at December 31, 2011 for a 6% decrease. At December 31, 2009 the actuarial assets were $30.2 billion. The decrease in 2011 actuarial assets was impacted by the Fund's investment return of 2.7% vs. the assumed actuarial return rate of 8.0% and the limit on employer contributions by Act 120 collars at 8% of retirement covered compensation starting July 1, 2011. As a result of the Act 120 collars, actual contributions paid were only 42.8% of the Annual Required Contribution (ARC) calculated by the actuary under GASB Guidelines. Another factor contributing to the decrease in 2011 actuarial assets is the continued amortization of the 2008 loss. Due to the five year smoothing of investment gains and losses, 20% of the 2008 loss was recognized each year and will continue through 2012. To date, 80% of the 2008 loss has been recognized, with the remaining 20% to be recognized next year. We expect to see an additional decrease in the actuarial value of assets in 2012 as the remaining 20% of the loss is amortized. This decrease is also demonstrated in the market value funded ratio that was 68.9% at December 31, 2009, 66.1% at December 31, 2010, and 57.6% at December 31, 2011. The increase in actuarial liabilities from $35.8 billion at December 31, 2009 to $39.2 billion at December 31, 2010, is due primarily to the implementation of Act 2010-120. Act 120 lowered the Employer Normal Cost which reduced future employer contributions and increased the accrued liability. The increase in actuarial liabilities from $39.2 billion in 2010 to $42.3 at December 31, 2011 is due to changes in the economic assumptions, particularly the change in the assumed rate of return on assets, and the difference in actual vs. projected investment earnings.

Member Contributions

Member Contributions were approximately $351 million for the year ended December 31, 2011 and $349 million for both years ended 2010 and 2009. There was no increase in gross salaries which remained at $5.6 billion for 2011 and 2010. This was a result of across the board management employee salary freezes and an overall decrease of 2,234 in active membership as of year-end. The member rate of 6.25% of gross salary for most members is set by statute and has remained unchanged for the years presented.

Employer Contributions

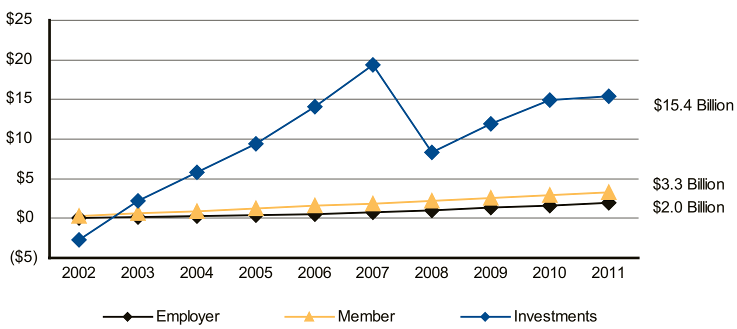
Employer contributions were approximately $392 million, $273 million, and $253 million for the years ended December 31, 2011, 2010 and 2009, respectively, with 2011 contributions representing an increase of $119 million compared to 2010. The increase from 2010 to 2011 was due to an increase in the employer rate on July 1, 2011 from 5.0% to 8.0%. The increase from 2009 to 2010 was due to an increase in the employer rate on July 1, 2010 from 4.0%

to 5.0%. PA Act 120 has established employer contribution collars with the rate increase being capped at 3.0% for FY 11/12, 3.5% for FY 12/13, and 4.5% each subsequent year until no longer needed.

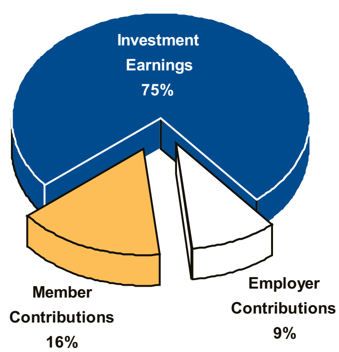
Over the last ten years, employer contributions have been the smallest component of additions to the System's plan net assets. Employer contributions were kept artificially low due to statutory contribution rates being less than the ARC as calculated under GASB standards. From 2002 through 2011, employer contributions totaled $2.0 billion, representing 9% of total additions to plan net assets, compared to $3.3 billion or 16% of total additions attributed to member contributions, and $15.4 billion, or 75%, of total additions attributed to investment earnings as illustrated in the following charts:

Ten Year Cumulative Additions to Plan Net Assets

Additions in Dollars



Additions by Component as a Percent of Total Additions



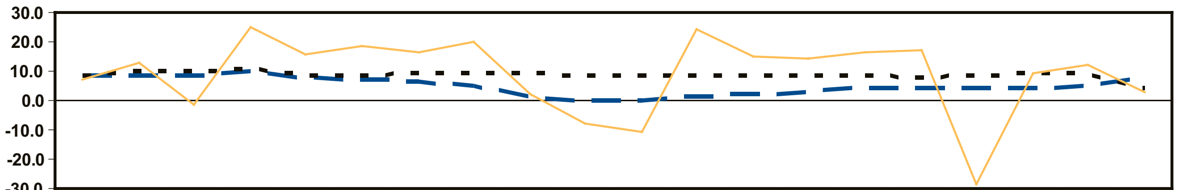
Over this time period, the retirement covered compensation has grown from $4.8 billion in 2002, to $5.6 billion in 2011.

With the investment return of 2.7% for 2011 this marks 16 out of the last 20 years that the Fund's annual earnings have been positive and 13 out of the last 20 years they have exceeded the actuarial assumed rate of return. One of the reasons for the low employer contribution rate over the last 20 years has been the Fund's overall positive investment returns. This was the primary driver of lower employer contribution rates over much of the first half of the last 20 years; however, over the last eight years, the lower employer rates were statutorily driven mostly as a result of passage of Act 40 in 2003. The significant provisions of Act 40 changed the periods in which unfunded liabilities were amortized in a manner that artificially suppressed the employer contribution rate below the ARC as recommended by GASB guidelines. Starting in 2005, the actual employer contributions have been below fifty percent of the ARC. The benefits of reduced employer contributions pass directly back to the participating Commonwealth agencies and the taxpayers of Pennsylvania. However, the short-term benefits of lower employer contributions resulting from artificially suppressed rates, will likely result in the employers contributing a substantially larger amount over a 30 year period due to implied financing costs. These financing costs are being incurred because the monies are not available to invest and compound.

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 first ten years of the chart on the next page presents the relationship between investment returns and Contribution Rates. During that period, because investment returns exceeded the actuarial assumed rate, employer rates continued to fall well below the Employer Normal Cost. Over the latter part of the 20 years, employer rate movement reacted less to investment returns because the employer rates were statutorily held at a low level. Had the Commonwealth agencies paid the Employer Normal Cost over the last 20 years, there would have been an additional $3.7 billion in employer contributions paid into the System.

The significant losses in 2008 reduced the System's ten year annualized investment return to 3.9% for 2009, 4.8% for 2010, and 6.0% for 2011. As a result of the losses in 2008 and other factors, the employer rate was expected to spike in fiscal year 2012/2013. To address this rate spike Act 120 of 2010 was passed. See pages 8 - 9 for a summary of Act 120 provisions.

SERS Employer Contribution Rates, Employer Normal Cost Rates, and Investment Returns



	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
Employer Contribution Rates %	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	5.0	8.0
Employer Normal Cost Rates %	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	9.5	4.1
Investment Return %	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	11.9	2.7

Employer Contribution Rates % Employer Normal Cost Rates % Investment Return %

Net Investment Income

Investment portfolio performance produced investment returns of 2.7%, 11.9%, and 9.1%, for the years 2011, 2010, and 2009, respectively. Performance contributed to net investment income of approximately $0.5 billion in 2011, $3.1 billion in 2010, and $3.6 billion in 2009. Strong performance in the Private Equity and Venture Capital asset classes helped to offset negative returns in the Equity Asset Class for 2011. Venture Capital returns exceeded the benchmark by 14.4% while Private Equity exceeded its benchmark by 8.1%. For the five, seven, and ten year periods ended December 31, 2011, the System earned compounded annual rates of return of 1.0%, 4.9%, and 6.0%, respectively. Below are the System's annual rates of returns for the last three years by major asset class:

Annual rates of return

Asset class/strategy	2011	2010	2009
Global stock	(6.4)%	18.2%	38.4%
U.S. stock	(0.2)	18.0	26.4
Non-U.S. stock	(13.8)	13.5	40.9
Absolute return strategies	(1.8)	6.3	13.7
Fixed income	6.2	11.7	31.9
Cash/STIF	0.2	0.3	0.5
Real estate	10.5	2.3	(29.3)
Private equity	11.7	18.3	(5.7)
Venture capital	18.0	8.3	(14.8)
Inflation protection	(6.5)	19.9	24.3
Total fund	**2.7%**	**11.9%**	**9.1%**

Investment expenses decreased $38 million in 2011 as compared to a decrease of $25 million in 2010. 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. Since the fees are generally asset based, those managers were generally compensated less in 2011 than in prior years because of a shift in asset allocation and negotiated lower fee structure. 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. Manager fees related to alternative investments decreased in 2011 based on decreased commitments to new and continuing limited partnerships.

Benefits, Refunds and Expenses

Benefits are the most significant recurring deduction from plan net assets. During 2011 the System paid out approximately $2.7 billion in benefits and refunds compared to $2.4 billion for 2010. There were approximately 7,700 new retirees added to the Annuity payroll in 2011 with an average annual benefit of $26,800. This was an increase from the 5,900 retirees added in 2010 at an average annual benefit of $25,100. As is typical in mature retirement plans, new retirees in 2011 received a much higher annual benefit than those removed from rolls. There were more than 4,000 retirees removed from the rolls with an average annual benefit of $12,400. In 2011, supplemental payments increased 32%, from $389 million in 2010 to $514 million in 2011. This increase is attributable to retirees withdrawing accumulated contributions and interest from the System in 2011 as compared to 2010. Those withdrawals reduce the retirees' payments over the Annuitants' remaining life. Act 120 no longer allows the withdrawal of accumulated contributions and interest for new members when they retire.

Benefit expenses increased in 2011; going forward the System expects benefit expenses to continue 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 100% 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; based on recent actuarial projections, it will reach $3 billion by 2014.

Growth in Annuity Payroll

	December		
	2011	2010	2009
Monthly annuity payroll (in millions)	$187	$174	$166
Retirees	115,342	111,713	109,639

The administrative costs of the System represented 0.1% of average net assets in 2011 and 2010. All costs were within budget.

Plan Assets

Investments are the most significant component of the System's assets. The fair value of investments decreased to $24.0 billion in 2011 from $25.5 billion as of December 31, 2010. The $1.5 billion decrease in investments was primarily due to benefit payments of $2.7 billion and investment gain of $0.5 billion in 2011.

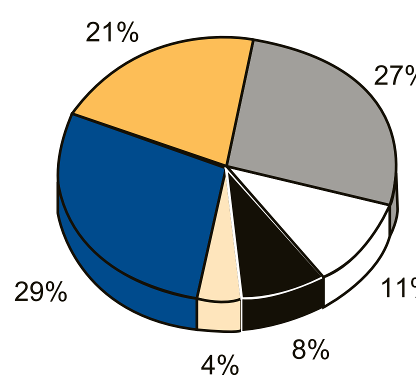
The System values its assets at "fair value" as discussed in the accounting policies footnote 2(c) to the financial statements. Fair value is the value the System expects to receive in a current sale between a willing buyer and a willing seller that are equally motivated; that is, other than a forced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

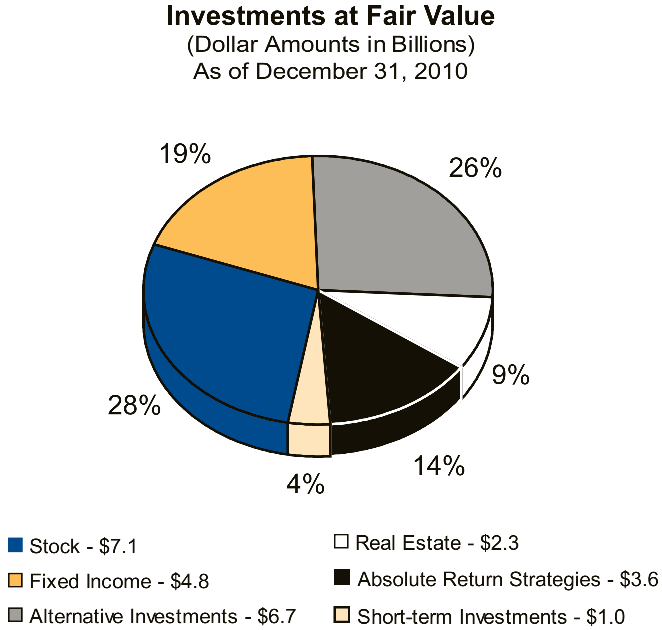
Values for alternative investments are determined by the general partners and by valuation committees. The partnerships' investments, as well as the assumptions and estimates used in developing the investment values, are subject to annual independent audits. Because the investments in those partnerships 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, 2011, Absolute Return Strategies fair values were $2.0 billion, a decrease of $1.6 billion from December 31, 2010. This decrease was due to the Fund reducing the exposure to Absolute Return Strategies. Stock fair values of $7.0 billion for December 31, 2011 represent a decrease of $0.1 billion from 2010. This decrease is mainly from unfavorable market returns. The Fixed Income fair values were $4.9 billion which is an increase of $0.1 billion from 2010. The Alternative Investment and Real Estate asset class fair values were $6.5 billion and $2.6 billion, respectively for December 31, 2011. This represents a decrease of $0.2 billion for Alternative Investments mainly due to distributions and an increase of $0.3 billion for Real Estate primarily due to positive investment returns from 2011. Both Alternative Investments and Real Estate asset classes had positive returns for 2011. The total investment portfolio fair value of $24.0 billion was comprised as shown by the chart below:

Investments at Fair Value
(Dollar Amounts in Billions)
As of December 31, 2011



The total investment portfolio fair value of $25.5 billion for 2010 was comprised as shown in the chart below:



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 System was approximately $25 million in 2008 and was established as a liability in the financial statements. In 2011 this payable was reduced to $13.5 million. Despite this loss, the System earned $65 million over the last 10 years. Since 2008, due to the increased risk associated with the 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, 2011 and 2010, the fair value of loaned securities was $231 million and $283 million, respectively; the fair value of the associated collateral was $238 million and $294 million, of which $115 million and $293 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.

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, 2011, the Fund held over $2.9 billion in core fixed income, high quality securities. The Fund also held over $2.6 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.

Pennsylvania Act 120

On November 23, 2010, the Governor signed HB 2497 into law as PA Act 120. This legislation preserved the benefits in place for the current members at that time but mandated a number of benefit reductions for new members effective January 1, 2011 (except that the effective date is the expiration of collective bargaining agreements for State Police Troopers, Capitol Police and Park Rangers, and December 1, 2010 for legislators newly elected in November. State Police retain special retirement benefits as a result of a collective bargaining arbitration award).

Highlights of the bill include:

- Reduced benefit accrual for new employees by 20% - from 2.5% to 2% of salary for each year of service
- Retained employee contributions at pre-reform levels
- Increased Normal Retirement Age
- Eliminated lump sum withdrawals of contributions and interest at retirement
- Extended vesting period from five to ten years
- Required that members purchase prior non-state service at full actuarial cost

- Created "shared risk" to allow increased employee contributions for investment underperformance
- Capped growth of employer contribution:
  - 3% in FY 11/12
  - 3.5% in FY 12/13
  - 4.5% each year thereafter until no longer needed
- Re-amortized the System's existing liabilities over 30 years through an Actuarial "Fresh Start."

In addition to the changes detailed above, the bill also prohibits the use of pension obligation bonds (POBs) for funding liabilities. POBs are bonds issued by a state or local government to pay its obligation to the pension fund.

Condensed Financial Information
(Dollar Amounts in Millions)

Net Assets

Assets:	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Total receivables	$607	$71	$536	$(8)	$544
Total investments	23,996	(1,507)	25,503	1,207	24,296
Securities lending collateral pool	115	(178)	293	(99)	392
Total assets	24,718	(1,614)	26,332	1,100	25,232
Liabilities:					
Accounts payable and accrued expenses	56	8	48	1	47
Securities lending collateral pool payable	13	(3)	16	(3)	19
Investment purchases and other liabilities	157	68	89	(23)	112
Obligations under securities lending	115	(178)	293	(99)	392
Total liabilities	341	(105)	446	(124)	570
Total net assets	**$24,377**	**$(1,509)**	**$25,886**	**$1,224**	**$24,662**

Changes in Net Assets

Additions:	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Member contributions	$351	$2	$349	$-	$349
Employer contributions	392	119	273	20	253
Net investment gain	480	(2,596)	3,076	(485)	3,561
Total additions	1,223	(2,475)	3,698	(465)	4,163
Deductions:					
Benefits and refunds	2,705	256	2,449	176	2,273
Administrative expenses	27	2	25	1	24
Total deductions	2,732	258	2,474	177	2,297
Increase/(decrease) in net assets	**$(1,509)**	**$(2,733)**	**$1,224**	**$(642)**	**$1,866**

Statements of Plan Net Assets
December 31, 2011 and 2010
(Dollar amounts in thousands)

	2011	2010
Assets:		
Receivables:		
Plan members	$3,699	$1,988
Employers	14,995	11,887
Investment income	59,960	46,974
Investment proceeds and other receivables	521,123	462,830
Miscellaneous	7,031	11,824
Total receivables	606,808	535,503
Investments:		
Short-term investments	1,057,796	951,575
United States government securities	1,601,674	1,335,123
Corporate and foreign bonds and notes	1,793,408	1,802,118
Common and preferred stocks	5,892,767	2,949,978
Collective trust funds	2,566,772	5,839,446
Fund of hedge funds	1,980,495	3,568,756
Real estate	2,580,907	2,361,712
Alternative investments	6,522,434	6,694,350
Total investments	23,996,253	25,503,058
Securities lending collateral pool	115,484	293,365
Total assets	24,718,545	26,331,926
Liabilities:		
Accounts payable and accrued expenses	55,785	48,399
Securities lending collateral pool payable	13,507	15,457
Investment purchases and other liabilities	156,590	88,603
Obligations under securities lending	115,484	293,365
Total liabilities	341,366	445,824
Net assets held in trust for pension benefits	**$24,377,179**	**$25,886,102**

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets
Years ended December 31, 2011 and 2010
(Dollar amounts in thousands)

	2011	2010
Additions:		
Contributions:		
Plan members	$350,852	$349,049
Employers	391,749	273,083
Total contributions	742,601	622,132
Investment gain:		
Net appreciation in fair value of investments	614,117	2,211,065
Collective trust fund (depreciation)/appreciation and income	(267,177)	810,147
Interest	165,082	146,995
Dividends	78,823	61,964
Real estate	82,707	73,355
Miscellaneous	2,316	6,471
	675,868	3,309,997
Investment expenses	(197,505)	(235,826)
Net gain from investing activities	478,363	3,074,171
From securities lending activities:		
Securities lending income	2,376	2,511
Securities lending expenses	(294)	(272)
Net income from securities lending activities	2,082	2,239
Total net investment gain	480,445	3,076,410
Total additions	1,223,046	3,698,542
Deductions:		
Benefits	2,695,732	2,440,246
Refunds of contributions	9,531	9,007
Administrative expenses	26,706	25,136
Total deductions	2,731,969	2,474,389
Net (decrease) increase	(1,508,923)	1,224,153
Net assets held in trust for pension benefits:		
Balance, beginning of year	25,886,102	24,661,949
Balance, end of year	**$24,377,179**	**$25,886,102**

See accompanying notes to 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 eleven members including the State Treasurer (ex officio), two Senators, two members of the House of Representatives, and six members appointed by the Governor, one of whom is an Annuitant of the System. At least five board members 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, 2011 and 2010, System membership consisted of:

System Membership

	2011	2010
Retirees and Beneficiaries currently receiving benefits	115,342	111,713
Terminated members entitled to benefits but not yet receiving them	6,189	6,326
Current Active Members	107,021	109,255
Total members	**228,552**	**227,294**
Number of participating agencies	107	106

(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.

Prior to Act 2010-120, employees who retire at age 60 with 3 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 3 years of service. Act 2010-120 preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of their final average salary instead of the previous 2.5%. The new vesting period changed from five to ten years of credited service, and the option to withdraw lump sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and age 55 for members of the general assembly and certain employees classified in hazardous duty positions.

Most members of the System, and all state employees hired after June 30, 2001 and prior to January 1, 2011 (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 Justices are entitled to a benefit of 3% of final average salary for each year of service. Act 9 also created a new class of service for current legislators, Class D-4. The multiplier for Class D-4 is 1.5, which translates into an annual benefit of 3% of the final average salary for each year of service. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. Employees who enter SERS membership after the effective date of Act 120 enter as members of the A-3 class with a 45 day window to elect membership in the optional A-4 class. The general annual benefit for Class A-3 members is 2% of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5%.

(Dollar Amounts in Thousands)

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 retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120 imposes rate increase collars on employer contributions that keep the employer contribution rate below the rates established in accordance with actuarial parameters suggested by the GASB Standards. The collar for FY 11/12 is 3%, capping the employer contribution rate at 8.0%. The FY 12/13 collar is 3.5%. 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:

In addition to the employer normal cost, the total employer cost includes other costs and credits resulting from COLAs, differences between actual investment results and actuarial estimated returns, and changes in benefits. These additional costs and credits are amortized over a period of future years as set by the Legislature. Act 120 established a fresh start on liabilities beginning in 2011.The general membership contribution rate for all Class A and Class AA members is 5% and 6.25% of salary, respectively. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25% and 9.3% of salary, respectively. The contribution rate for Class D-4 members is 7.5%. Judges and district justices have the option of electing special membership classes requiring a contribution of 10% and 7.5%, respectively. All employee contributions are recorded in an individually identified account that is credited with interest, calculated at 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

(d) Benefits Completion Plan

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. There were 25 and 21 members receiving benefits from the BCP at December 31, 2011 and 2010, respectively.

Blended Contribution Rates

	2011	2010
Employer Normal Cost	6.81%	9.52%
Amortization of unfunded actuarial assets in excess of liabilities	3.20	(9.56)
Amortization of supplemental annuities	2.28	4.67
Maximum rate factor	(5.78)	(0.13)
Total employer cost	6.51%	4.50%

(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.

(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, futures and swap contracts are marked to market daily with changes in fair value recognized as part of investments and investment income. 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 net asset 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.

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.

(d) Commitments

As of December 31, 2011 and 2010, the System had contractual commitments totaling approximately $1.8 billion and $2.3 billion, respectively, to fund future alternative investments, and $155 million and $203 million, respectively, to fund future real estate investments.

(e) 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. The System has, however, requested a determination letter from the IRS relating to the status of the System under the IRC.

(Dollar Amounts in Thousands)

(f) 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.

(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 actuarially determined.

The **Supplemental Annuity Account** accumulates contributions for supplemental annuities. 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 (BCP) 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, 2011 and 2010 are as listed in the following table.

Account Balances

	2011	2010
Members Savings Account	$4,406,306	$4,409,444
State Accumulation Account	(333,800)	2,739,534
Supplemental Annuity Account	-	-
Annuity Reserve Accounts:		
Annuitants and Beneficiaries	18,554,379	17,080,448
State Police	1,700,612	1,607,385
Enforcement Officers	43,935	42,569
BCP Reserve Account	5,747	6,722
Total	**$24,377,179**	**$25,886,102**

(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 on the following pages.

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.

(Dollar Amounts in Thousands)

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 (S&P), and Fitch Ratings (Fitch).

In December of 2010, the Board approved SERS' ***2011 Annual Strategic Investment Plan***, which starting with the 2012 plan, will become a biennial plan. This plan manages the overall credit risk of the fixed income asset class through a clearly defined asset allocation policy which established a target allocation to the fixed income asset class of 26% of the Fund. Of the 26% allocation, 18% 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 Investment Grade 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, higher yielding public securities and has a target allocation of 4% of the Fund. The high yield segment focuses 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. The emerging market debt segment is composed primarily of less liquid public and private securities in the developing countries of the world.

For securities exposed to credit risk in the fixed income portfolio, the following table discloses aggregate fair value, by the least favorable credit rating issued using Moody's, Standard & Poor's, and Fitch credit ratings at December 31, 2011 and 2010:

Debt Securities Exposed to Credit Risk

	Fair value	
Rating	**2011**	**2010**
AAA	$180,368	$64,251
AA	218,329	56,135
A	229,770	188,147
BAA	495,015	443,208
BA and below	801,972	1,014,569
NA[1/]	38,244	88,851
Short-term investments[2/]	962,717	932,783
Total Exposed to Credit Risk	**$2,926,415**	**$2,787,944**

[1/]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.

[2/]Represents short-term investments mostly in the Commonwealth Treasury Department's Short Term Investment Fund (STIF). This category is comprised of short term, investment grade securities, which are mainly U.S. Treasuries, agencies, or repurchase agreements.

U.S. Government Guaranteed securities with a fair value of $1.5 billion and $1.3 billion as of December 31, 2011 and 2010 respectively, were not included in the above table because they are not subject to credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means for limiting 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. At December 31, 2011 and 2010, the System's fixed income portfolio had the following option adjusted durations by debt sector.

(Dollar Amounts in Thousands)

Debt Option-Adjusted Durations

	2011		2010	
	Fair value	Option-adjusted duration	Fair value	Option-adjusted duration
Agencies	$48,395	3.6	$141,688	4.2
Asset backed securities	64,313	0.9	49,484	1.1
Corporates	727,694	5.2	693,812	4.8
Government	1,512,224	4.7	1,159,131	2.4
Sovereign debt	535,203	6.4	396,334	6.4
Mortgage backed securities	194,232	2.5	132,329	3.0
Private placements[1/]	405,443	3.4	532,139	3.4
Short-term investments	962,717	0.1	932,783	0.1
Other investments[2/]	2,657	N/A	51,116	N/A
Total	**$4,452,878**		**$4,088,816**	

[1/]*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.*

[2/]*Other investments represent certain securities with maturities ranging through the year 2019, and the value of swaps and futures agreements as of December 31, for which the duration is not available.*

(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, 2011 and 2010, the System had the following currency exposures:

Foreign Currency Exposures 2011

Currency	Short term Investments[1/]	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency	$(15,443)	$16,598	$547,180	$12,364	$427,609	$988,308
British Pound Sterling	(57,826)	83,809	459,563	11,281	-	496,827
Japanese Yen	1,646	(464)	347,007	28,416	-	376,605
Swiss Franc	1,642	-	179,675	1,919	-	183,236
Hong Kong Dollar	(394)	-	148,753	28,401	-	176,760
Australian Dollar	(17,403)	17,936	89,234	25,456	-	115,223
Canadian Dollar	(18,014)	32,221	86,713	5,832	-	106,752
Singapore Dollar	341	6,125	44,524	10,103	-	61,093
Swedish Krona	-	-	35,406	1,359	7,199	43,964
South Korean Won	-	7,911	27,767	-	-	35,678
Mexican Peso	822	31,749	1	-	-	32,572
Norwegian Krone	223	185	30,904	-	-	31,312
Malaysian Ringgit	79	25,167	4,602	-	-	29,848
Brazilian Real	1,291	20,383	3,593	1,230	-	26,497
South African Rand	999	23,209	-	-	-	24,208
Polish Zloty	584	21,230	725	-	-	22,539
Danish Krone	225	-	21,077	-	-	21,302
New Turkish Lira	196	18,076	-	-	-	18,272
Indonesian Rupiah	1,605	15,867	-	-	-	17,472
Thai Baht	174	9,348	2,560	-	-	12,082
Other Currencies (14)	1,421	44,946	14,846	-	-	61,213
Total	**$(97,832)**	**$374,296**	**$2,044,130**	**$126,361**	**$434,808**	**$2,881,763**

Foreign Currency Exposures 2010

Currency	Short term Investments[1/]	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency	$2,604	$5,879	$437,097	$17,759	$495,161	$958,500
British Pound Sterling	812	-	329,393	14,657	-	344,862
Japanese Yen	(298)	1,216	294,063	37,426	-	332,407
Hong Kong Dollar	(145)	-	204,074	36,803	210	240,942
Swiss Franc	1,535	-	147,800	1,782	-	151,117
Australian Dollar	(383)	-	75,896	26,939	-	102,452
Brazilian Real	2,171	25,157	34,739	-	-	62,067
South Korean Won	30	-	59,483	-	-	59,513
Singapore Dollar	(53)	-	37,508	16,021	-	53,476
New Taiwan Dollar	1,013	-	36,087	-	-	37,100
South African Rand	1,059	16,530	17,854	-	-	35,443
Mexican Peso	626	22,554	10,139	-	-	33,319
Canadian Dollar	86	6,333	20,906	5,553	-	32,878
Indian Rupee	162	-	31,195	-	-	31,357
Indonesian Rupiah	1,103	17,442	12,439	-	-	30,984
Swedish Krona	(340)	-	19,585	2,064	6,364	27,673
Norwegian Krone	(330)	-	22,457	900	-	23,027
Polish Zloty	664	18,849	2,350	-	-	21,863
Danish Krone	143	-	20,759	-	-	20,902
Thai Baht	486	12,203	7,403	-	-	20,092
Other Currencies (15)	2,038	37,663	32,069	-	2	71,772
Total	**$12,983**	**$163,826**	**$1,853,296**	**$159,904**	**$501,737**	**$2,691,746**

[1/] *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, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010 was 3 days and 4 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 System was estimated at $25 million and was reflected as a liability in the financial statements. Subsequent securities lending income is being used to repay the liability. The balance at December 31, 2011 is $13.5 million.

As of December 31, 2011 and 2010, the fair value of loaned securities was $231 million and $283 million, respectively; the fair value of the associated collateral was $238 million and $294 million, of which $115 million and $293 million was cash, respectively. The $123 million non-cash collateral is invested in U.S. Government guaranteed securities and are not subject to credit risk.

(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.

The System is exposed to counterparty credit risk on all open derivative positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract. As of December 31, 2011 and 2010, the System's counterparty credit risk was not deemed significant. The System mitigates its legal risk on investment holdings including derivatives by carefully reviewing and selecting investment advisors. 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 instruments directly, and indirectly through a securities lending collateral pool, to gain foreign exchange exposure, to synthetically created equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

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. The contracts are used by the investment advisor for the purpose of eliminating foreign exchange risk. As a matter of policy, the investment advisors enter into these contracts at their full discretion to protect currency fluctuations. 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, 2011 and 2010, the System's contracts to purchase and sell by foreign currencies are shown below.

(Dollar Amounts in Thousands)

Foreign Exchange Contracts

Contracts as of December 31, 2011

Currency	Purchases	Unrealized gain/(loss)	Sells	Unrealized gain/(loss)
British Pound Sterling	$71,539	$(82)	$59,335	$96
Australian Dollar	41,850	660	81,562	(1,577)
Euro Currency	27,074	(209)	60,891	1,823
Brazilian Real	18,986	(275)	25,585	397
Canadian Dollar	18,406	(34)	18,393	33
Chinese Yuan Renminbi	16,026	157	5,325	(21)
Malaysian Ringgit	14,455	(850)	400	-
New Turkish Lira	13,262	(414)	462	9
South Korean Won	9,090	(232)	1,179	23
Russian Ruble	9,050	(833)	1,304	(4)
Singapore Dollar	6,131	(14)	154	-
Japanese Yen	5,997	61	62,944	(6)
Chilean Peso	5,231	(193)	1,713	46
Mexican Peso	3,189	(86)	2,497	21
Swiss Franc	2,654	(260)	32,333	2,103
Philippine Peso	2,492	(27)	1,755	25
South African Rand	1,528	42	12,312	204
Indonesian Rupiah	1,402	(88)	4,736	83
Polish Zloty	955	(56)	1,211	98
Hungarian Forint	903	(32)	3,318	270
Hong Kong Dollar	824	-	-	-
Norwegian Krone	-	-	12,560	61
Other (6)	279	(1)	11,908	245
Total	**$271,323**	**$(2,766)**	**$401,877**	**$3,929**

Contracts as of December 31, 2010

Currency	Purchases	Unrealized gain/(loss)	Sells	Unrealized gain/(loss)
Chinese Yuan Renminbi	$15,704	$233	$5,966	$(80)
Euro Currency	13,224	287	10,576	(117)
Malaysian Ringgit	12,894	163	430	-
Mexican Peso	8,805	324	8,594	(70)
Hong Kong Dollar	5,171	(4)	2,459	-
New Turkish Lira	4,989	(240)	568	37
South Korean Won	4,710	(18)	100	(3)
Singapore Dollar	4,377	140	1,534	(63)
Colombian Peso	4,339	34	8,017	332
Russian Ruble	3,226	26	-	-
Philippine Peso	2,473	27	21	-
Hungarian Forint	1,940	(16)	3,065	(92)
Chilean Peso	1,894	73	3,639	(175)
Peruvian Nuevo Sol	1,628	(14)	1,153	(13)
Japanese Yen	1,033	5	39,087	(1,518)
Australian Dollar	764	5	10,737	(738)
Brazilian Real	441	19	7,581	(110)
South African Rand	398	19	5,083	(239)
Indonesian Rupiah	311	2	1,959	(9)
Polish Zloty	216	10	6,634	197
Swiss Franc	-	-	15,328	(1,250)
Other (5)	2,074	43	1,005	(22)
Total	**$90,611**	**$1,118**	**$133,536**	**$(3,933)**

(Dollar Amounts in Thousands)

Derivative Instruments

Investment Derivative Type	Changes in Fair Value Gain/(loss)	Fair Value at December 31, 2011 Classification	Amount	Notional
Interest Rate Swaps	$1,282	Investment	$1,595	$87,000
Credit Default Swaps	(54)	Investment	83	32,500
Futures	408	Receivable	574	164,152

Investment Derivative Type	Changes in Fair Value Gain/(loss)	Fair Value at December 31, 2010 Classification	Amount	Notional
Interest Rate Swaps	$544	Investment	$292	$144,253
Credit Default Swaps	246	Investment	161	30,300
Futures	165	Receivable	165	22,098

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. The exchange assumes the risk that the counterparty will not pay and generally requires margin payments to minimize such risk. Futures are generally used to achieve the desired market exposure of a security or index or to rebalance the total portfolio. The investment advisors have entered into certain futures contracts maturing through September 15, 2014.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates and credit worthiness. The System uses contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. 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 or vice versa. 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 above present the summary of derivative instruments at December 31.

(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, 2011 and 2010, the System earned $99 thousand and $97 thousand of income resulting from a commission recapture program, respectively. No expenditures were paid from the program in either year. At December 31, 2011 and 2010, the System has accumulated $3.9 million and $3.8 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 2011, SERS funded REHP benefits by paying $200 per pay period from January 1 to June 30, 2011, and $240 per pay period from July 1 to December 31, 2011 for each active SERS employee.

The Commonwealth's latest actuarial valuation, dated September 2011, provides an ARC for the REHP amounting to $883.2 million for the Commonwealth's Fiscal Year ended June 30, 2011; the System's allocated portion of the total REHP ARC was $2.0 million. Based on the aggregate REHP qualifying contributions for FY 2011, the System's net Other Post Retirement Benefit (OPEB) liability was $633 thousand. The Commonwealth's 2009 actuarial valuation provided the OPEB reporting used for both fiscal years 2010 and 2009. The ARC for the REHP for the Commonwealth's Fiscal Year ended June 30, 2010 was $850.4 million; the System's allocated portion of the total REHP ARC was $2.3 million. Based on the aggregate REHP qualifying contributions for FY 2010, the System's net OPEB liability was $889 thousand. The ARC for the REHP for the Commonwealth's Fiscal Year ended June 30, 2009 was $818.5 million; the System's allocated portion of the total REHP ARC was $2.2 million. Based on the aggregate REHP qualifying contributions for FY 2009, the System's net OPEB liability was $831 thousand; therefore, the cumulative three year total net OPEB liability as of the Commonwealth's fiscal year ending June 30, 2011 is $2.4 million. This information is summarized in the table below:

(Dollar Amounts in Thousands)

OPEB Liability
(as of the Commonwealth's fiscal year ending June 30)

Year	Commonwealth ARC	SERS' ARC	SERS' Net OPEB
2011	$883,160	$2,005	$633
2010	850,440	2,257	889
2009	818,510	2,173	831
Three Year Cummulative OPEB			**$2,353**

Both valuation reports can be viewed in their entirety on 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, in the event of an adverse result, 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 investments are reported at fair value as discussed in note 2 (c) Summary of Significant Accounting Policies. The ARC is actuarially determined, but for fiscal year beginning July 1, 2011, the maximum annual contribution rate has been reduced from the actuarially determined 18.9% to 8% through Act 120.

(b) Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Plan was 65.3% funded. The actuarial accrued liability for benefits was $42.3 billion, and the actuarial value of assets was $27.6 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $14.7 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 248.9%.

As of December 31, 2010 the Plan was 75.2% funded. The actuarial accrued liability for benefits was $39.2 billion, and the actuarial value of assets was $29.4 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $9.7 billion. The covered payroll was $5.9 billion, and the ratio of the UAAL to the covered payroll was 166.4%.

The schedule of funding progress, presented as 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 2011, the ARC and the percentage contributed were $913,778 and 42.8% respectively. For calendar years 2010 and 2009, the ARC was $866,822 and $643,861, respectively. The percentage contributed for the same periods were 31.4% and 39.1%.

(c) Actuarial Methods and Assumptions

In the December 31, 2011 and 2010 actuarial valuations, a variation of the entry age actuarial cost method was used. The significant difference between the method used for SERS and the typical entry age actuarial cost method is that the normal cost is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. The SERS variation should produce approximately the same results as the typical method over the long run. The actuarial assumptions included (a) an 8.0% investment rate of return during 2011 and 2010, which was lowered to 7.5% effective December 31, 2011, (b) projected salary increases ranging from 4.3% to 11.05% with an average increase of 6.2%, and (c) a 2.75% rate of inflation. The assumptions did not include a cost of living adjustment. The remaining amortization period at December 31, 2011, was 28 – 30 years.

For purposes of determining the ARC, a 30-year equivalent amortization period was used for both December 31, 2011 and 2010.

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[1/]	UAAL as a Percentage of Covered Payroll
2011	$27,618	$42,282	$14,664	65.3%	$5,891	248.9%
2010	29,444	39,180	9,736	75.2	5,852	166.4
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

[1/]*Covered Payroll represents the total annualized compensation adjusted to an appropriate fiscal year (July 1 to June 30) using the salary scale assumption and expected turnover and replacement estimates.*

Schedule 2
Schedule of Employer Contributions
(Dollar amounts in thousands)

Year Ended December 31	Annual Required Contributions	Percentage Contributed
2011	$913,778	42.8%
2010	866,822	31.4
2009	643,861	39.1
2008	584,248	39.9
2007	617,253	39.3
2006	548,745	35.6

GASB 25 establishes a range of actuarial cost and amortization methods for the Unfunded Actuarial Accrued Liability (UAAL) and ARC. The scheduled payments since July 1, 2006 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. The increase in the ARC from 2008 to 2009 was influenced by the $0.8 billon increase in average UAAL. In 2010, the average UAAL was $4.7 billion as a result of the “Fresh Start” from Act 120. The 30-year amortization of this substantially higher UAAL resulted in the larger increase in the ARC from 2009 to 2010

See accompanying independent auditors’ report.

Schedule of Administrative Expenses
December 31, 2011
(Dollar amounts in thousands)

Personnel services:	
Salaries	$10,732
Benefits	4,391
Temporary personnel wages, overtime, and outservice training	121
Total personnel services	15,244
Professional services:	
Consultant fees	4,087
Treasury department services	1,080
IT Consulting	470
Commonwealth services	438
Consultant contractual services vendor provided	407
Legal fees	97
Consultant services EDP	1
Total professional services	6,580
Rentals:	
Real estate rent	1,983
Other equipment rental	96
Total rentals	2,079
Communication:	
Postage	327
Telephone	285
Printing and advertising	282
Total communication	894
Other expenses:	
Maintenance	830
Subscriptions and memberships	438
EDP software	286
Supplies	221
EDP and office equipment	74
Travel and conferences	60
Total other expenses	1,909
Total administrative expenses	**$26,706**

See accompanying independent auditors' report.

Summary of Investment Expenses and Consultant Fees
December 31, 2011
(Dollar amounts in thousands)

Investment Expense

	Expenses
Investment manager expenses:	
Alternative investments	$99,166
Real estate	25,435
Absolute return	21,695
Stock	18,711
Fixed income	15,320
Inflation protection	8,689
Total investment manager expenses	189,016
Investment related expenses:	
Alternative investments	6,444
Real estate	1,801
Custodial	214
Other	30
Total investment related expenses	8,489
Total investment expenses	**$197,505**

Consultant Fees

Firm	Service type	Fees
Cambridge Associates	Alternative investments	$2,225
Rocaton Investment Advisors	General investment	491
StepStone Group	Alternative investments	488
The Hay Group	Actuary	342
The Townsend Group	Real estate	284
R. V. Kuhns	General investment	131
Institutional Shareholder Services	Proxy services	18
Other	Miscellaneous	108
Total consultant fees		**$4,087**

See accompanying independent auditors' report.

Investment Section

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State Employees' Retirement System
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Anthony S. Clark, CFA
Chief Investment Officer

May 31, 2012

Dear Members of the State Employees' Retirement Board:

The following pages provide details on the structure, strategy, and performance of the State Employees' Retirement System (SERS) investment program (Fund). The data contained in the Investment Section was compiled by the SERS investment office, financial reporting and auditing staff; SERS' consultants, R. V. Kuhns & Associates, Inc, StepStone Group LLC, and the Townsend Group; and SERS' subcustodian, 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. The Board seeks to meet these objectives within acceptable risk parameters through broad diversification of investments by type, industry, investment manager style, and geographic location. Investment diversification is the primary approach used to achieve return objectives with minimal acceptable risk.

The SERS Investment Office, in conjunction with the Fund'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 Fund's investment objectives. The Fund's structure is highly complex and broadly diversified. The investment program contains 211 investment advisors managing 458 investment portfolios with distinct mandates.

The outcome of the 2011 investment program review was adoption of a strategic redirection of the Fund to better satisfy increasing liability demands of a maturing pension plan by right-sizing liquidity and reducing the return volatility of the Fund. The primary strategic change is to reduce allocations in illiquid asset classes such as Private Equity, Venture Capital, and Absolute Return Strategies, and increase exposure in more liquid market segments that include Public Equity and Fixed Income, while realizing a total return that equals or exceeds the actuarial return assumption. The Board approved the ***2011 Annual Strategic Investment Plan*** to implement the new Fund strategy.

After a multi-year recovery from the market collapse in 2008, capital market returns in 2011 receded due to sovereign debt concerns in Europe and lackluster global economic growth. European and Emerging Market equities posted negative returns. U.S. equities were modestly higher. Bonds materially outperformed equities. Prospectively, global deleveraging will continue to suppress economic activity until that process ends. Notwithstanding global fiscal drag, corporates are generating record profits and have strong balance sheets with large cash reserves. Moreover, the liquidity and capital base of the global financial system continues to improve as the banking system worldwide recapitalizes and sheds risky assets. When this recapitalization process ends, global credit capacity should improve and enable economic activity to improve.

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For 2011, the Fund recorded a gain of 2.7% for the year, well below the Fund's 8% actuarial return assumption. The Fund had net investment income and employer and employee contributions of $1.2 billion. These increases were offset by benefit and expense payments of $2.7 billion, resulting in a $1.5 billion decrease in total Fund assets. Although SERS' ten–year performance of 6.0% trailed the Fund's long–term 8% actuarial return assumption, it is important to note that SERS' long–term 20–, 25– and 30–year returns have surpassed this benchmark at 8.2%, 8.8% and 10.2%, respectively.

As mentioned last year, SERS instituted an aggressive cash management program. One of the objectives of this initiative was to ensure that cash flows matched SERS' benefit obligations for 2011 and 2012 in the wake of liquidity challenges in 2008. The Fund achieved this objective in 2011, and is well on its way to meeting the liquidity goal for 2012.

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 approximately $960 million or 4% of the Fund invested in Pennsylvania. Investments include public equities, fixed income, real estate, and alternative investments. SERS invested with 32 investment managers domiciled in Pennsylvania and provided capital to 346 publicly-traded corporations with operations and employees in the Commonwealth.

SERS' Investment Office vigilantly monitors economic conditions and market events, working to position the Fund to achieve its performance objectives 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,

Anthony S. Clark

Anthony S. Clark, CFA
Chief Investment Officer

The Board originally adopted a formal ***Statement of Investment Policy*** (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 Net Dividends Index;
- 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 ACWI ex U.S. IMI Net Index;
- Achieve in the stand alone Absolute Return Strategy a total return that exceeds the 90 Day LIBOR + 300 bps benchmark;
- 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 Russell 3000 Index + 300 bps benchmark;
- Achieve in the Venture Capital asset class a total return that exceeds the Russell 3000 Index + 300 bps 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 3 Month T-bills;

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, 2011

Asset Class	1 Year Total Return	3 Years Total Return	5 Years Total Return	10 Years Total Return
Global Stock [1/]	-6.4%	15.3%	1.5%	N/A
MSCI World Net Dividends Index	*-5.5*	*11.1*	*-2.4*	*N/A*
U.S. Stock	-0.2	14.2	-2.9	3.0%
Russell 3000 Index	*1.0*	*14.9*	*0.0*	*3.5*
Non–U.S. Stock	-13.8	11.3	-5.2	5.2
MSCI ACWI ex U.S. IMI Net Index [2/]	*-14.3*	*11.5*	*-3.1*	*7.3*
Fixed Income	6.2	16.1	6.5	7.2
SERS Custom Fixed Income Benchmark	*7.4*	*14.5*	*7.1*	*7.1*
Absolute Return Strategy [3/]	-1.8	5.9	N/A	N/A
90 Day LIBOR + 300 basis points	*3.3*	*3.5*	*N/A*	*N/A*
Cash	0.2	0.3	1.9	2.3
3 Month T-Bills	*0.1*	*0.1*	*1.5*	*2.0*
Real Estate [4/]	10.5	-7.2	-2.7	6.0
Townsend Stylized Benchmark [4/, 5/]	*13.5*	*-6.8*	*-1.8*	*5.5*
Private Equity [4/]	11.7	7.6	10.4	13.6
Russell 3000 Index +300 basis points [4/, 6/]	*3.6*	*4.5*	*2.1*	*6.6*
Venture Capital [4/]	18.0	2.8	4.8	-0.9
Russell 3000 Index +300 basis points [4/, 6/]	*3.6*	*4.5*	*2.1*	*6.6*
Inflation Protection	-6.5	11.7	4.8	10.8
SERS Custom Inflation Protection Benchmark	*-5.2*	*9.8*	*1.0*	*8.6*
Total Fund	**2.7%**	**7.8%**	**1.0%**	**6.0%**
Total Fund Benchmark	***1.0%***	***10.1%***	***2.6%***	***6.5%***

**Returns for periods greater than one year are annualized. Performance was calculated using the Modified Dietz day-weighted return methodology.*

[1/]Global Stock was initially funded in November 2006.

[2/]Represents the current benchmark. Benchmark has changed over time.

[3/]Absolute Return Strategy was initially funded in August 2007.

[4/]Real Estate, Private Equity, Venture Capital and its corresponding benchmark returns are reported on a quarter lag basis.

[5/]The private real estate component of the Townsend Stylized Benchmark is reported net of fees. The public real estate and timber components are reported before fees.

[6/]Interim benchmark recommended by SERS investment consultant and consistent with other comparable state pension plans.

U.S. Stock

Holding	Fair Value
Exxon Mobil Corp	$84,938,166
Apple Inc	76,681,485
International Business Machines Corp	45,282,657
Johnson & Johnson	45,200,753
Microsoft Corp	44,993,145
Chevron Corp	44,229,310
Google Inc	43,419,336
General Electric Co	38,560,266
Procter & Gamble Co	38,507,080
AT&T Inc	36,855,726

Non-U.S. Stock

Holding	Fair Value
Nestle SA	$50,810,991
Sanofi SA	27,131,634
Unilever NV CVA	27,062,888
HSBC Holdings	26,650,937
Novartis AG	26,337,923
Vodaphone Group	26,045,851
DBS Holdings	25,834,643
Imperial Tobacco Group	22,786,913
GlaxoSmithKline PLC	20,731,170
Roche Holdings AG	20,715,749

Non-U.S. Fixed Income

Holding	Fair Value
Russian Federation Bond, Variable Rate March 31, 2030	$30,505,460
United Kingdom Gilt Inflation Linked, 1.875% November 22, 2022	19,308,215
Government of Canada Real Return Bonds, 4.250% December 1, 2021	18,398,564
Brazilian National Treasury Note, 10.000% January 1, 2017	18,218,641
United Kingdom Treasury, 4.500% March 7, 2013	13,745,242
United Kingdom Gilt Inflation Linked, 1.250% November 22, 2017	12,562,569
Petroleos de Venezuela, 4.900% October 28, 2014	11,883,922
United Mexican States, 8.500% May 31, 2029	10,663,223
United Kingdom Gilt Inflation Linked, 2.500% July 26, 2016	10,615,435
Commonwealth of Australia Treasury Indexed Bonds, 4.000% August 20, 2020	10,469,076

U.S. Government and Government Related

Holding	Fair Value
U.S. Treasury Inflation Index Note, 2.000% January 15, 2016	$138,459,863
U.S. Treasury Inflation Index Note, 0.125% April 15, 2016	120,571,046
U.S. Treasury Note, 2.000% November 15, 2021	108,574,864
U.S. Treasury Inflation Index Note, 1.625% January 15, 2018	94,595,451
U.S. Treasury Inflation Index Note, 2.500% July 15, 2016	94,347,319
U.S. Treasury Inflation Index Note, 1.875% July 15, 2015	92,435,791
U.S. Treasury Note, 2.125% August 15, 2021	90,358,003
U.S. Treasury Inflation Index Note, 2.000% July 15, 2014	84,521,910
U.S. Treasury Bill, 0.000% June 28, 2012	72,778,041
U.S. Treasury Inflation Index Note, 2.375% January 15, 2017	69,078,621

U.S. Corporate Fixed Income

Holding	Fair Value
Chesapeake Energy Corp, 7.625% July 15, 2013	$7,402,500
Helios Finance LP, Variable Rate October 20, 2014	7,123,806
The Rouse Company, 7.200% September 15, 2012	7,113,750
Toll Brothers Finance Corp, 6.875% November 15, 2012	6,276,642
National Collegiate Stude, Variable Rate July 25, 2026	5,775,495
Phoenix Collateralized Debt Obligation Ltd, Variable Rate September 1, 2035	5,725,000
Frontier Communications Corp, 9.000% August 15, 2031	5,040,650
Goldman Sachs Group Inc, 5.450% November 1, 2012	4,067,920
Steel Dynamics Inc, 7.375% November 1, 2012	4,040,050
Page Five Funding LLC, 9.250% January 15, 2018	4,034,382

Note: A detailed list of SERS' investment holdings at December 31, 2011, may be viewed at www.sers.state.pa.us

Schedule of Trading Broker Commissions
Year Ended December 31, 2011

Broker fees on equity investment transactions for the year ended December 31, 2011 were $4.5 million. Below is a list of brokers receiving fees in excess of $20,000 during the year.

Broker	Commissions	Broker	Commissions
Merrill Lynch	$444,392	Daiwa Bank	$47,886
Credit Suisse First Boston	289,532	Janney Montgomery Scott	43,798
JP Morgan Chase	259,002	Sanford C Bernstein & Company	43,667
Morgan Stanley	216,482	BNP Capital Markets	42,147
Goldman Sachs	210,203	Mizuho Securities	41,670
Investment Technology Group	182,752	Credit Agricole	36,893
UBS Securities	172,476	Jefferies & Company	35,107
Nomura Bank International	161,196	Stifel Nicolaus	34,069
Northern Trust	145,830	The Royal Bank Of Scotland	33,312
Citigroup Global Markets	136,366	Caylon Securities	29,096
Deutsche Bank	135,560	Equita	27,476
Macquarie Bank	130,896	SG Securities	26,235
Liquidnet	117,640	ABN AMRO	25,761
Bloomberg Tradebook	97,975	Keefe Bruyette & Woods	24,594
Barclays	95,330	Fator Doria Atherino	24,461
Credit Lyonnais	87,298	Pershing	23,975
Sturdivant & Company	77,815	Oppenheimer	23,100
Raymond James & Associates	64,047	Boenning & Scattergood	22,407
BNY Mellon	61,448	Standard Chartered Bank	21,977
HSBC Securities	52,511	The Williams Capital Group	20,744

The assets of SERS are administered by the Board. The Board adopted an investment 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, 2011: SERS' assets had an unaudited market exposure of approximately $24.4 billion.

SERS Asset Allocation

Asset Class/Strategy	Market Exposure* (Unaudited) ($ millions)	%	2011 Long-Term Target Allocation
Global Stock	$920.4	3.8%	5.0%
U.S. Stock	3,260.1	13.4	12.5
Non-U.S. Stock	2,846.3	11.7	21.5
Alternative Investments	6,549.3	26.8	15.0
Real Estate	2,588.3	10.6	8.0
Fixed Income	4,473.7	18.3	26.0
Inflation Protection	1,025.2	4.2	3.0
Absolute Return	1,979.2	8.1	9.0
Cash	763.2	3.1	0.0
Total Fund	**$24,405.7**	**100.0%**	**100.0%**

**Numbers may not add due to rounding.*

Number of Investment Advisors: SERS had 211 investment advisors managing multiple portfolios across asset classes.

- 2 Global Stock advisors
- 1 Cash advisor
- 4 U.S. Stock advisors
- 2 Inflation Protection advisors
- 8 Non-U.S. Stock advisors
- 26 Real Estate advisors
- 6 Absolute Return advisors
- 56 Venture Capital general partners managing limited partnerships
- 17 Fixed Income advisors
- 89 Private Equity general partners managing limited partnerships

Number of Investment Portfolios: SERS had 458 investment portfolios.

- 2 Global Stock portfolios
- 1 Cash portfolio
- 5 U.S. Stock portfolios
- 2 Inflation Protection portfolios
- 10 Non-U.S. Stock portfolios
- 61 Real Estate portfolios
- 6 Absolute Return portfolios
- 121 Venture Capital limited partnership interests
- 21 Fixed Income portfolios
- 229 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 Net Dividends Index. SERS' ***2011 Annual Strategic Investment Plan*** targets a long-term allocation of 5.0% of Fund assets to global stocks.

Market Exposure as of December 31, 2011: Global Stock had a $920.4 million market exposure, 3.8% of the total Fund's $24.4 billion.

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

Type of Investment Portfolios: As of December 31, 2011, 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 12/31/11* ($ millions)
1.	Walter Scott & Partners	Growth	$448.9
2.	Marathon-London Global Fund	Contrarian sector relative value	471.5
	Total Global Stock Investments		$920.4

**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 benchmarks. SERS contracts with external investment advisors to manage 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 U.S. Stock asset class is managed on a total return basis.

SERS' long-term investment objective for the 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 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).

SERS' ***2011 Annual Strategic Investment Plan*** targets a long-term allocation of 12.5% of assets to U.S. Stock: 10.0% of the Fund to large cap and 2.5% 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, uses index funds and a hedge fund-of-funds investment. The mid/small cap U.S. stocks, benchmarked to the Russell 2500 Index, uses index funds, and active strategies benchmarked to the Russell Midcap Index and the Russell 2500 Index.

Market Exposure as of December 31, 2011: U.S. Stock had a $3.3 billion market exposure, 13.4% of the total Fund's $24.4 billion.

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

Type of Investment Portfolios: As of December 31, 2011, 10.7% of the total Fund was in large cap U.S. stocks, and 2.7% in mid/small cap U.S. stocks.

SERS U.S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	Market Exposure as of 12/31/11* ($ millions)
Large cap		
1. Mellon Capital Management/Russell 1000 Index	Russell 1000 Index	$2,609.7
2. Robeco Sage Capital	Fund-of-Hedge Funds	1.3
Mid/small cap		
3. Iridian Asset Management	Midcap private business value	200.7
4. Emerald Advisers	Pennsylvania companies	285.8
Mellon Capital Management Custom U.S. Equity	Pennsylvania companies	162.7
Total U.S. Stock Investments		**$3,260.1**

**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 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 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 ACWI ex U.S. IMI Net Index.

SERS' ***2011 Annual Strategic Investment Plan*** targets a long-term allocation of 21.5% of assets to non-U.S. stocks: 10.6% of the Fund to large/mid cap stocks in developed markets, 1.9% of the Fund to small cap stocks in developed markets, and 9.0% 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 (net), uses indexed products and active strategies. The small cap stocks in non-U.S. developed markets, benchmarked to the MSCI EAFE Small Cap Index (net), uses active strategies. The emerging markets stocks allocation is benchmarked to the MSCI Emerging Markets Index (net) and uses an MSCI Emerging Markets Index fund as well as active strategies.

Market Exposure as of December 31, 2011: Non-U.S. Stock had a $2.8 billion market exposure which was 11.7% of the total Fund's $24.4 billion.

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

Type of Investment Portfolios: As of December 31, 2011, 7.0% of the total Fund was allocated to large/mid cap stocks in non-U.S. developed markets; 1.4% to small cap stocks in non-U.S. developed markets; and 3.2% to emerging markets.

SERS Non-U.S. Stock Investments

	Non–U.S. Stock Investment Advisor	Investment Style	Market Exposure as of 12/31/11* ($ millions)
Large/mid cap			
1.	Mellon Capital Management MSCI World ex-U.S. Index	MSCI World ex-U.S. Index	$650.2
2.	Artisan Partners	Global ex-U.S. growth	282.4
3.	Templeton Investment Counsel	Global ex-U.S. value	467.8
4.	Morgan Stanley Investment Management	EAFE value	313.9
Small cap			
5.	Harris Associates	Intrinsic value	347.0
6.	Pictet Asset Management	Value with growth	2.0
Emerging markets			
7.	BlackRock Emerging Markets Index Non-Lendable Fund	MSCI Emerging Markets Index	534.7
8.	Vanguard Emerging Markets - Exchange Traded Fund (ETF)	MSCI Emerging Markets Index	146.2
	Templeton Strategic Emerging Markets Fund II	Private placements with public companies	16.9
	Templeton Strategic Emerging Markets Fund III	Private placements with public companies	85.2
	Total Non–U.S. Stock Investments		**$2,846.3**

**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 the 90 Day LIBOR + 300 bps benchmark.

SERS' ***2011 Annual Investment Plan*** targets a long-term allocation of 9.0% of Fund assets to Absolute Return Strategies.

Market Exposure as of December 31, 2011: Absolute Return Strategies had a $2.0 billion market exposure, 8.1% of the total Fund's $24.4 billion.

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

Type of Investment Portfolios: As of December 31, 2011, SERS' Absolute Return Strategies were diversified through many strategies and sub-strategies.

SERS Absolute Return Strategies Investments

	Absolute Return Strategies Investment Advisor	Investment Style	Market Exposure as of 12/31/11* ($ millions)
1.	Arden	Absolute Return	$245.8
2.	Blackstone Alternative Asset Management	Absolute Return	945.9
3.	Mesirow	Absolute Return	350.6
4.	Morgan Stanley Alternative Investment Partners	Absolute Return	136.4
5.	Pacific Alternative Asset Management Company	Absolute Return	105.8
6.	Rock Creek	Absolute Return	194.7
	Total Absolute Return Strategies		**$1,979.2**

**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 Fund because of its ability to generate current income from interest payments, (increase the value of the Fund through the reinvestment of those interest payments), provide the Fund with its primary source of liquidity, serve as a hedge against disinflation and/or deflation, and to help diversify the overall Fund.

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 (34.8%), the Custom Intermediate TIPS (20.0%), the Citigroup High Yield Market (22.2%) and JP Morgan Emerging Market Bond indices (23.0%).

SERS' ***2011 Annual Strategic Investment Plan*** targeted a long–term allocation of 26.0% of assets of the total Fund to the Fixed Income asset class. Of this amount, 70.0% is targeted to the core strategies (including global and TIPS) and 30.0% to specialty strategies (high–yield and emerging market debt).

Market Exposure as of December 31, 2011: Fixed Income had a $4.5 billion market exposure, 18.3% of the total Fund's $24.4 billion.

Number of Investment Advisors: SERS had contracts with 17 external 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 nine actively managed core bond portfolios and one passively managed core fixed income portfolio: one Custom Intermediate Duration Treasury Inflation Protected (TIPS) portfolio, one global TIPS portfolio, two global core portfolios, two US Treasury portfolios, one asset backed security portfolio, one portfolio indexed to Barclay's Capital Aggregate Index and two corporate credit portfolios. The nine actively managed core portfolios totaled $2.5 billion. The passively managed portfolio was valued at $419.5 million. The combination of core portfolios represented 65.2% 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 one corporate high yield portfolio with a market exposure of $402.3 million, one high yield commercial mortgage–backed securities portfolio with a market exposure of $249.2 million, one structured credit portfolio with a market exposure of $125.3 million, four emerging market debt portfolios with a market exposure of $755.3 million and $25.6 million of other investments. The specialty portfolios represent 34.8% of the asset class.

SERS Fixed Income Investments

	Fixed Income Investment Advisor	Investment Style	Market Exposure as of 12/31/11* ($ millions)
Core			
1.	Brandywine Global	Global Core Fixed	$162.9
2.	Taplin, Canida & Habacht	US Credit	168.6
3.	NISA Investment Advisors	Active Intermediate Duration TIPS	1,358.3
4.	Ramius Advisors	US Short-term Corporate	105.7
5.	Waterfall Asset Management	Asset-backed Securities	124.4
6.	Franklin Templeton	Global Core Fixed	73.9
7.	Wellington US Treasuries	Domestic Treasuries	149.7
8.	PIMCO US Treasuries	Domestic Treasuries	151.7
	PIMCO Global TIPS	Global TIPS	201.2
9.	BNY Mellon Cash Investment Strategies	Passively Managed Barclay's Aggregate	419.5
Specialty			
10.	Berwind - PA Capital Fund	PA Capital Fund (inactive)	2.3
11.	Pyramis Global Advisors	Commercial Mortgage-Backed Securities	249.2
12.	Oaktree Capital Management	Mezzanine Fund (liquidating)	0.5
13.	Stone Harbor	Corporate High Yield	402.3
	Stone Harbor	Emerging Market Debt	233.6
14.	Ashmore AEMDF	Emerging Market Debt - U.S. dollars	110.9
	Ashmore LCD	Emerging Market Debt - local currency	122.6
15.	W.R. Huff	High Yield (liquidating)	21.7
16.	SEI Structured Credit Fund	High Yield Bank Loans	125.3
17.	Greylock Capital Management	Emerging Market Debt (liquidating)	1.1
	PIMCO Emerging Market Debt	Emerging Market Debt	288.2
	Total Fixed Income Investments		**$4,473.7**

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

Cash is one of six major 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 Pennsylvania State Treasury Department'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 Fund'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. 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 3 Month T-bills.

Market Exposure as of December 31, 2011: The effective cash exposure was $763.2 million or 3.1% of the total Fund's $24.4 billion.

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

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 $958 million on behalf of SERS and SERS' external investment advisors as of December 31, 2011. Included in the PA State Treasury - STIF account is $3.3 million held in a transition manager account (Northern Trust).

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' ***2011 Annual Strategic 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, 2011: Real Estate had $2.6 billion fair value, 10.6% of the total Fund's $24.4 billion.

Number of Investment Advisors: SERS had contracts with 26 external investment advisors to manage Real Estate portfolios as of December 31, 2011.

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

- 40% pooled funds, 60% separate accounts
- 22% office, 4% industrial, 9% retail, 28% multifamily, 11% hotel, 8% timber, 18% other (including senior and student housing, land and various niche property investments)
- 9% Pennsylvania, 35% East excluding PA, 26% West, 13% South, 5% Midwest, 12% International
- 18% of the fair value of the separate accounts was invested in 14 investments located in Pennsylvania

SERS Real Estate Investments

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value as of 12/31/11 ($ millions)
1	AG Asia Realty Fund	2007	Diversified	Limited Partnership	$17.2
2	Apollo Real Estate Fund III	1998	Diversified	Limited Partnership	4.6*
3	Berwind Investment Partnership V	1999	Diversified	Limited Partnership	9.5*
	Berwind Investment Partnership VI	2002	Diversified	Limited Partnership	10.1*
	Berwind Investment Partnership VII	2005	Diversified	Limited Partnership	13.3*
	Berwind Investment Partnership VIII	2007	Diversified	Limited Partnership	10.6*
4	Blackstone Real Estate Partners III	1999	Diversified	Limited Partnership	0.5
	Blackstone Real Estate Partners IV	2003	Diversified	Limited Partnership	14.9
	Blackstone Real Estate Partners V	2006	Diversified	Limited Partnership	53.8
	Blackstone Real Estate Partners VI	2007	Diversified	Limited Partnership	85.7
	Blackstone Real Estate Partners VII	2011	Diversified	Limited Partnership	6.7*
5	CBRE Clarion Real Estate Securities	1996	REITs	Separate Account	259.1
6	Clerestory Small Cap Fund I	2007	Diversified	Limited Partnership	9.2
7	Colony Investors VIII	2007	Diversified	Limited Partnership	6.3
8	Fidelity Real Estate Opportunistic Income Fund	2007	Debt	Limited Partnership	41.9
9	Fillmore East Fund	2005	Debt	Limited Partnership	6.2
	Fillmore West Fund	2008	Debt	Limited Partnership	18.3
10	Forest I.M.A.	1992	Timber	Separate Account	190.2
11	Goldman Sachs Whitehall V & VI	1994	Diversified	Limited Partnership	0.2
	Goldman Sachs Whitehall VII & VIII	1996	Diversified	Limited Partnership	0.5
12	Grosvenor I.M.A.	1994	Diversified	Separate Account	330.2
	Grosvenor Residential Investment Partners I	2007	Residential	Limited Partnership	15.6
13	Hawkeye Scout Fund I	2006	Diversified	Limited Partnership	66.9
14	Heitman America Real Estate Trust	2007	Diversified	Limited Partnership	108.1
	Heitman I.M.A.	1988	Diversified	Separate Account	81.6
15	LaSalle I.M.A.	1994	Diversified	Separate Account	267.7
16	Lowe I.M.A.	1994	Diversified	Separate Account	350.5
17	Lubert Adler Fund II	1998	Diversified	Limited Partnership	0.0*
	Lubert Adler Fund III	2000	Diversified	Limited Partnership	1.6*
	Lubert Adler Fund IV	2004	Diversified	Limited Partnership	4.9*
	Lubert Adler Fund V	2006	Diversified	Limited Partnership	9.4*
	Lubert Adler Fund VI	2008	Diversified	Limited Partnership	8.0*
	Lubert Adler Fund VI-A	2010	Diversified	Limited Partnership	1.3*
18	OCM Real Estate Opp Fund A	1996	Diversified	Limited Partnership	0.8
	OCM Real Estate Opp Fund II	1998	Diversified	Limited Partnership	0.9
	OCM Real Estate Opp Fund III	2003	Diversified	Limited Partnership	13.3
19	The Oxford Fund	2006	Diversified	Limited Partnership	14.2

SERS Real Estate Investments (continued)

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value as of 12/31/11 ($ millions)
20	Prudential Latin America Residential Fund III	2007	Residential	Limited Partnership	$21.9
	Prudential Latin America Retail Fund I	2006	Retail	Limited Partnership	23.6
	Prudential Senior Housing Fund II	2001	Senior housing	Limited Partnership	0.4
	Prudential Senior Housing Fund III	2006	Senior housing	Limited Partnership	32.2
	Prudential Senior Housing Fund IV	2011	Senior housing	Limited Partnership	2.5
21	Rockpoint Finance Fund I	2006	Diversified	Limited Partnership	1.9
	Rockpoint Real Estate Fund I	2004	Diversified	Limited Partnership	1.9
	Rockpoint Real Estate Fund II	2005	Diversified	Limited Partnership	10.2
	Rockpoint Real Estate Fund III	2007	Diversified	Limited Partnership	33.1
22	Sentinel Real Estate Fund	1986	Residential	Open-Ended Fund	57.1
23	Starwood Fund IV	1997	Diversified	Limited Partnership	0.3*
	Starwood Fund V	1999	Diversified	Limited Partnership	0.3*
	Starwood Fund VI	2001	Diversified	Limited Partnership	17.8*
	Starwood Fund VII	2005	Diversified	Limited Partnership	25.3
	Starwood Fund VIII	2007	Diversified	Limited Partnership	43.1*
24	UBS Trumbull Property Fund	1988	Diversified	Open-Ended Fund	76.0
	UBS Trumbull Property Income Fund	1988	Diversified	Open-Ended Fund	71.4
25	Urdang Real Estate Securities	2002	REITs	Separate Account	58.0
26	Westbrook Fund II	1997	Diversified	Limited Partnership	0.4*
	Westbrook Fund III	1998	Diversified	Limited Partnership	2.9*
	Westbrook Fund IV	2000	Diversified	Limited Partnership	0.2*
	Westbrook Fund V	2004	Diversified	Limited Partnership	1.3
	Westbrook Fund VI	2005	Diversified	Limited Partnership	9.8
	Westbrook Fund VII	2006	Diversified	Limited Partnership	42.6
	Westbrook Fund VIII	2009	Diversified	Limited Partnership	20.3
	Total Real Estate Investments				**$2,588.3**

**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 Private Equity and Venture Capital 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.

Private Equity and Venture Capital Defined

Private Equity primarily refers to investments in the equity and subordinated debt of established companies. Private equity approaches undertaken by SERS' limited partnerships include three types: (1) Leveraged buyouts and management buyouts, (2) Distressed debt investing, and (3) Secondary interests in established private equity funds. Leveraged buyouts and management buyouts involve companies 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. Distressed debt investing involves: deleveraging debt–laden but successful companies, by infusing capital to permit debt reduction in exchange for an equity stake in the company; or acquiring the 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. Secondary interests in established private equity funds 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.

Venture Capital is the financing of young, rapidly growing companies, typically at three stages of development: (1) seed and early stage, (2) late and later stage, and (3) growth or expansion stage. Seed financing supports companies in their conceptual phase, when 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. For instance, when a product has been developed and may have been shipped to customers for testing, and when management positions have been filled and an operating team is in place. Late and later stage financing supports companies that have proven revenues, and are in the process of rolling out operations and building sales to achieve profitability. 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.

Investment Objective: SERS' long term investment objective for Alternative Investments is to achieve a total return, net of fees, in excess of the return generated by the Russell 3000 Index + 300 bps. SERS' ***2011 Annual Strategic Investment Plan*** targeted an Alternative Investment long–term allocation range with a midpoint of 15.0%.

Fair Value as of December 31, 2011: Alternative Investments had a $6.5 billion fair value, 26.8% of the total Fund's $24.4 billion. 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	$365.4	$1,818.6	7.4%
Private Equity	1,388.6	4,730.7	19.4
Total Alternative Investments	**$1,754.0**	**$6,549.3**	**26.8%**

Number of Limited Partnerships: As of December 31, 2011, SERS had commitments to 350 active Alternative Investments limited partnerships, 229 to Private Equity partnerships and 121 to Venture Capital 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 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. Additionally, SERS utilizes one manager to oversee stock distributions and another manager for co–investment opportunities.

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. Six 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.

Alternative Investment Portfolio Exposure: The Alternative Investment Program is well–diversified by sub sector, geography and industry focus. As of September 30, 2011, based on fair value, the Program's exposure was as follows:

By Fund Sub Sector:

U.S. Private Equity	40.5%
U.S. Venture Capital	24.4
Non-U.S.[1/]	21.7
Distressed/Opportunistic	9.6
Pennsylvania Related	3.9

By Portfolio Company Geography:

United States	66.3%
United Kingdom	6.0
France	2.7
Italy	2.5
Germany	2.3
China	2.1
Canada	1.6
Rest of World	16.5

By Portfolio Company Industry:

Information Technology	19.8%
Consumer Discretionary	18.8
Financials	18.6
Health Care	14.5
Industrials	11.3
Energy	4.7
Materials	3.4
Consumer Staples	3.2
Telecommunication Svcs	3.0
Other	2.7

[1/] *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	$32,132,843	$2,975,636
2	Adams Capital Management II	Early Stage	10/1/1999	30,000,000	30,000,000	2,600,000
	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	3,472,939
	Advanced Technology Ventures VII	Multi-Stage	7/11/2001	27,000,000	25,784,700	12,304,127
4	Alloy Annex I	Seed/Early Stage	10/31/2003	5,000,000	5,000,000	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	25,000,000	5,604,706
	Alloy Ventures 2005	Seed/Early Stage	8/11/2005	25,000,000	25,000,000	0
5	Apax Excelsior VI	Later Stage	7/3/2000	35,000,000	34,151,324	45,811,535
	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	161,557,955
6	APEX Investment Fund IV	Early Stage	9/17/1999	25,000,000	25,748,664	2,303,927
	APEX Investment Fund V	Early Stage	4/19/2002	20,000,000	20,534,571	4,775,986
7	Artiman Ventures II	Seed/Early Stage	10/27/2006	25,000,000	20,375,000	0
	Artiman Ventures III	Seed/Early Stage	8/9/2010	20,000,000	2,750,000	0
8	Atlas Venture Fund IV	Early Stage	3/31/1999	26,000,000	23,809,496	8,042,039
	Atlas Venture Fund V	Early Stage	2/7/2000	37,200,000	37,211,109	37,844,709
	Atlas Venture Fund VI	Early Stage	8/1/2001	24,800,000	24,800,000	6,517,283
9	Austin Ventures VIII	Early Stage	7/26/2001	15,000,000	13,213,466	881,830
	Austin Ventures IX	Early Stage	1/9/2006	20,932,140	21,652,612	7,675,945
10	Battery Ventures VIII	Diversified	8/13/2007	25,000,000	22,328,333	966,667
11	Birchmere Ventures III	Early Stage	5/5/2005	10,000,000	9,402,750	4,397,555
12	Care Capital Investments III	Middle/Later Stage	2/8/2006	25,000,000	14,831,108	109,214
13	Charles River Partnership XI	Early Stage	2/15/2001	11,032,259	10,858,417	14,360,660
14	Clearstone Venture Partners III-A	Early/Late Stage	12/22/2004	25,000,000	23,000,000	267,818
15	Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	20,149,041	21,722,142
	Cross Atlantic Technology Fund II	Early Stage	1/28/2002	32,900,000	32,900,000	18,871,600
	Novo Vita	Early Stage	12/26/2000	11,616,498	11,616,498	5,377,593
16	Devon Park Bioventures	Early/Late Stage	12/15/2006	10,842,697	5,821,908	701,849
17	Draper Fisher Jurvetson Fund VI	Early Stage	8/13/1999	8,000,000	8,000,000	3,820,841
	Draper Fisher Jurvetson Fund VII	Early Stage	9/22/2000	20,000,000	20,000,000	3,178,088
18	Draper Triangle Ventures	Early Stage	12/20/1999	20,000,000	20,431,137	10,505,577
	Draper Triangle Ventures II	Early Stage	10/13/2004	12,000,000	11,651,287	696,538
19	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	9,870,000	3,865,556

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
20	Frazier Healthcare III	Early Stage	3/31/1999	$30,000,000	$30,000,000	$10,337,350
	Frazier Healthcare IV	Early Stage	9/27/2001	30,000,000	29,595,000	15,550,752
	Frazier Healthcare V	Early/Late Stage	5/10/2005	30,000,000	28,530,000	17,546,962
21	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
22	Guggenheim Technology Ventures I	Early/Late Stage	11/17/2008	2,000,000	1,560,000	297,134
23	Halpern Denny Fund III	Later Stage	4/26/2000	25,000,000	24,937,500	26,653,673
24	HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	194,586,055	142,782,053
	HarbourVest Partners VII	Fund of Funds	3/24/2003	75,000,000	66,000,000	14,664,375
	HarbourVest Partners VIII	Fund of Funds	10/5/2006	100,000,000	70,500,000	3,981,490
25	Healthcare Ventures III	Early Stage	9/30/1992	15,000,000	15,000,000	31,427,147
	Healthcare Ventures V	Early Stage	12/31/1997	25,000,000	25,000,000	52,355,501
	Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	35,000,000	3,481,797
	Healthcare Ventures VII	Early Stage	10/29/2002	35,000,000	33,337,500	8,413,883
	Healthcare Ventures VIII	Early Stage	8/22/2005	30,000,000	20,325,000	6,873,126
26	Highland Capital Partners VI	Early Stage	10/25/2001	25,000,000	25,000,000	23,621,783
	Highland Capital Partners VII	Early Stage	10/13/2006	35,000,000	27,737,500	3,547,906
	Highland Consumer Fund I	Diversified	5/4/2007	25,000,000	15,263,199	0
27	I.P. II	Early Stage	12/17/2001	8,600,000	8,584,074	1,126,082
	I.P. III	Seed/Early Stage	11/19/2004	10,500,000	9,030,000	1,976,373
	I.P. IV	Seed/Early Stage	9/21/2007	14,000,000	8,960,000	1,694,588
28	Insight Venture Partners VI	Buyouts	8/21/2007	30,000,000	29,591,209	4,539,423
	Insight Venture Partners VII	Buyouts	4/27/2011	20,000,000	4,120,000	0
29	InterWest Partners VIII	Early Stage	8/25/2000	20,000,000	15,000,000	1,106,563
	InterWest Partners IX	Early Stage	10/19/2005	25,000,000	25,000,000	7,990,495
	InterWest Partners X	Early Stage	10/30/2008	30,000,000	12,000,000	0
30	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	6,867,894
31	JMI Equity Fund V	Early/Late Stage	6/7/2005	24,000,000	23,117,205	29,478,324
	JMI Equity Fund VI	Early/Late Stage	6/27/2007	40,000,000	37,080,000	0
	JMI Equity Fund VII	Growth Equity	2/14/2011	10,000,000	2,370,000	0
32	JP Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	105,670,543	46,578,470
	JP Morgan Venture Capital Investors II	Fund of Funds	9/8/2000	100,000,000	106,475,420	40,648,676
	JP Morgan Venture Capital Investors III	Fund of Funds	6/20/2006	100,000,000	74,718,758	6,588,760
33	Keystone V	Later Stage	3/31/1998	25,000,000	25,000,000	2,157,117
34	Kline Hawkes Pacific	Early Stage	8/30/2000	15,000,000	15,100,498	5,089,301
35	Knightsbridge Venture Capital VI	Fund of Funds	12/7/2004	20,000,000	16,466,667	0
36	Lightspeed Venture Partners VII	Early Stage	2/27/2006	18,000,000	15,577,490	3,199,006
	Lightspeed Venture Partners VIII	Early Stage	6/27/2008	15,000,000	9,900,000	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
37	Meritech Capital Partners II	Later Stage	1/2/2001	$26,475,166	$24,577,777	$26,889,124
	Meritech Capital Partners III	Later Stage	4/5/2006	35,000,000	33,950,000	16,936,663
	Meritech Capital Partners IV	Later Stage	2/10/2011	20,000,000	3,900,000	0
38	Mid-Atlantic Venture Fund 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
39	Morgenthaler Partners VII	Early Stage	7/26/2001	20,000,000	7,000,000	434,724
	Morgenthaler Partners VIII	Diversified	10/3/2005	35,000,000	35,000,000	20,307,380
	Morgenthaler Partners IX	Early Stage	11/25/2008	35,000,000	28,700,000	7,396,904
40	New Enterprise Associates VI	Early Stage	3/31/1994	25,000,000	25,000,000	200,407,487
	New Enterprise Associates VII	Early Stage	12/31/1996	30,000,000	30,000,000	102,186,705
	New Enterprise Associates IX	Early Stage	11/15/1999	20,000,000	19,600,000	4,836,176
	New Enterprise Associates X	Early/Late Stage	12/11/2000	35,000,000	34,503,000	26,419,301
	New Enterprise Associates 11	Early/Late Stage	3/1/2004	25,000,000	23,500,000	13,734,534
	New Enterprise Associates 12	Early/Late Stage	6/26/2006	35,000,000	30,104,833	4,156,464
41	NewSpring Growth Capital II, L.P.	Later Stage	12/5/2006	10,000,000	6,500,000	517,229
42	Novitas Capital III	Early Stage	4/17/2003	10,000,000	8,700,000	1,414,938
43	Oak Investment Partners XI	Later Stage	7/21/2004	35,000,000	35,000,000	12,516,412
	Oak Investment Partners XII	Early/Late Stage	7/10/2006	40,000,000	36,710,052	5,448,813
44	Polaris Venture Partners II	Early Stage	9/30/1998	25,000,000	24,750,000	28,400,176
	Polaris Venture Partners III	Early Stage	1/21/2000	50,000,000	49,500,000	20,831,679
	Polaris Venture Partners IV	Early Stage	9/30/2002	50,000,000	49,750,000	12,723,022
	Polaris Venture Partners V	Diversified	8/8/2006	50,000,000	39,750,000	2,821,500
45	Quaker BioVentures	Early Stage	2/20/2003	20,000,000	20,000,000	3,526,430
	Quaker BioVentures II	Middle/Later Stage	4/3/2007	25,000,000	13,500,000	1,083,269
46	Sofinnova Venture Partners VII	Early Stage	1/18/2007	20,000,000	13,400,000	5,672,924
47	Sprout VII	Early Stage	3/31/1995	18,000,000	18,000,000	47,498,519
48	Summit Accelerator Fund	Early Stage	11/15/1999	8,000,000	7,609,500	12,168,635
	Summit Partners VC Fund II	Diversified	9/22/2006	15,000,000	12,600,000	5,315,560
	Summit IV	Later Stage	9/30/1995	25,000,000	24,250,000	182,806,450
	Summit V	Later Stage	3/31/1998	37,500,000	36,187,500	49,099,944
49	T.Rowe Price Stock Distribution Acct.	Public Stock	1/3/2005	0	378,864,639	362,182,020
50	TA/Advent VIII	Later Stage	6/30/1997	30,000,000	29,400,000	66,756,735
51	Three Arch Capital	Early Stage	12/20/2000	20,000,000	19,500,000	4,800,979
	Three Arch Partners IV	Early/Late Stage	6/4/2004	20,000,000	17,550,000	4,484,378
52	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	40,048,219	11,510,535
53	US Venture Partners VII	Early Stage	2/18/2000	13,750,000	13,750,000	4,800,279
	US Venture Partners VIII	Early Stage	6/1/2001	26,250,000	25,830,000	11,434,063
54	Weathergage Venture Capital	Fund of Funds	6/26/2007	25,000,000	15,250,000	559,887
	Weathergage Venture Capital II	Fund of Funds	6/29/2010	25,000,000	3,750,000	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
55	Weston Presidio III	Later Stage	12/31/1998	$35,000,000	$31,989,586	$26,056,409
	Weston Presidio IV	Later Stage	6/21/2000	35,000,000	34,451,015	26,420,992
	Weston Presidio V	Later Stage	12/8/2005	50,000,000	39,378,129	21,129,987
56	Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	16,951,175	6,562,490
	Total Active Venture Capital			**$3,478,037,091**	**$3,506,620,874**	**$2,518,874,963**

Cash flows as of 9/30/11
**Commitments as of 12/31/11*

Inactive Venture Capital Funds

	Capital Committed	Capital Drawn	Distributions
Total Inactive Venture Capital	**$279,700,000**	**$268,938,557**	**$508,661,021**

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	$18,240,000	$6,392,877
	Abingworth Bioventures V	Multi-Stage	1/23/2007	33,775,000	17,690,794	1,866,550
2	ABRY Advanced Securities Fund	Senior Debt	8/1/2008	25,000,000	21,069,030	3,241,798
	ABRY Mezzanine Partners	Mezzanine	3/15/2002	30,000,000	26,588,202	42,560,109
	ABRY Senior Equity II	Private Equity	7/27/2006	30,000,000	27,198,413	21,325,113
	ABRY Broadcast Partners III	Buyouts	2/7/1997	25,000,000	22,641,544	22,326,867
	ABRY Partners IV	Buyouts	3/30/2001	35,000,000	25,119,146	37,459,148
	ABRY Partners V	Buyouts	7/29/2005	45,000,000	40,563,642	63,056,017
	ABRY Partners VI	Mid Market Buyouts	3/26/2008	50,000,000	41,063,330	8,462,040
	ABRY Partners VII	Mid Market Buyouts	8/10/2011	30,000,000	4,129,860	24,886
3	ABS Capital Partners III	Buyouts	3/26/1999	35,000,000	29,428,915	18,465,307
	ABS Capital Partners IV	Buyouts	10/13/2000	35,000,000	30,984,280	60,238,422
	ABS Capital Partners V	Buyouts	11/14/2005	20,000,000	19,627,560	5,513,338
4	Accel Europe	Early Stage	7/2/2001	15,000,000	11,350,000	10,425,733
5	Advent International GPE VI-A	Mid Market Buyouts	7/7/2008	35,000,000	20,212,500	1,050,000
	Advent Latin American PE Fund IV	Buyouts	8/2/2007	30,000,000	26,100,000	10,492,308
	Advent Latin American PE Fund V	Buyouts	5/17/2010	15,000,000	3,000,000	0
6	AG Capital Recovery Partners IV	Distressed Debt	2/4/2003	50,000,000	35,415,216	55,777,537
	AG Capital Recovery Partners V	Distressed Debt	4/17/2006	20,000,000	20,000,000	15,640,000
7	Alpha Private Equity Fund 4	Mid Market Buyouts	5/15/2002	26,508,000	35,605,050	74,703,236
	Alpha Private Equity Fund 5	Mid Market Buyouts	4/1/2006	57,796,800	65,860,055	7,067,686
8	APAX Europe IV	Buyouts	3/31/1999	32,424,000	29,909,800	38,420,276
	APAX Europe V	Buyouts	4/27/2001	53,262,000	70,385,477	138,669,512
	APAX Europe VI	Buyouts	5/19/2005	76,349,190	75,559,000	51,579,928
	APAX Europe VII	Buyouts	6/27/2007	132,170,235	111,526,875	17,651,434
9	Apollo Investment Fund IV	Buyouts	9/30/1998	75,000,000	74,838,620	120,169,059
	Apollo Investment Fund V	Buyouts	8/23/2001	50,000,000	46,528,159	103,913,739
	Apollo Investment Fund VI	Buyouts	7/19/2006	40,000,000	35,967,640	5,203,256
10	Asia Alternatives Capital Partners	Fund of Funds	6/26/2007	50,000,000	21,102,350	4,899,418
	Asia Alternatives Capital Partners II	Fund of Funds	3/7/2008	50,000,000	9,165,897	1,048,262
	Asia Alternatives Korea Buyout Investors	Buyouts	7/22/2011	7,000,000	1,007,445	0
11	Asia Pacific Growth Fund III	Global Situations	9/28/1999	15,000,000	15,314,778	12,712,967
12	Audax Private Equity Fund	Mid Market Buyouts	5/25/2000	35,000,000	36,839,098	52,347,295
	Audax Private Equity Fund II	Mid Market Buyouts	6/17/2005	25,000,000	25,517,169	18,513,263
	Audax Private Equity Fund III	Mid Market Buyouts	11/7/2007	37,000,000	34,426,518	6,036,240

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 Special Situations Fund IV	Distressed Debt	3/27/2006	$50,000,000	$50,000,000	$62,882,608
	Avenue Special Situations Fund V	Distressed Debt	6/4/2007	70,000,000	70,004,050	85,833,191
	Avenue Special Situations Fund VI	Distressed Debt	11/2/2010	20,000,000	15,210,238	356,781
	Avenue Asia Special Situations Fund IV	Distressed Debt	6/30/2006	50,000,000	31,897,973	10,374,296
	Avenue Europe Special Situations Fund	Distressed Debt	7/30/2008	38,632,500	25,749,356	15,602,519
14	AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	21,361,892	30,216,994
	AXA Secondary Fund III-2	Secondaries	11/24/2004	14,000,000	11,457,704	15,230,948
	AXA Secondary Fund IV	Secondaries	2/26/2007	80,000,000	54,061,079	5,482,886
15	B III Capital Partners	Distressed Debt	9/30/1997	35,000,000	34,503,390	50,522,576
16	Bain Capital Asia Fund	Distressed Debt	10/18/2007	12,000,000	8,880,000	1,224,024
	Bain Capital Fund VIII-E	Buyouts	12/15/2004	12,144,000	12,874,983	7,276,653
	Bain Capital Europe III	Buyouts	7/10/2008	72,432,276	32,751,600	3,438,359
	Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	25,000,000	43,679,933
	Bain Capital Fund IX	Buyouts	4/10/2006	75,000,000	73,354,725	19,699,320
	Bain Capital IX Coinvestment Fund	Buyouts	4/20/2006	90,000,000	58,950,000	5,700,167
	Bain Capital Fund X	Buyouts	1/15/2008	15,000,000	14,550,000	3,182,465
	Bain Capital X Coinvestment Fund	Buyouts	7/28/2008	5,000,000	700,000	16,957
	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	32,000,000	12,576,141
17	Baring India Private Equity Fund III Limited	Mid Market Buyouts	10/10/2008	5,000,000	1,210,764	261,932
	Baring Vostok Private Equity Fund IV	Buyouts	3/10/2008	30,000,000	17,702,342	1,163,149
18	Battery Ventures VIII Side Car Fund	Diversified	8/29/2008	9,000,000	6,175,620	0
19	BC European Capital VII	Buyouts	7/28/2000	32,658,500	37,754,746	89,454,462
	BC European Capital VII Top Up	Buyouts	7/2/2001	10,046,300	12,278,596	29,500,234
	BC European Capital VIII	Buyouts	12/13/2005	98,107,500	93,818,169	22,122,390
	BC European Capital IX	Buyouts	9/16/2011	26,472,535	2,390,370	0
20	Berkshire Fund VI	Mid Market Buyouts	7/11/2002	20,000,000	18,438,444	23,103,859
	Berkshire Fund VII	Mid Market Buyouts	11/15/2006	32,000,000	25,112,525	4,686,884
	Berkshire Fund VIII	Mid Market Buyouts	8/25/2011	30,000,000	1,136,046	0
21	Blackstone Capital II	Buyouts	9/30/1994	40,000,000	42,867,958	96,976,257
	Blackstone Capital III	Buyouts	11/3/1997	75,000,000	77,288,491	154,478,924
	Blackstone Capital IV	Buyouts	2/26/2003	75,000,000	66,247,334	115,891,754
	Blackstone Capital Partners V	Buyouts	5/30/2006	150,000,000	141,458,731	13,504,958
	Blackstone Communications Partners I	Buyouts	8/29/2000	25,000,000	24,857,336	21,936,068
22	Brait IV	Mid Market Buyouts	12/11/2006	25,000,000	17,705,383	2,540,477
23	Brynwood Partners V	Mid Market Buyouts	7/31/2005	10,000,000	10,308,189	9,936,670
	Brynwood Partners VI	Mid Market Buyouts	10/13/2009	10,000,000	5,014,825	31,620
24	Centerbridge Capital Partners I	Distressed Debt	2/27/2007	50,000,000	51,866,490	30,030,458
25	Cerberus Institutional Partners	Distressed Debt	3/5/1999	35,000,000	35,000,000	77,271,105
	Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	73,856,044
	Cerberus Institutional Partners Series Three	Distressed Debt	11/13/2003	35,000,000	22,321,354	21,613,112
	Cerberus Institutional Partners Series Four	Distressed Debt	11/27/2006	75,000,000	64,366,694	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
26	Charterhouse Capital Partners VII	Buyouts	1/17/2003	$61,145,000	$54,236,275	$94,038,529
	Charterhouse Capital Partners VIII	Buyouts	4/19/2006	73,374,000	69,667,224	0
	Charterhouse Capital Partners IX	Buyouts	4/28/2009	66,385,000	26,476,326	0
27	Charterhouse Equity Partners III	Buyouts	12/31/1997	50,000,000	55,395,586	75,000,205
28	Chequers Capital XV	Buyouts	7/5/2006	26,000,000	31,873,049	934,078
29	CID Greater China Venture Capital Fund II	Early Stage	8/10/2007	20,000,000	16,800,000	5,922,676
30	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
31	Clessidra Capital Partners II	Buyouts	11/5/2008	20,000,000	5,650,222	2,242,896
32	Code Hennessy & Simmons	Mid Market Buyouts	9/28/1989	10,000,000	9,650,000	29,444,933
	Code Hennessy & Simmons III	Mid Market Buyouts	9/30/1997	40,000,000	38,724,000	56,329,887
	Code Hennessy & Simmons IV	Mid Market Buyouts	9/16/1999	100,000,000	100,000,000	154,943,496
	Code Hennessy & Simmons V	Mid Market Buyouts	11/10/2005	50,000,000	46,792,612	7,514,723
33	Cognetas Fund II	Buyouts	11/2/2005	49,707,800	43,502,715	2,854,538
34	CVI Global Value Fund	Distressed Debt	2/23/2007	60,000,000	57,151,667	9,586,429
35	DLJ Merchant Banking Fund II	Buyouts	3/31/1997	75,000,000	83,261,423	103,859,860
	DLJ Merchant Banking Fund III	Buyouts	8/14/2001	85,000,000	87,641,229	138,604,692
36	Elevation Partners	Private Equity	11/10/2005	35,000,000	30,369,560	15,277,493
37	Energy Spectrum Partners IV	Mid Market Buyouts	12/15/2004	50,000,000	52,615,557	59,690,235
	Energy Spectrum Partners V	Mid Market Buyouts	7/9/2007	30,000,000	22,687,260	15,681,641
38	Eureka II	Small Buyouts	1/30/2006	20,000,000	16,396,138	2,908,011
39	Excelsior Capital Asia Partners III	Growth Equity	8/17/2006	25,000,000	22,974,936	4,316,788
40	First Reserve Fund X	Buyouts	10/28/2004	30,000,000	30,000,000	39,579,861
	First Reserve Fund XI	Buyouts	12/14/2006	60,000,000	48,550,975	14,985,202
	First Reserve Fund XII	Buyouts	11/19/2008	50,000,000	30,853,280	2,206,250
41	Francisco Partners	Mid Market Buyouts	7/27/2000	50,000,000	47,825,987	41,370,002
	Francisco Partners II	Mid Market Buyouts	7/10/2006	30,000,000	27,750,000	16,565,692
	Francisco Partners III	Mid Market Buyouts	*	20,000,000	0	0
42	Frontenac VII	Buyouts	9/30/1997	40,000,000	40,000,000	55,780,630
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	68,085,735
	Great Hill Equity Partners III	Mid Market Buyouts	3/7/2006	35,000,000	34,037,500	5,250,000
	Great Hill Equity Partners IV	Mid Market Buyouts	9/8/2008	25,000,000	14,187,500	1,437,500
44	Gryphon Partners II	Mid Market Buyouts	11/3/1999	35,000,000	34,074,092	34,019,309
	Gryphon Partners III	Mid Market Buyouts	9/8/2004	30,000,000	33,015,106	14,603,265
45	GTCR V	Buyouts	3/31/1997	11,400,000	11,400,000	20,502,976
	GTCR VI	Buyouts	9/30/1998	50,000,000	50,000,000	43,229,799
	GTCR VII	Buyouts	3/15/2000	55,000,000	50,074,671	121,729,912
	GTCR VIII	Buyouts	7/7/2003	75,000,000	69,393,599	96,377,489
	GTCR IX	Buyouts	12/1/2006	50,000,000	45,334,772	4,631,707

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
46	H.I.G. Bayside Debt & LBO Fund II	Distressed Debt	6/17/2008	$30,000,000	$11,550,000	$2,726,034
	H.I.G. Growth Buyouts & Equity Fund II	Distressed Debt	7/20/2011	15,000,000	300,000	0
47	HarbourVest IPEP II	Fund of Funds	6/30/1997	25,000,000	24,500,000	33,545,573
	HarbourVest IPEP III	Fund of Funds	6/30/1998	40,000,000	39,000,000	53,487,083
	HarbourVest IPEP IV	Fund of Funds	4/9/2001	40,000,000	37,800,000	39,660,429
	HIPEP V-Asia Pacifc & Rest of World	Buyouts	5/9/2006	30,000,000	22,695,316	1,137,931
	Dover Street VII	Secondaries	7/2/2008	30,000,000	24,245,287	2,079,001
48	Hellman & Friedman Capital Partners IV	Buyouts	2/14/2000	75,000,000	67,317,209	188,912,266
	Hellman & Friedman Capital Partners V	Buyouts	12/20/2004	80,000,000	71,022,545	107,505,626
	Hellman & Friedman Capital Partners VI	Buyouts	6/5/2007	125,000,000	109,416,503	19,058,893
49	InterMedia Partners VII	Diversified	1/5/2007	15,000,000	15,275,924	1,893,229
50	Invemed Catalyst Fund	Mid Market Buyouts	10/19/1999	25,000,000	14,116,290	11,020,749
51	J.H. Whitney V	Later Stage	3/29/2001	20,000,000	23,307,275	42,361,692
	J.H. Whitney VI	Buyouts	1/5/2006	50,000,000	49,008,720	13,420,201
	J.H. Whitney VII	Buyouts	10/12/2010	25,000,000	6,069,093	467,888
52	J.W. Childs Equity Partners III	Mid Market Buyouts	8/20/2002	40,000,000	41,116,322	44,442,270
53	JP Morgan US Corp Finance Investors II	Fund of Funds	1/14/2003	50,000,000	50,760,796	30,170,146
54	Kelso VII	Buyouts	10/18/2004	40,000,000	39,651,495	27,007,163
	Kelso VIII	Buyouts	11/29/2007	150,000,000	58,946,310	3,036,749
55	Landmark Equity IV	Secondaries	3/31/1995	14,923,291	12,495,850	18,640,869
	Landmark Equity Partners V	Secondaries	12/31/1995	19,624,113	19,434,947	23,435,898
56	Leeds Equity Partners IV	Mid Market Buyouts	11/12/2004	20,000,000	20,104,739	7,652,650
57	Lexington Capital Partners II	Secondaries	6/30/1998	40,000,000	39,538,000	50,047,941
	Lexington Capital Partners III	Secondaries	1/26/1999	35,000,000	34,516,449	40,061,209
	Lexington Capital Partners V	Secondaries	1/17/2002	75,000,000	74,623,418	99,150,707
	Lexington Capital Partners VI	Secondaries	10/21/2005	50,000,000	48,519,288	18,854,264
58	Lime Rock Partners III	Later Stage	3/7/2005	15,000,000	14,684,503	2,886,836
	Lime Rock Partners IV	Later Stage	11/16/2006	25,000,000	22,365,430	1,516,862
	Lime Rock Partners V	Later Stage	10/2/2008	42,500,000	29,036,290	19,089
	Lime Rock Resources	Diversified	12/28/2005	20,000,000	19,171,636	9,137,274
59	LLR Equity Partners	Mid Market Buyouts	2/4/2000	25,000,000	24,357,320	51,608,574
	LLR Equity Partners II	Mid Market Buyouts	1/29/2004	25,000,000	25,000,000	12,443,178
	LLR Equity Partners III	Mid Market Buyouts	7/24/2008	30,000,000	17,783,721	2,204,234
60	Madison Dearborn Capital Partners III	Buyouts	4/6/1999	75,000,000	75,186,728	111,731,905
	Madison Dearborn Capital Partners IV	Buyouts	4/2/2001	90,000,000	90,499,697	107,418,527
	Madison Dearborn Capital Partners V	Buyouts	12/14/2006	75,000,000	67,708,781	9,869,151
	Madison Dearborn Capital Partners VI	Buyouts	5/27/2008	50,000,000	14,626,666	3,284,516
61	Matlin Patterson Global Opps. Partners	Distressed Debt	5/31/2001	35,000,000	30,091,262	56,126,461
	Matlin Patterson Global Opps. Partners II	Distressed Debt	6/30/2004	30,000,000	30,410,597	10,578,309
62	Media/Communication III	Buyouts	6/30/1997	25,000,000	23,750,000	37,704,073
	Media/Communications IV	Buyouts	3/31/1999	25,000,000	23,125,000	17,102,401
	Media/Communications Ventures Fund V	Buyouts	9/27/2000	35,000,000	34,812,205	49,627,103

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
63	Meridian Venture Partners II	Buyouts	2/11/2005	$10,000,000	$10,000,000	$7,325,308
64	New York Life Capital Partners III	Co-investments	6/30/2006	50,000,000	50,462,637	8,169,250
	New York Life Capital Partners IV	Co-investments	4/4/2008	50,000,000	35,522,793	3,692,423
65	Nordic Capital V	Buyouts	5/7/2004	34,996,500	45,749,337	39,121,987
	Nordic Capital VI	Buyouts	7/25/2006	54,369,000	62,032,331	4,970,676
	Nordic Capital VII	Buyouts	5/2/2008	92,519,165	62,393,753	0
66	Oakhill Capital Partners	Buyouts	5/17/1999	50,000,000	53,683,590	80,361,319
67	OCM/GFI Power Opportunities Fund II	Buyouts	5/9/2005	25,000,000	13,439,832	38,248,202
	Oaktree Power Opportunities Fund III	Buyouts	10/18/2010	25,000,000	2,750,000	128,594
	Oaktree Capital Management	Diversified	5/28/2004	40,000,000	40,581,778	49,069,121
	OCM Opportunities Fund II	Distressed Debt	3/31/1998	40,000,000	40,000,000	60,311,304
	OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	88,975,999
	OCM Opportunities Fund IV	Distressed Debt	9/26/2001	70,000,000	70,000,000	115,396,501
	OCM Opportunities Fund V	Distressed Debt	8/12/2004	40,000,000	40,003,507	54,884,510
	OCM Opportunities Fund VI	Distressed Debt	9/28/2005	40,000,000	40,000,000	33,517,357
	OCM Opportunities Fund VII	Distressed Debt	5/16/2007	40,000,000	40,000,000	22,457,275
	OCM Opportunities Fund VIIb	Distressed Debt	6/3/2008	40,000,000	36,000,000	19,800,000
	OCM Opportunities Fund VIII	Distressed Debt	9/20/2010	12,500,000	11,333,425	0
	OCM Opportunities Fund VIIIb	Distressed Debt	8/22/2011	12,500,000	1,250,000	0
	OCM Principal Opportunities Fund IV	Distressed Debt	1/24/2007	20,000,000	20,000,000	3,638,059
	OCM Principal Opportunities II	Distressed Debt	4/24/2001	25,000,000	25,000,000	36,426,714
68	Palamon European Equity	Buyouts	7/23/1999	29,779,989	38,316,950	47,972,180
	Palamon European Equity II	Diversified	10/25/2005	36,114,000	35,948,993	16,929,447
69	Parthenon Investors II	Mid Market Buyouts	8/9/2001	20,000,000	22,038,045	21,636,107
70	Patriot Financial Partners	Mid Market Buyouts	6/12/2008	25,000,000	16,267,767	146,667
71	Permira European Fund	Buyouts	9/30/1997	33,494,536	32,159,947	84,005,717
	Permira European Fund II	Buyouts	6/7/2000	48,000,000	45,672,612	83,557,419
	Permira European Fund III	Buyouts	1/12/2004	115,960,000	125,077,125	164,455,245
	Permira IV	Buyouts	12/14/2006	127,779,198	110,740,630	7,282,426
	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	15,248,000	15,993,572	22,721,533
72	Pitango Venture Capital Fund IV	Diversified	7/19/2004	20,000,000	19,601,534	4,826,274
	Pitango Venture Capital Fund V	Seed/Early Stage	8/22/2007	30,000,000	17,250,000	0
73	PNC Equity Partners II	Mid Market Buyouts	8/30/2007	15,000,000	11,864,560	2,858,369
74	Providence Equity Partners IV	Mid Market Buyouts	11/27/2000	25,000,000	23,401,363	51,493,280
	Providence Equity Partners V	Mid Market Buyouts	4/4/2005	45,000,000	41,826,805	14,875,939
	Providence Equity Partners VI	Buyouts	3/16/2007	50,000,000	42,327,824	4,725,985
75	SCP Private Equity Partners II	Buyouts	6/15/2000	25,000,000	25,000,000	5,972,493
76	Segulah IV	Mid Market Buyouts	9/25/2008	16,705,647	9,041,671	63,821
77	SFC Energy Partners I	Buyouts	7/27/2007	25,000,000	16,372,545	6,667,567
	SFC Energy Partners II	Buyouts	*	25,000,000	0	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
78	ShoreView Capital Partners	Buyouts	6/16/2003	$38,000,000	$31,325,970	$46,628,590
	ShoreView Capital Partners II	Buyouts	3/27/2008	40,000,000	17,434,249	1,246,023
79	Siguler Guff BRIC Opportunities Fund	Fund of Funds	5/8/2006	10,000,000	9,558,299	2,041,503
	Siguler Guff BRIC Opportunities Fund II	Fund of Funds	4/9/2008	25,000,000	15,713,700	78,166
80	Sterling Capital Partners I	Buyouts	10/31/2002	15,000,000	15,272,797	23,366,651
	Sterling Capital Partners II	Buyouts	8/18/2005	30,000,000	29,722,511	12,533,858
	Sterling Capital Partners III	Buyouts	8/13/2007	32,000,000	22,369,164	2,408,422
81	Summit Ventures VI	Later Stage	3/23/2001	62,000,000	63,343,733	70,874,743
	Summit Partners Private Equity Fund VII	Buyouts	2/9/2006	97,134,500	86,449,710	12,478,225
82	TA IX	Later Stage	9/20/2000	45,000,000	43,650,000	90,634,128
	TA X	Middle/Later Stage	4/25/2006	70,000,000	67,550,000	22,050,000
83	Thomas H. Lee Equity Fund V	Buyouts	7/3/2001	100,000,000	104,548,472	124,804,582
	Thomas H. Lee Equity Fund VI	Mid Market Buyouts	11/14/2006	50,000,000	38,553,899	4,692,612
84	TPG Partners II	Buyouts	6/30/1997	75,000,000	72,111,267	127,798,284
	TPG Partners III	Buyouts	1/13/2000	75,000,000	64,119,169	150,401,569
	TPG Partners IV	Buyouts	12/29/2003	30,000,000	27,999,752	29,185,932
	TPG Partners V	Buyouts	6/27/2006	100,000,000	88,927,438	13,132,756
	TPG Partners VI	Buyouts	5/22/2008	45,000,000	26,813,919	3,900,063
	Newbridge Asia III	Buyouts	2/15/2001	15,000,000	14,438,357	54,857,234
	Newbridge Asia IV	Buyouts	9/27/2005	40,000,000	37,818,791	32,512,079
	TPG Asia V	Buyouts	2/19/2008	22,500,000	17,119,927	2,329,636
85	UMS Partners Fund I	Distressed Debt	2/15/2005	5,000,000	5,000,000	3,004,752
86	Versa Capital Partners	Distressed Debt	10/16/2005	20,000,000	21,311,753	12,255,381
	Versa Capital Partners II	Distressed Debt	7/31/2008	15,000,000	5,564,170	0
87	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	97,350,140	123,154,733
	Vestar Capital Partners V	Mid Market Buyouts	1/25/2006	50,000,000	50,128,303	13,916,928
88	W Capital Partners II	Secondaries	8/8/2007	40,000,000	31,227,138	20,487,171
89	Yucaipa American Alliance Fund II	Mid Market Buyouts	1/13/2009	25,000,000	16,122,810	1,697,958
	Total Active Private Equity			**$9,460,502,013**	**$8,210,008,335**	**$7,316,052,477**

Cash flows as of 9/30/11
**Not Funded as of 9/30/11*
***Commitments as of 12/31/11*

Inactive Private Equity Funds

	Capital Committed	Capital Drawn	Distributions
Total Inactive Private Equity	**$626,086,484**	**$609,589,801**	**$1,119,545,804**

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 effects 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 Fund to provide diversification within the total Fund and to act as a hedge against inflation. The asset class is composed of actively managed commodities; 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. 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' ***2011 Annual Strategic Investment Plan*** targets a long–term allocation of 3.0% of assets to Inflation Protection. Within this 3.0% allocation, 50.0% is targeted to the active diversified inflation protection portfolio, and the remaining 50.0% is targeted to the active multi–manager commodity portfolio.

Market Exposure as of December 31, 2011: Inflation Protection strategies had a $1.0 billion market exposure, 4.2% of the total Fund's $24.4 billion.

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

Types of Investment Portfolios: As of December 31, 2011, 45.4% of SERS' Inflation Protection allocation was invested in the actively managed diversified inflation protection portfolio which invests in commodities, inflation–sensitive global equity and TIPS. The remaining 54.6% 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 12/31/11* ($ millions)
1. Wellington Management Company	Diversified inflation protection portfolio	$465.4
2. Blackstone Alternative Asset Management	Fund-of-commodity funds	559.8
Total Inflation Protection Investments		**$1,025.2**

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

Actuarial Section

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May 2, 2012

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

Dear Mr. Durbin:

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, 2011 annual actuarial valuation.

The funding objective of the plan is set forth in the State Employees' Retirement Code (SERC). The annual employer contribution is equal to the sum of the following for the fiscal year beginning July 1, 2012:

(1) The employer share of the normal cost.
(2) The fresh start amortization of the December 31, 2009 unfunded liability over a 30-year period beginning July 1, 2010 and ending on June 30, 2040.
(3) The amortization of the change in liability due to Act 2010-120 over a 30-year period beginning July 1, 2011 and ending on June 30, 2041.
(4) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2009 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 retirement covered compensation. 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 compensation, and some employer groups contribute a lower percent of compensation 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 the past experience of SERS and reasonable expectations) and which in combination represent the best estimate of anticipated experience under the plan.

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Mr. David E. Durbin
May 2, 2012
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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. The current set of assumptions used in the December 31, 2011 actuarial valuation, with the exception of the investment return assumption, was adopted by the State Employees' Retirement Board (the Board) based upon actual experience of SERS during the years 2006 through 2010. Based upon subsequent review of SERS investment data and results, the Board approved a reduction in the assumed annual investment return from 8.0% to 7.5% effective as of the December 31, 2011 actuarial valuation. We will continue to closely monitor this assumption and will recommend changing it if conditions warrant such change. 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. Previously this was a result of financing changes implemented by Act 2003-40 in December 2003. Currently this is a result of the contribution collars required under Act 2010-120. After June 30, 2015, provided that employer contributions are made in accordance with current law, we expect employer 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, 2011 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, 2011 actuarial valuation.

Based upon the valuation results, it is our opinion that, provided future employer contributions are made in accordance with current law, 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 Statement No. 25 minimum since July 1, 2005 and will likely remain below the minimum through June 30, 2015. Thereafter, provided that employer contributions are made in accordance with current law, we expect employer contributions to exceed the GASB minimum.

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Mr. David E. Durbin
May 2, 2012
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It should be noted that, with the recent passage of Act 2010-120 (Act 120), significant reform to many key provisions of SERS has been legislated. This was a responsible and greatly needed response to the significant funding challenges SERS has been facing in recent years, and will continue to face in coming years. By reducing pensions for future Commonwealth employees and providing funding relief to SERS employers through the use of contribution collars, Act 120 addressed both SERS' long-term and short-term funding challenges.

As actuaries for SERS, Hay Group considers it important to note that the establishment of contribution collars results in employer funding for FY2012 and FY2013 (and likely for the next few years) at levels below the otherwise applicable actuarially required funding levels. This is not to say that required employer contributions will never be made; rather, Act 120 provides that they will be deferred and paid in future years. It is therefore essential to the long-term funding of the system that the Commonwealth adhere not only to the short-term collars provided by Act 120 but also to the long-term funding obligations that the statute established. We expect that the contribution collars will govern employer contribution levels for at least the next few years, and this will continue to be the case until such time as the actuarially determined annual employer funding requirement is below the collared contribution level. While Hay Group would prefer that SERS funding be based upon our actuarially determined funding level, we recognize, given the extraordinary funding challenges the Commonwealth of Pennsylvania is facing over coming years, that the contribution collars represent an important and necessary funding deferral mechanism for a temporary period, after which funding on an actuarial basis will resume.

Respectfully submitted,
Hay Group, Inc.

By Brent M. Mowery
Brent M. Mowery, F.S.A.
Member American Academy of Actuaries
Enrolled Actuary No. 11-3885

By Adam J. Reese
Adam J. Reese, F.S.A.
Member American Academy of Actuaries
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By Craig R. Graby
Craig R. Graby
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Enrolled Actuary No. 11-7319

- The investment rate of return is 7.5% per year based on an underlying rate of inflation of 2.75% per year. The investment rate of return assumed last year (for the December 31, 2010 actuarial valuation) was 8.0% per year.
- The Plan uses a five–year smoothed market approach to value plan assets for actuarial purposes.
- Actuarial methods are specified by statute. Actuarial assumptions are recommended by the Plan's actuary and approved by the SERS Board of Trustees.
- For current and future non-disabled retirees, beneficiaries, and survivors, the plan uses the RP-2000 Healthy Annuitant Mortality Table projected to 2008 and updated to reflect actual SERS experience through 2010. For current and future disabled retirees, the Plan uses the RP-2000 Disabled Retiree Annuitant Mortality Table projected to 2008 and updated to reflect actual SERS experience through 2010. For all pre-retirement active members, 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 6.2% with a range of 4.30% to 11.05%. This increase includes an underlying assumption of 2.75% 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 members rather than for all current members 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) Act 2010-120 established a Fresh Start amortization of the December 31, 2009 unfunded liability over a 30-year period beginning July 1, 2010 and ending June 30, 2040.

  (2) The amortization of the change in liability due to Act 2010-120 over a 30-year period beginning July 1, 2011 and ending on June 30, 2041.

  (3) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2009 over 30-year periods beginning with the July first following the actuarial valuation determining such changes.
- The Plan does not use an assumption for cost-of-living adjustments in the determination of actuarial valuations.
- The Plan periodically prepares a study using actual experience in order to develop assumptions to be used in its actuarial valuations. The latest study was completed January 12, 2011, for the period January 1, 2006, through December 31, 2010.
- The most recent valuation was based on members of the Plan as of December 31, 2011. All census data was supplied by the Plan and was subject to reasonable consistency checks. Asset data was also supplied by the Plan.
- The actuarial computations were prepared by, or made under the supervision, of a Member of the American Academy of Actuaries (M.A.A.A.).

Table A[1/]
Withdrawal From Active Employment Before Age & Service Retirement
Annual Rate of Active Members Separating Within the Next Year

	Male						Female					
Sample Age	Withdrawal Years of Service				Death	Disability	Withdrawal Years of Service				Death	Disability
	0	5	9	14+			0	5	9	14+		
20	20.70%	-	-	-	0.04%	-	22.40%	-	-	-	0.02%	-
25	16.20	0.80%	0.80%	-	0.04	0.02%	20.50	2.70%	1.90%	-	0.02	0.04%
30	13.90	0.80	0.60	0.60%	0.05	0.07	17.90	2.40	1.70	1.80%	0.02	0.09
35	13.60	0.70	0.40	0.40	0.06	0.12	12.80	1.90	1.20	1.30	0.03	0.16
40	13.00	0.50	0.40	0.40	0.08	0.19	10.00	1.90	0.70	0.50	0.04	0.21
45	12.10	0.50	0.20	0.20	0.12	0.33	9.80	1.80	0.70	0.50	0.06	0.33
50	11.30	0.50	0.20	0.20	0.22	0.46	9.80	1.80	0.40	0.50	0.09	0.50
55	11.30	0.60	0.60	0.60	0.27	0.60	9.80	1.50	1.20	1.20	0.14	0.63
60	-	-	-	-	0.32	-	-	-	-	-	0.24	-

Table B[1/]
Annual Rate of Retirement

	Full Benefits	
Sample Age	Male	Female
53	25.0%	23.0%
54	26.0	23.0
55	27.0	23.0
56	28.0	23.0
57-59	30.0	23.0
60	25.0	25.0
61	20.0	20.0
62	25.0	25.0
63-64	20.0	20.0
65	25.0	25.0
66-79	20.0	20.0
80	100.0	100.0

Table C
Annual Rate of Salary Increase

Completed Years of Service	Increase	Completed Years of Service	Increase
1	8.00%	16	2.50%
2	6.00	17	2.40
3	4.50	18	2.30
4	4.00	19	2.20
5	3.75	20	2.10
6	3.50	21	2.00
7	3.25	22	1.90
8	3.20	23	1.80
9	3.15	24	1.70
10	3.10	25	1.60
11	3.00	26	1.50
12	2.90	27	1.40
13	2.80	28	1.30
14	2.70	29	1.25
15	2.60	30 +	1.25

Table D
Reduced Benefits

	5 - 14 Years of Service		15 or More Years of Service	
Sample Age	Male	Female	Male	Female
25	1.0%	1.0%	-	-
30	1.5	1.5	-	-
35	1.5	1.5	1.5%	1.5%
40	1.0	1.0	1.5	1.5
45	1.0	1.0	1.5	1.5
50	1.0	1.0	2.0	2.0
55	1.0	1.0	5.5	5.5

[1/] *The assumptions presented in Table A and Table B on this page were based on a review of SERS' experience from 2006 through 2010. The rates are the probabilities that an event will occur in the year after the valuation. For instance, the male retirement rate of 25% at age 62 means that 250 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	14	-	-	-	-	-	-	14	$21,965
20 - 24	924	19	-	-	-	-	-	943	31,347
25 - 29	3,184	839	8	-	-	-	-	4,031	41,574
30 - 34	2,523	2,370	475	7	-	-	-	5,375	47,256
35 - 39	1,946	1,861	1,725	522	7	-	-	6,061	52,126
40 - 44	1,839	1,786	1,954	2,461	1,174	28	-	9,242	59,517
45 - 49	1,629	1,534	1,483	1,701	2,366	841	32	9,586	60,502
50 - 54	1,522	1,449	1,349	1,223	1,603	1,558	893	9,597	58,034
55 - 59	1,380	1,420	1,280	1,197	1,294	1,132	1,397	9,100	58,795
60 - 64	933	996	877	746	599	435	648	5,234	59,282
65+	408	482	397	254	185	130	294	2,150	62,994
Total	**16,302**	**12,756**	**9,548**	**8,111**	**7,228**	**4,124**	**3,264**	**61,333**	**$56,008**

Average Age: 46.55
Average Service: 12.17

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	26	-	-	-	-	-	-	26	$22,650
20 - 24	883	20	-	-	-	-	-	903	27,824
25 - 29	2,225	674	26	-	-	-	-	2,925	35,716
30 - 34	1,895	1,603	510	18	-	-	-	4,026	41,331
35 - 39	1,551	1,312	1,005	342	30	-	-	4,240	44,190
40 - 44	1,558	1,433	1,129	957	602	59	-	5,738	46,759
45 - 49	1,662	1,368	1,080	900	1,016	680	120	6,826	48,383
50 - 54	1,579	1,507	1,200	986	1,051	980	1,043	8,346	50,046
55 - 59	1,225	1,310	1,118	958	1,143	838	1,234	7,826	51,194
60 - 64	541	759	663	531	472	283	438	3,687	50,822
65+	177	255	217	161	122	86	127	1,145	51,317
Total	**13,322**	**10,241**	**6,948**	**4,853**	**4,436**	**2,926**	**2,962**	**45,688**	**$46,992**

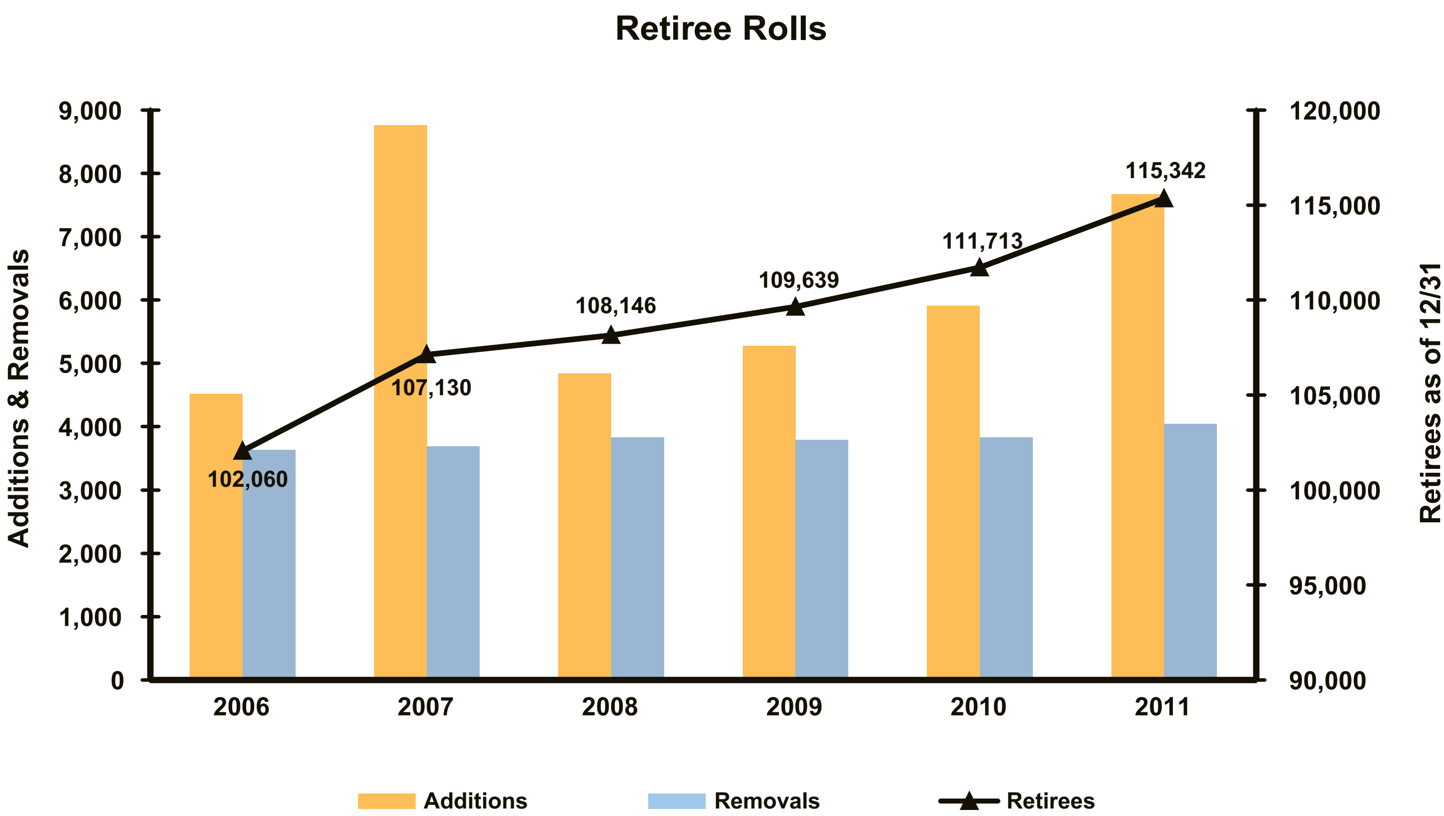
Average Age: 46.70
Average Service: 11.70

Aggregate Active Member Valuation Data

Valuation Year Ended Dec 31	Number Employers	Number Active Members	Annual Payroll	Annual Average Pay	% Increase/(Decrease) in Average Pay
2011	107	107,021	$5,582,000,000	$52,159	1.8%
2010	106	109,255	5,597,000,000	51,228	0.8
2009	106	110,107	5,595,000,000	50,813	3.8
2008	108	110,866	5,428,000,000	48,957	1.3
2007	108	109,610	5,299,000,000	48,345	4.8
2006	108	110,972	5,118,000,000	46,118	2.9

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
Six Years Ended December 31, 2011

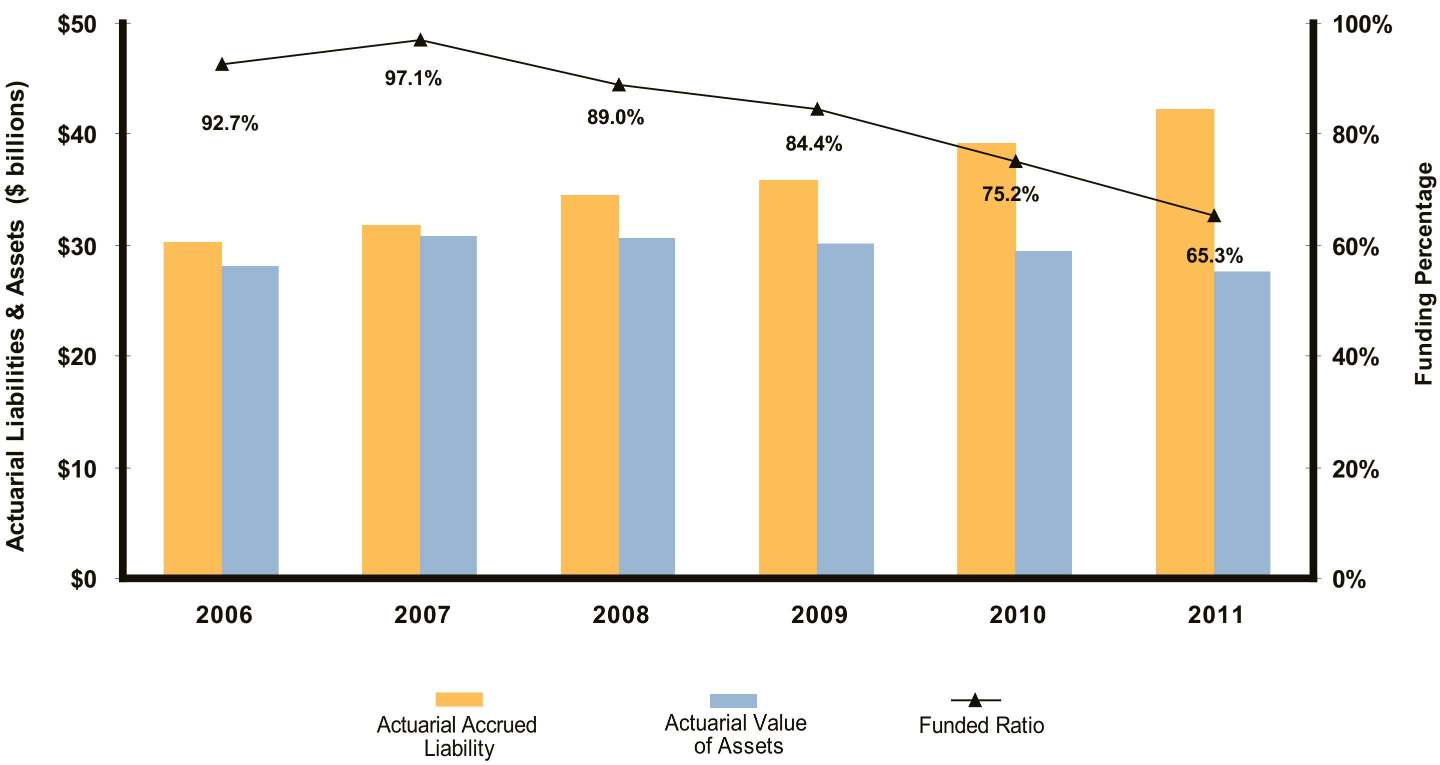
	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percentage Change	
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
2011	7,669	$205,521,876	4,040	$50,132,667	115,342	$2,241,716,566	3.25%	7.43%
2010	5,906	148,169,231	3,832	48,182,212	111,713	2,086,701,831	1.89	5.01
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



Solvency Test
Six Years Ended December 31, 2011
(Dollar Amounts in Thousands)

	Aggregate Accrued Liabilities For								
	(1)	(2)	(3)						
Valuation Year Ended Dec 31	Active Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed Portion)	Total Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)	Funded Ratio
2011	$4,406,306	$21,222,075	$16,653,481	$42,281,862	$27,618,461	100.0%	100.0%	11.9%	65.3%
2010	4,409,444	18,995,355	15,774,795	39,179,594	29,443,945	100.0	100.0	38.3	75.2
2009	4,280,680	17,962,741	13,553,596	35,797,017	30,204,693	100.0	100.0	58.7	84.4
2008	4,068,036	17,305,971	13,063,389	34,437,396	30,635,621	100.0	100.0	70.9	89.0
2007	3,849,293	16,255,843	11,648,835	31,753,971	30,839,877	100.0	100.0	92.2	97.1
2006	3,916,841	14,474,525	11,973,631	30,364,997	28,148,834	100.0	100.0	81.5	92.7

Fund Solvency



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

Type of Activity	2011	2010	2009	2008
(Loss) from Investment Earnings	$(2,113,087)	$(1,251,332)	$(1,118,036)	$(1,094,334)
Changes in Demographics of New Entrants	12,149	(64,191)	11,597	(62,587)
Pay Increases/(Decreases) Different than Assumptions	5,916	421,224	(84,681)	144,913
Retirements Different than Expected and Other Demographic Changes	(296,743)	(98,384)	37,289	365,487
(Loss) During Year From Financial Experience	(2,391,765)	(992,683)	(1,153,831)	(646,521)
Non Recurring Items:				
Changes in Economic Assumptions	(2,148,326)[5/]	235,734[2/]	-	(1,634,988)[1/]
Benefit changes under Act 2010-120	-	(2,694,535)[3/]	-	-
Underfunding due to retroactive Fresh Start and other changes	-	(741,207)[4/]	-	-
Loss due to collar restrictions	(477,988)[6/]	-	-	-
Composite (Loss)	**$(5,018,079)**	**$(4,192,691)**	**$(1,153,831)**	**$(2,281,509)**

[1/]*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.*

[2/]*Revised annual inflation rate of 2.75% and salary growth rate of 3.05% due to 17th Investigation of Actuarial Experience.*

[3/]*Act 2010-120 reduces benefits for most new members effective January 1, 2011 and new Legislators effective December 1, 2010.*

[4/]*Act 2010-120 re-amortizes the System's existing liabilities over 30 years through an Actuarial "Fresh Start."*

[5/]*Adoption of a 7.5% annual investment return assumption effective December 31, 2011 (versus 8.0% assumed in prior years) resulted in this increase in accrued liability.*

[6/]*Act 120 caps the growth of employer contributions to 3% for FY 11/12, 3.5% for FY 12/13 and 4.5% for each subsequent year until no longer needed.*

History and Projection of Contribution Rates and Funded Ratios[1/]
(Dollar Amounts in Thousands)

Valuation Year Ended Dec 31	Covered Payroll	Contribution Rates[2/] Member Contribution Rate[3/]	Employer Normal Cost Rate	Unfunded Liability Rate[4/]	Preliminary Employer Contribution Rate[5/]	Final Employer Contribution Rate	Funded Ratio
2002	$5,093,454	6.25%	8.43%	(7.39)%	1.04%	1.04%	107.2%
2003[6/]	4,965,360	6.25	8.32	(11.12)	(2.80)	2.00	104.9
2004[6/]	5,093,573	6.25	8.25	(7.29)	0.96	3.00	96.1
2005[6/]	5,138,377	6.25	8.39	(6.32)	2.07	4.00	92.9
2006[7/]	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[8/]	5,935,988	6.25	9.53	(3.89)	5.64	5.00	84.4
2010[9/]	5,851,704	6.25	4.08	14.85	18.93	8.00	75.2
2011[10/]	**5,890,704**	**6.25**	**5.10**	**21.29**	**26.39**	**11.50**	**65.3**
2012	6,070,400	6.25	5.10	25.66	30.76	16.00	58.1
2013	6,255,500	6.25	5.10	26.27	31.37	20.50	57.2
2014	6,446,300	6.25	5.10	27.01	32.11	25.00	56.1
2015[11/]	6,642,900	6.25	5.10	27.60	32.70	29.50	55.2
2016	6,845,500	6.25	5.10	27.39	32.49	32.49	55.7
2017	7,054,300	6.25	5.10	26.82	31.92	31.92	56.9
2018	7,269,500	6.25	5.10	26.12	31.22	31.22	58.2
2019	7,491,200	6.25	5.10	25.43	30.53	30.53	59.6
2020	7,719,700	6.25	5.10	24.74	29.84	29.84	60.9
2021	7,955,100	6.25	5.10	24.08	29.18	29.18	62.3
2022	8,197,800	6.25	5.10	23.44	28.54	28.54	63.6

[1/] *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 fair value of assets.*

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

[3/] *Member contribution rate is for Class AA employees as they comprise most of SERS membership.*

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

[5/] *Actuarial rate before floor and collar.*

[6/] *Act 2003-40 amended the Retirement 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.*

[7/] *Act 2007-8 amended the Retirement Code to place a permanent floor of 4.00% on the employer contribution rate.*

[8/] *Act 2010-46 amended the Retirement Code to set the final employer contribution rate at 5.00% for fiscal year beginning July 1, 2010.*

[9/] *Act 2010-120 amended the Retirement Code to place a collar on increases to employer contribution rate of 3.00% and 3.50% for fiscal years beginning July 1, 2011 and 2012, respectively. The employer contribution rate will be collared at 4.50% for fiscal year beginning July 1, 2013 and thereafter until collar becomes unnecessary.*

[10/] *Numbers are projected from 2012 to 2022 based on 2011 actuarial valuation.*

[11/] *Act 2010-120 amended the Retirement Code to place a permanent floor at Employer Normal Cost after collars expire.*

Benefit and Contribution Provisions as of December 31, 2011

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 before January 1, 2011, 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-4.

Class A-3

All regular State employees who enter SERS membership for the first time on or after January 1, 2011 and all Legislators who became members on or after Dec. 1, 2010; Capitol Police and Park Rangers who became members after July 1, 2011; and State Police Officers who will become members after July 1, 2012, provided the member did not elect membership in the optional A-4 Class within 45 days of becoming a member.

Class A-4

All members who would be Class A-3 but elected A-4 within 45 days of becoming a member.

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 aides, 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 A-3/A-4

Age 65 for most members and age 55 for members of the General Assembly, enforcement officers, correction officers, psychiatric security aides, Delaware River Port Authority police officers, officers of the Pennsylvania State Police, and for Capitol Police Officers and Park Rangers with 20 or more years of credited service in the Classification. Members of Class A-3/A-4 are eligible for full formula benefits with 35 years of credited service with a superannuation score of 92.

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 class of service multiplier.

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	
A-3	1.00	
A-4	1.25	
D-4	1.50	
E-1	2.00	For each of the first ten 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.

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 ended December 31, 2011. 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 Members.

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 ended December 31, 2011. 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 ended December 31, 2011. 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, 2011. 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, 2011.

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, 2011. 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, 2011.

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, 2011.

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, 2011.

The **Schedule of Average Annual Benefit Payments** presents, in five-year age increments and by gender, the average annual benefit for each major retirement type as of December 31, 2011.

The **Schedule of SERS Agency Participation** provides the number of covered members and the corresponding percentage of participation for the 20 largest employers for the ten years ended December 31, 2011, as well as a listing of additional employers participating with SERS as of December 31, 2011.

Sources: Unless otherwise noted, the information for 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[1/]

Ten Years Ended December 31, 2011

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Contribution Rates										
Employer[2/,3/]	8.01%[8/]	5.01%[7/]	4.01%[6/]	4.04%[6/]	4.04%[6/]	4.02%[5/]	3.02%[5/]	2.03%[5/]	1.07%	0.00%
Member	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Contributions:										
Employer[2/]	$391,749	$273,083	$253,250	$235,288	$243,936	$196,420	$148,375	$106,703	$68,604	$50,831
Member	$350,852	$349,049	$348,805	$336,833	$333,818	$317,790	$305,624	$309,923	$308,014	$304,233
Average Annual Compensation	$52,159	$51,228	$50,813	$48,957	$48,345	$46,118	$44,815	$45,382	$44,519	$43,631
Fair Value of Net Assets	$24,377,179	$25,886,102	$24,661,949	$22,795,813	$35,516,198	$32,052,830	$28,751,871	$26,641,399	$24,535,949	$20,879,559
Actuarial Value of Assets	$27,618,461	$29,443,945	$30,204,693	$30,635,621	$30,839,877	$28,148,834	$26,793,782	$26,900,027	$27,465,615	$27,497,464
Accrued Actuarial Liability	$42,281,862	$39,179,594	$35,797,017	$34,437,396	$31,753,971	$30,364,997	$28,851,716	$27,999,026	$26,179,761	$25,650,389
Funded Ratio	65.3%	75.2%	84.4%	89.0%	97.1%	92.7%	92.9%	96.1%	104.9%	107.2%
Total Benefits and Refunds	$2,705,263	$2,449,253	$2,273,372	$2,204,579	$2,336,368	$1,919,426	$1,943,643	$1,859,255	$1,632,281	$1,430,417
Average Pension[4/]	$24,448	$23,491	$22,695	$21,965	$21,326	$20,025	$19,372	$18,414	$17,192	$15,445
Annuitants and Beneficiaries	115,342	111,713	109,639	108,146	107,130	102,060	101,179	98,727	94,412	91,228
Active Members	107,021	109,255	110,107	110,866	109,610	110,972	109,981	108,405	109,018	111,059

[1/] *All dollar amounts are in thousands, except Average Pension and Average Annual Compensation.*

[2/] *Includes Benefits Completion Plan Contribution*

[3/] *Employer rate represents total contributions as a percent of covered payroll as of 12/31.*

[4/] *Average pension amount represents average annual pension only for members who have reached superannuation through age or service credits.*

[5/] *Act 40 of 2003 established a minimum employer contribution rate of 2%, 3%, and 4% effective July 1, 2004, 2005 and 2006 respectively.*

[6/] *Act 2007-8 established a permanent minimum employer contribution rate floor of 4%.*

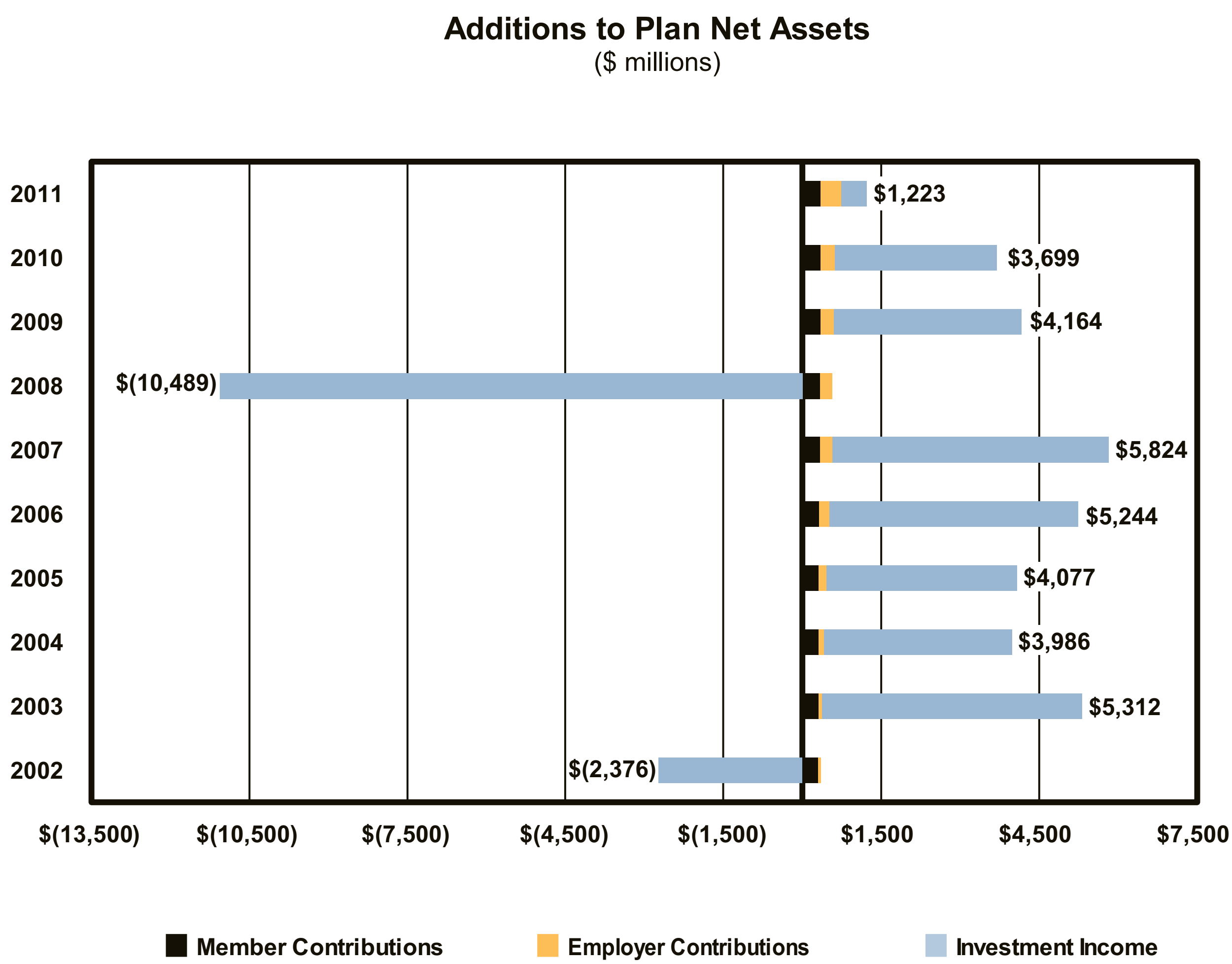
[7/] *Act 2010-46 set the employer contribution rate at 5% effective July 1, 2010.*

[8/] *Act 120 set the employer contribution rate at 8% effective July 1, 2011.*

Source: State Employees' Retirement System

Schedule of Additions to Plan Net Assets
Ten Years Ended December 31, 2011
(Dollar Amounts in Thousands)

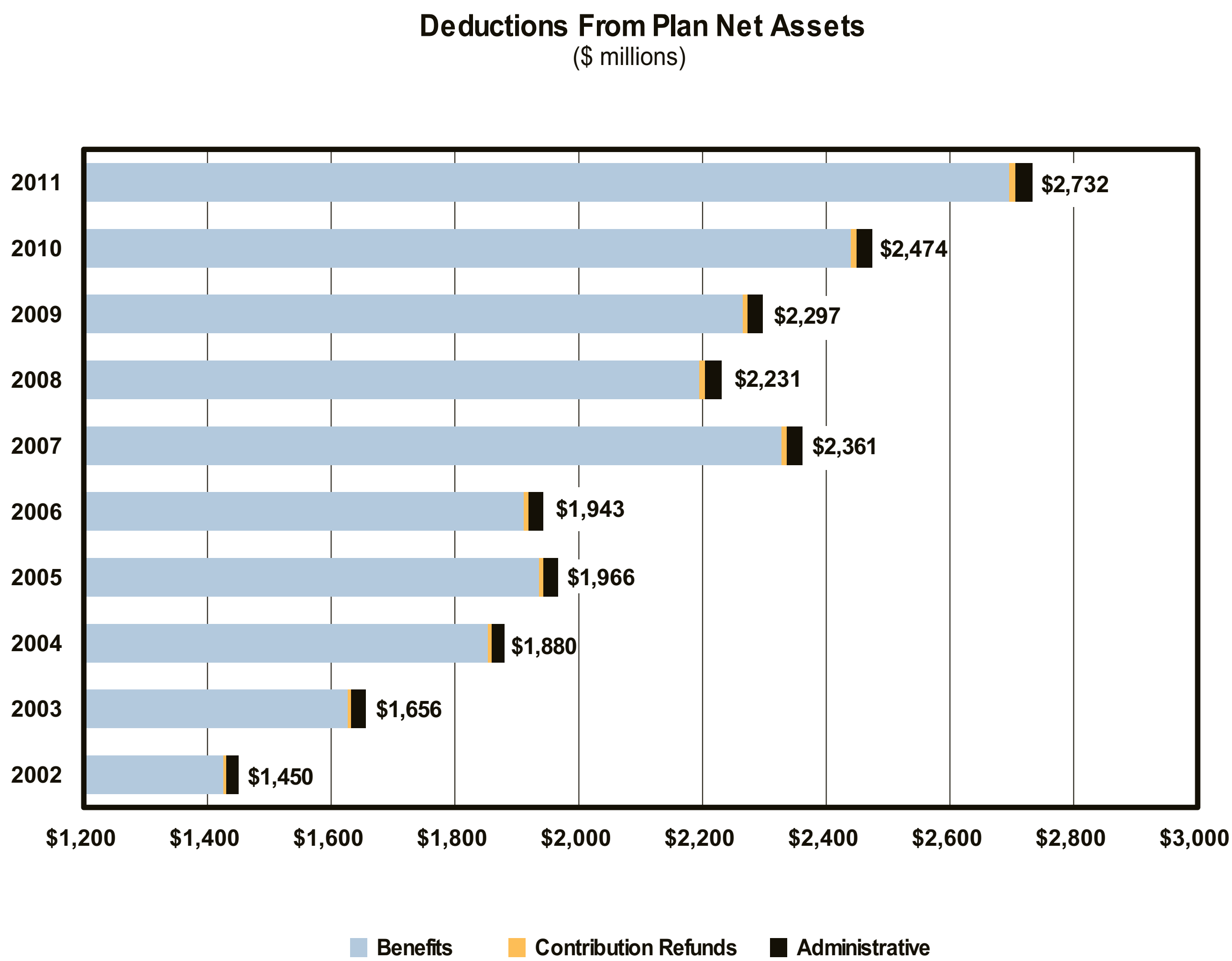
Year Ending	Member Contributions	Employer Contributions Dollar Amount	Employer Contributions % of Annual Payroll	Net Investment Gain / (Loss)	Total
2011	$350,852	$391,749	7.0%	$480,445	$1,223,046
2010	349,049	273,083	4.9	3,076,410	3,698,542
2009	348,805	253,250	4.5	3,561,526	4,163,581
2008	336,833	235,288	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	50,831	1.0	(2,731,295)	(2,376,231)



Schedule of Deductions from Plan Net Assets
Ten Years Ended December 31, 2011
(Dollar Amounts in Thousands)

Year	Benefits	Refund of Contributions	Administrative	Total
2011	$2,695,732	$9,531	$26,706	$2,731,969
2010	2,440,246	9,007	25,136	2,474,389
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[1/]	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	5,115	23,646	1,655,927
2002	1,426,257	4,160	19,856	1,450,273

[1/] 22% increase from prior year is due to large number of employees retiring as a result of changes in health care benefits.

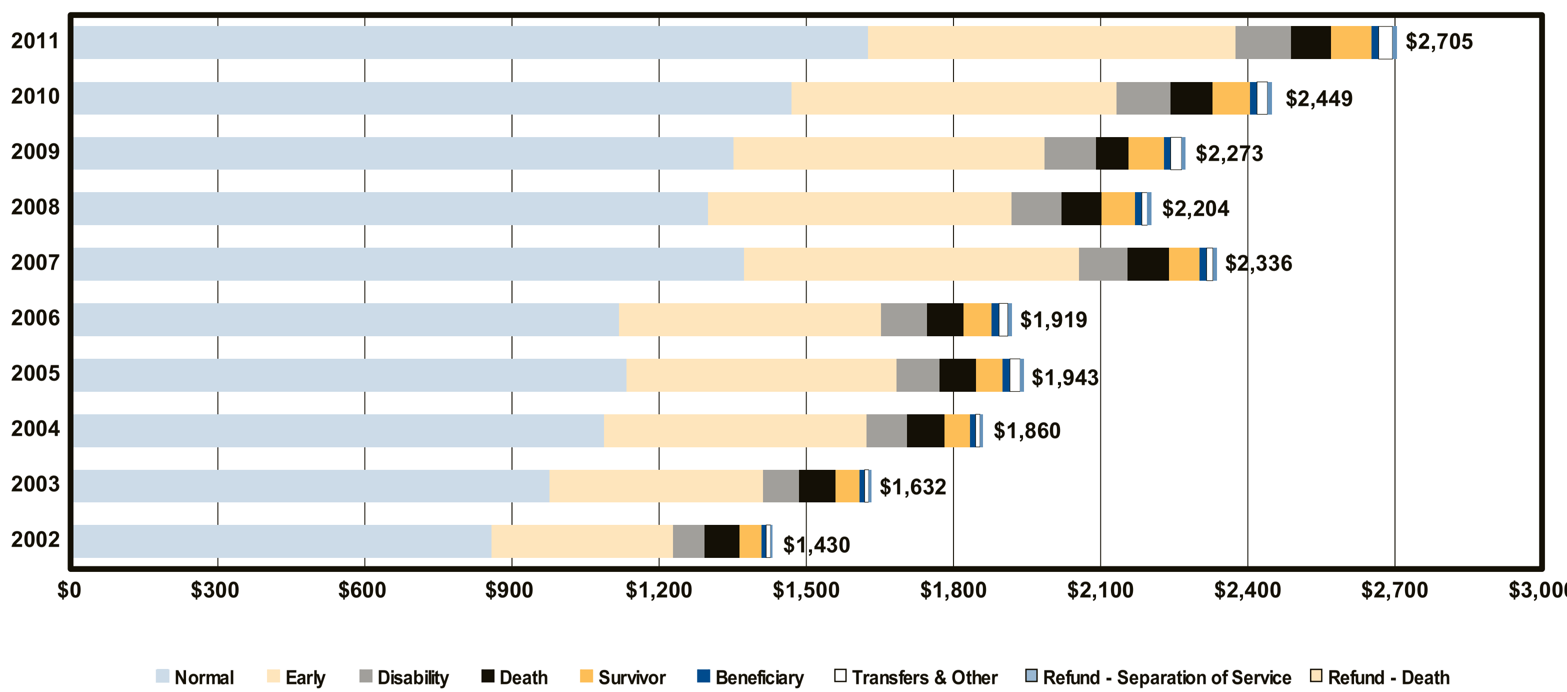


Schedule of Benefit and Refund Deductions from Plan Net Assets by Type
Ten Years Ended December 31, 2011
(Dollar Amounts in Thousands)

	Retirement								Refunds		
Year	Normal	Early	Disability	Death	Survivor	Beneficiary	Transfers & Other	Total Benefit Deductions	Separation of Service	Death	Total Refunds
2011	$1,626,233	$749,180	$112,575	$82,123	$82,467	$15,093	$28,061	$2,695,732	$9,271	$260	$9,531
2010	1,470,101	663,004	109,506	84,878	77,384	14,039	21,334	2,440,246	8,693	314	9,007
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[1/]	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

[1/] *For most members who retired after July 1, 2007, members 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
($ millions)



Source: State Employees' Retirement System

Schedule of Total Changes in Plan Net Assets
Ten Years Ended December 31, 2011
(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)
2011	$350,852	$391,749	$480,445	$1,223,046	$2,695,732	$9,531	$26,706	$2,731,969	$(1,508,923)
2010	349,049	273,083	3,076,410	3,698,542	2,440,246	9,007	25,136	2,474,389	1,224,153
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)

Source: State Employees' Retirement System

Schedule of Investment Income/Loss
Ten Years ended December 31, 2011
(Dollar Amounts in Thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Investment gain/(loss):										
Net appreciation/(depreciation) in fair value of investments	$614,117	$2,211,065	$2,456,209	$(9,979,685)	$4,164,231	$3,723,160	$2,811,470	$2,807,290	$3,423,081	$(1,915,634)
Collective trust fund appreciation/(depreciation) and income	(267,177)	810,147	1,063,673	(1,377,568)	798,941	641,718	420,888	391,248	1,165,463	(1,310,044)
Interest	165,082	146,995	149,040	342,163	347,507	350,783	368,610	280,221	237,786	303,421
Dividends	78,823	61,964	69,400	154,779	149,488	152,690	128,480	124,099	113,634	112,015
Real estate	82,707	73,355	73,561	109,523	112,148	145,871	112,057	148,133	168,427	193,719
Miscellaneous	2,316	6,471	3,499	5,969	6,149	3,519	3,537	6,722	7,138	30,035
	675,868	3,309,997	3,815,382	(10,744,819)	5,578,464	5,017,741	3,845,042	3,757,713	5,115,529	(2,586,488)
Investment expenses	(197,505)	(235,826)	(260,376)	(310,454)	(344,707)	(298,204)	(234,760)	(196,859)	(187,139)	(153,211)
Net gain/(loss) from investing activities	478,363	3,074,171	3,555,006	(11,055,273)	5,233,757	4,719,537	3,610,282	3,560,854	4,928,390	(2,739,699)
From securities lending activities:										
Securities lending income	2,376	2,511	7,092	41,319	155,067	170,675	116,477	40,854	16,163	26,696
Securities lending expenses	(294)	(272)	(572)	(47,253)	(142,094)	(160,169)	(103,939)	(32,385)	(8,854)	(18,292)
Net income from securities lending activities	2,082	2,239	6,520	(5,934)	12,973	10,506	12,538	8,469	7,309	8,404
Total net investment gain/(loss)	**$480,445**	**$3,076,410**	**$3,561,526**	**$(11,061,207)**	**$5,246,730**	**$4,730,043**	**$3,622,820**	**$3,569,323**	**$4,935,699**	**$(2,731,295)**

Source: State Employees' Retirement System

Schedule of Active Member Statistics
Ten Years Ended December 31, 2011

	Male			Female			Total Number of Active Members
	Average Age	Average Service	Average Salary	Average Age	Average Service	Average Salary	
2011	46.55	12.17	$56,008	46.70	11.70	$46,992	107,021
2010	46.58	12.36	54,983	46.71	11.91	46,206	109,255
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

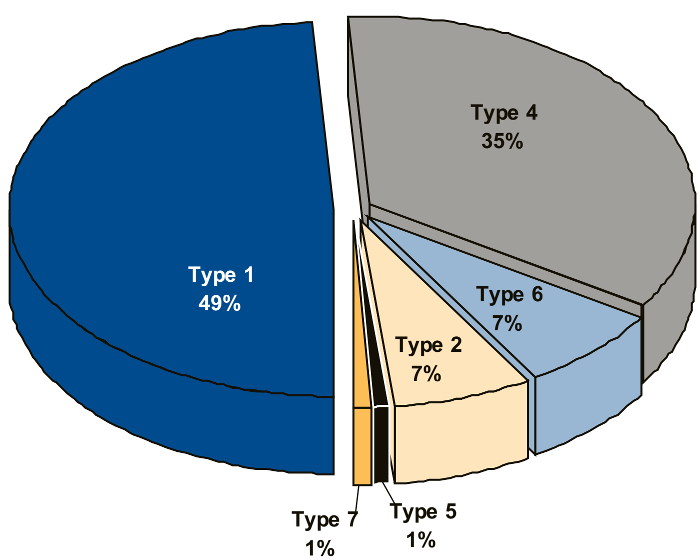
Source: State Employees' Retirement System

Schedule of Retired Members by Type of Benefit
As of December 31, 2011

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Type of Benefit 1	2	4	5	6	7
≤ $500	$6,882,935	27,816	6,650	620	16,089	500	3,611	346
> 500 to 1,000	16,854,176	22,753	11,090	3,709	5,101	300	2,266	287
> 1,000 to 1,500	20,660,264	16,738	9,232	1,725	4,381	119	1,108	173
> 1,500 to 2,000	21,664,154	12,439	6,664	877	4,251	59	523	65
> 2,000 to 2,500	21,958,660	9,806	5,503	454	3,471	38	322	18
> 2,500 to 3,000	20,055,267	7,325	4,420	263	2,450	23	164	5
> 3,000	78,734,258	18,465	13,163	240	4,743	42	267	10
Totals	**$186,809,714**	**115,342**	**56,722**	**7,888**	**40,486**	**1,081**	**8,261**	**904**

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

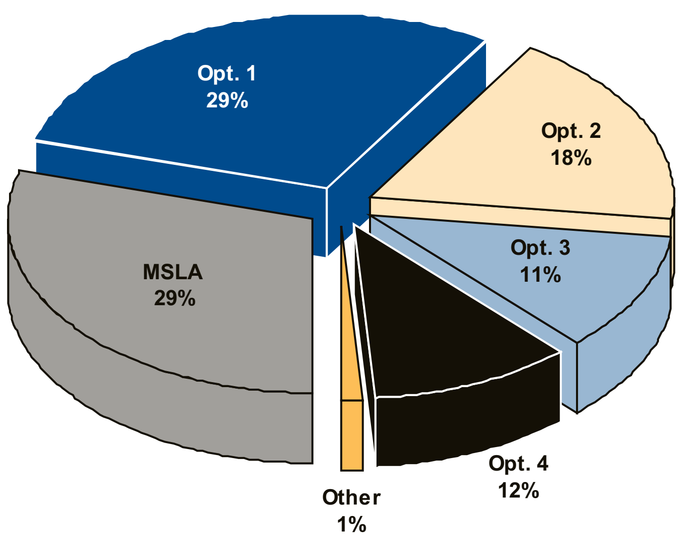
Schedule of Retired Members by Option
As of December 31, 2011

			Option Selected					
Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	MSLA	1	2	3	4	Other
≤ $500	$6,882,935	27,816	6,445	11,193	6,192	2,071	1,381	534
> 500 to 1,000	16,854,176	22,753	7,637	6,400	4,384	2,199	1,793	340
> 1,000 to 1,500	20,660,264	16,738	4,904	4,587	3,281	1,794	2,030	142
> 1,500 to 2,000	21,664,154	12,439	3,703	3,256	2,109	1,551	1,745	75
> 2,000 to 2,500	21,958,660	9,806	2,860	2,419	1,596	1,269	1,618	44
> 2,500 to 3,000	20,055,267	7,325	2,184	1,719	1,139	974	1,279	30
> 3,000	78,734,258	18,465	6,150	3,794	2,220	2,611	3,641	49
Totals	**$186,809,714**	**115,342**	**33,883**	**33,368**	**20,921**	**12,469**	**13,487**	**1,214**

Options

MSLA - Maximum Single Life Annuity
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 member's Annuity 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[1/]
Ten Years Ended December 31, 2011

	Years Credited Service						
Retirement Effective Dates	< 5	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/2011 to 12/31/2011							
Average monthly benefit	$263	$445	$843	$1,430	$2,095	$2,994	$3,829
Average Final Average Salary	$36,895	$44,808	$46,588	$52,687	$58,928	$67,793	$66,989
Number of retired members	103	851	716	769	856	1,134	2,276
Period 1/1/2010 to 12/31/2010							
Average monthly benefit	$254	$398	$788	$1,332	$2,109	$2,938	$3,818
Average Final Average Salary	$39,114	$41,128	$44,562	$50,607	$57,784	$66,053	$65,579
Number of retired members	75	755	505	646	712	846	1,662
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

[1/]*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, 2011

Age	Superannuation		Early Retirement		Disability		Beneficiary and Survivor	
	Male	Female	Male	Female	Male	Female	Male	Female
Under 25	-	-	-	$506	-	-	$5,993	$7,943
25-29	-	-	$736	631	$12,047	$9,286	6,809	18,405
30-34	-	-	1,072	832	10,836	11,365	9,021	7,735
35-39	-	-	1,768	1,321	13,168	11,015	16,270	9,242
40-44	-	-	4,440	2,259	15,025	11,773	7,383	9,555
45-49	-	-	15,788	4,624	15,914	13,786	7,413	9,380
50-54	$37,184	$33,299	20,393	9,436	18,190	15,239	6,624	11,883
55-59	37,874	38,760	19,370	15,226	17,875	16,364	8,921	10,999
60-64	34,012	30,368	23,001	16,671	16,059	14,730	9,423	12,712
65-69	31,296	23,833	21,770	14,938	12,891	12,671	12,040	14,355
70-74	28,686	19,729	16,216	11,121	10,334	9,391	9,161	13,001
75-79	23,313	14,878	14,668	9,231	9,378	8,431	9,035	10,954
80-84	20,209	11,717	14,462	8,880	10,085	7,469	9,342	9,615
85-89	16,784	10,165	12,690	7,600	9,322	6,947	6,610	7,793
90 and over	14,004	8,403	12,523	8,053	8,043	7,195	6,310	6,740
Total Average	**$27,819**	**$19,841**	**$18,762**	**$12,564**	**$14,841**	**$13,278**	**$9,044**	**$10,482**

	Superannuation	Early Retirement	Disability	Beneficiary and Survivor
Average Pension	$24,448	$15,781	$14,027	$10,334
Average Age	72.4	62.9	61.8	74.8

Source: State Employees' Retirement System

Schedule of SERS Agency Participation - Twenty Largest Employers

Ten Years Ended December 31, 2011

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

	2011		2010		2009		2008		2007		2006		2005		2004		2003		2002	
Employer Name	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Dept of Public Welfare	17,087	15.97	18,007	16.48	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
Dept of Corrections	15,764	14.73	16,133	14.77	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
Dept of Transportation	12,826	11.98	12,427	11.37	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
Pennsylvania State University	6,532	6.10	6,653	6.09	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
Pennsylvania State Police	6,033	5.64	6,084	5.57	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
Dept of Labor and Industry	5,768	5.39	5,919	5.42	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
State System of Higher Education	5,138	4.80	5,375	4.92	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
Liquor Control Board	4,080	3.81	4,286	3.92	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
Dept of Environmental Protection	2,643	2.47	2,623	2.40	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
Dept of Military and Veterans Affairs	2,471	2.31	2,505	2.29	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
PA Higher Education Assistance Agency	2,460	2.30	2,265	2.07	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
PA Turnpike Commission	2,104	1.97	2,132	1.95	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
Dept of Revenue	2,059	1.92	2,166	1.98	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
Administrative Office of PA Courts	1,977	1.85	2,025	1.85	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
Executive Offices	1,949	1.82	2,006	1.84	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
Dept of Conservation & Natural Resources	1,909	1.78	1,913	1.75	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
House of Representatives	1,792	1.67	1,825	1.67	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
Dept of Health	1,333	1.25	1,335	1.22	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
Board of Probation and Parole	1,096	1.02	1,100	1.01	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
Dept of General Services	1,022	0.95	1,108	1.01	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
Active Members for Twenty Largest Employers	**96,043**	**89.73**	**97,887**	**89.59**	**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**
Total Number of Active Members	107,021		109,255		110,107		110,866		109,610		110,972		109,981		108,405		109,018		111,059	

Source: State Employees' Retirement System

Schedule of Additional Participating Employers
As of December 31, 2011

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 Fiscal Office
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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