

Pennsylvania Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

Telephone:

Toll-Free 888-773-7748
888-PSERS4U

Local 717-787-8540

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014

Melva S. Vogler
Chairman
Board of Trustees

James M. Sando
Vice Chairman
Board of Trustees

Jeffrey B. Clay
Executive Director

Report prepared by the Public School Employees' Retirement System staff

Table of Contents

Section One – Introductory	5
Letter of Transmittal	6
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	14
Public Pension Coordinating Council Public Pension Standards Award.....	15
Mission Statement.....	16
Administrative Organization	
PSERS Board of Trustees	17
Board Committees	19
Organizational Chart.....	20
Administrative Staff.....	21
PSERS Regional Offices.....	22
PSERS Headquarters Building	23
 Section Two – Financial	 25
Report of Independent Public Accountants.....	27
Management’s Discussion and Analysis.....	29
Financial Statements	
Statements of Plan Net Position as of June 30, 2014 and 2013.....	38
Statements of Changes in Plan Net Position Years ended June 30, 2014 and 2013	40
Notes to Financial Statements.....	42
Required Supplementary Schedules	
Schedule of Changes in the Employer Net Pension Liability.....	60
Schedule of Employer Net Pension Liability.....	61
Schedule of Employer Contributions.....	61
Schedule of Investment Returns	62
Schedule of Funding Progress	62
Notes to Required Supplementary Information	63
Supplementary Schedules	
Schedule of Operating Expenses	64
Summary of Investment Expenses.....	65
Schedule of Payments to Non-Investment Consultants.....	66
Schedule of Employer Contributions.....	67
 Section Three – Investment	 69
Chief Investment Officer Letter.....	70
Portfolio Summary Statistics Asset Allocation as of June 30, 2014.....	78
Comparison of Actual Portfolio Distribution to Asset Allocation Plan as of June 30, 2014	79
Graph – Comparison of Actual Portfolio Distribution to Asset Allocation Plan	79
Graph – Portfolio Distribution 10 Year Trend	80
10 Largest Holdings Schedules	
Common and Preferred Stock – Non - U.S. Equity.....	80
Common and Preferred Stock – U.S. Equity	81
Fixed Income	81
Absolute Return	82
Postemployment Healthcare Investments.....	82

Table of Contents (Continued)

Comparison of Investment Activity Income Fiscal Years Ended June 30, 2014 and 2013	83
Summary Schedule of Brokers' Fees	83
Professional Consultants	84
Section Four – Actuarial.....	87
Actuary's Certification Letter	88
Summary of Results of Actuarial Valuation as of June 30, 2013.....	91
History and Projection of Contribution Rates and Funded Ratios.....	92
Description of Actuarial Assumptions and Methods	93
Schedule of Active Members	96
Schedules of Retired Members and Beneficiaries	96
Solvency Tests.....	97
Analysis of Past Financial Experience Reconciliation of Employer Contribution Rates.....	98
Schedule of Funding Progress – GASB Statement No. 25 Disclosure.....	99
Schedule of Funding Progress – GASB Statement No. 43 Disclosure.....	99
Schedule of Employer Contributions – GASB Statement No. 25 Disclosure	100
Schedule of Employer Contributions – GASB Statement No. 43 Disclosure	101
Section Five – Statistical.....	103
Narrative.....	104
Schedule of Trend Data.....	105
10 Year Trend Schedules	
Schedule of Total Changes in Pension Plan Net Position.....	106
Additions to Pension Plan Net Position	107
Deductions from Pension Plan Net Position.....	107
Schedule of Total Changes in Postemployment Healthcare Plans Net Position.....	108
Additions to Postemployment Healthcare Plans Net Position.....	109
Deductions from Postemployment Healthcare Plans Net Position.....	109
Schedule of Pension Investment Income	110
Schedule of Premium Assistance Investment Income	111
Schedule of Health Options Program Investment Income.....	111
Schedule of Summary Membership Data	112
Schedule of Summary Annuity Data.....	112
Schedule of Pension Benefit and Refund Deductions from Plan Net Position.....	113
Schedule of Average Monthly Pension Benefit Payments.....	114
Schedule of Average Monthly Pension Benefit Payments and Average Final Average Salary.....	116
Schedule of Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary.....	117
Ten Largest Employers	118
Schedule of Employers	119



This page intentionally left blank

INTRODUCTORY SECTION

Letter of Transmittal.....	6
GFOA Certificate of Achievement for Excellence in Financial Reporting	14
Public Pension Coordinating Council Public Pension Standards Award.....	15
Mission Statement.....	16
Administrative Organization	
PSERS Board of Trustees.....	17
Board Committees	19
Organizational Chart	20
Administrative Staff.....	21
PSERS Regional Offices	22
PSERS Headquarters Building	23



5 North 5th Street
Harrisburg PA 17101-1905

Letter of Transmittal
COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

*Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - 717-787-8540
Web Address: www.psers.state.pa.us*

October 31, 2014

The Honorable Thomas W. Corbett, Governor of Pennsylvania
Members of the General Assembly
Members of the Retirement System
Members of the Boards of PSERS' Employers
Pennsylvania Public School Employees' Retirement System Board of Trustees

Dear Governor Corbett, Legislators, Members, Employer Board members, and PSERS Board of Trustees:

We are pleased to present the ninety-fifth edition of the Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal year ended June 30, 2014 (FY 2014). This report is intended to provide financial, investment, actuarial, and statistical information in a single publication.

The management of the System is solely responsible for the accuracy and completion of this report, pursuant to section 24 Pa.C.S. §8502(n) of the Public School Employees' Retirement Code (Retirement Code). The entire report can be downloaded from PSERS' website at www.psers.state.pa.us.

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the 789 reporting entities in Pennsylvania. As of June 30, 2014, the System had over 263,000 active members with an estimated annualized active payroll of \$12.6 billion.

The annuitant membership at June 30, 2014 was comprised of approximately 214,000 retirees and beneficiaries who receive over \$450 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$24,962. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which all members and 789 reporting units contribute. PSERS is administered by a staff of 314. The System is headquartered in Harrisburg, Pennsylvania, and has eight field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

PSERS was established by law as an independent administrative board directed by a governing board of trustees (Board) which exercises control and management of the System, including the investment of its assets. PSERS is considered a component unit of the Commonwealth of Pennsylvania as defined by the Governmental Accounting Standards Board (GASB). An annual audit of the System by an independent certified public accounting firm is required by the Retirement Code. PSERS has contracted with SB & Company, LLC for this audit of its financial statements and has received an unmodified opinion as evidenced in the Report of Independent Public Accountants in the Financial Section of this CAFR. An unmodified opinion means that PSERS' financial statements fairly present, in all material respects, its financial condition. In addition, no significant findings were noted during the audit and therefore, a management letter was not issued. This is the fifth consecutive year that a management letter was not issued by the independent public accountants and is reflective of the hard work and dedication of PSERS' staff to continue to improve the internal controls, operations, and efficiency of the System.

Economic Summary

Economically, the fiscal year that ended June 30, 2014 was characterized by positive gains in each of its four quarters. The positive gains were led by a strong performance in global equities, specifically U.S. equities. Domestically, the Federal Reserve (Fed) implemented a program of outright purchases of longer dated U.S. Treasuries in the amount of \$45 billion a month and mortgage-backed securities in the amount of \$40 billion in 2013. Given the improvement in economic growth and the unemployment rate, the Fed started tapering these purchases in December 2013 by \$10 billion per meeting and has signaled to the market that the asset purchase program will end in October 2014. U.S. economic activity as represented by the U.S. Gross Domestic Product (GDP) and the unemployment rate has been fairly strong during the past fiscal year. The U.S. real GDP increased in three of the four quarters for the fiscal year decreasing only in the winter due to a very cold and snowy climate that impeded economic activity. U.S. housing was strong, up 8.1% as measured by the S&P Case-Shiller 20-City Home Price Index. The official unemployment rate (otherwise known as the U3 unemployment rate) fell during the fiscal year from 7.6% as of June 2013 to 6.1% as of June 2014, approaching what the Fed would consider full employment. Internationally, the Chinese economy continued to be one of the stronger economies in the world. In Japan, the economy remained weak but showed signs of improvement. The Japan real GDP increased modestly over the past fiscal year. The Japanese policy of increasing monetary and fiscal stimulus has transformed years of deflation to inflation. The Eurozone economy during the past year remained very weak and on the verge of recession as fiscal and monetary conditions on the whole have not been loose enough to generate any real improvements in economic growth and employment. In summary, the equity markets led a strong performance year due to improved economies and monetary policies, highlighted by the U.S., China, and Japan economies. For FY 2014, PSERS' investment portfolio generated a time-weighted rate of return of 14.91%, which resulted in \$7.1 billion of net investment income. The total net assets of the System increased from \$49.3 billion to \$53.3 billion from July 1, 2013 to June 30, 2014. This increase was due in large part to net investment income plus member and employer contributions exceeding deductions for benefits and administrative expenses.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the actuarial soundness of the Fund. The annualized time-weighted rate of return for the twenty-five year period ended June 30, 2014 was 8.70% and exceeded the Fund's long-term investment rate of return assumption during that time period. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits. PSERS has maintained its position among the top thirty largest pension systems in the nation.

Status of Pension Funding Initiatives

The funding issue confronting PSERS represents the greatest challenge the System has faced in its history. While Act 120 of 2010 provided historic pension reform and made dramatic progress toward addressing the funding issue at PSERS, difficult budget issues remain for both the Commonwealth and school employers.

PSERS has long stated that three events must occur to resolve the funding issue at the System: (1) pension reform must take place, (2) PSERS' investments must perform as required, and (3) a large cash infusion must be obtained to pay off the existing debt (unfunded liability) that has already been incurred but not yet paid.

Two of those items have occurred and have begun to help resolve the funding issue. Significant pension reform was enacted in 2010 and PSERS' investments have performed as required.

Act 120 of 2010 has already provided significant pension reform. Act 120 reformed the benefit structure and actuarial and funding methodologies at PSERS. The Act 120 benefit reductions are projected to save over \$24.6 billion. Currently, the annual employer benefit cost for new members is less than 3.00% of payroll, which leaves very little to cut for additional meaningful benefit reform to occur.

As of June 30, 2014, approximately 14% or 38,000 of PSERS' active membership is under the new reduced benefit structure of Act 120. As the Act 120 membership grows, the annual savings from the lower Act 120 benefit cost structure will allow an increasing amount of employer contributions to pay down PSERS' existing unfunded liability. An estimated \$85 million is expected in cost savings during FY 2015 from the reduced Act 120 benefit tiers.

The funding issue has now become an appropriations issue for employers and the Commonwealth. The employers receive significant retirement funding support from the Commonwealth as detailed in the notes to the financial

Introductory Section

statements found in the Financial Section of this report. As mandated by Act 120, PSERS' employer contribution rate has increased from 5.64% on July 1, 2010 to 21.40% on July 1, 2014. Even with the recent increase in the employer contribution rates, an additional cash infusion and/or still higher employer contribution rates are necessary to pay down the "principal" of the existing debt in the System. Although there has been much discussion of additional pension reform as a solution to the funding issue, the impact of further benefit reductions for new members will only have a marginal impact on projected employer contribution rates. The primary question that needs to be addressed is how to pay for the higher employer contributions rates needed to reach the funding levels recommended by PSERS' actuary and begin to pay off the existing debt.

Pension Reform Update

Significant discussion on additional pension reform continues to take place. Numerous pieces of pension reform legislation have already been introduced and debated by the General Assembly during the past two Legislative Sessions, and more are expected for the upcoming 2015-2016 Legislative Session. As of the date of this letter, no pension legislation beyond Act 120 of 2010 has been enacted.

For many years, PSERS has provided extensive, objective technical information and volumes of actuarial data to members of the General Assembly. We have accurately and professionally cost and drafted every piece of pension legislation brought to PSERS by the General Assembly, regardless of the impact on the structure of the System. While PSERS does not take a position on any legislation or support any specific policy on pension reform, PSERS takes its role in helping to resolve the pension funding issue very seriously. PSERS will continue to cooperate and provide information so effective pension policy decisions can be made.

Major Initiatives

Budgetary and Financial Governance

PSERS submits its administrative budget request to the Governor's Office of the Budget each October where it is reviewed and evaluated. Any changes proposed by the Governor's Budget Office are made and a final amount is provided to the Legislature, which passes the final budget and submits it to the Governor for his signing into law. The administrative budget is not funded from the Commonwealth's General Fund, rather from the earnings of the Fund itself. PSERS has annually underspent its approved budget, keeping more funds available to invest for PSERS' members.

PSERS continues to be prudent in its use of funds and managing its annual budget. In FY 2014, PSERS replaced individual desktop printers with shared Multi-Function Devices, saving the agency money on printing supplies. As of September 1, 2013, all new retirees are required to receive their monthly annuities by electronic funds transfer, saving PSERS their postage and Treasury processing fees each month. Working with its actuary, PSERS has utilized interactive models to bring a portion of its actuarial analysis in-house. This led to a meaningful reduction in actuarial fees in FY 2014 despite a large number of pension funding requests from the General Assembly. Other reductions were made to overtime, training, and electricity, all part of PSERS' ongoing efforts to control costs and improve operational efficiency.

PSERS participates in an independent, international benchmarking survey evaluating its costs and service performance in comparison to other similar public pension funds. Based on the most recent survey, PSERS had a 22% lower pension administration cost per member than the average cost for its peer group.

In addition, during FY 2014, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received \$9.0 million in settlements from these cases in FY 2014.

Customer Service

PSERS made enhancements to its call center operations and system, enabling staff to answer more than 23,000 additional telephone calls, with a total of 270,640 calls being answered, while simultaneously reducing the number of abandoned calls by nearly 5,000. In addition, PSERS made use of distance communication technology to provide a pilot program of educational webinars to a select group of members and to supply on-demand training to employers without requiring staff to travel.

The multi-year technology refresh effort to upgrade the System's entire core client-server based pension administration system continues. This mission critical system is used by PSERS' staff members and almost 800 employers to

execute PSERS' primary pension administration functions for its 500,000 members. These functions include but are not limited to: enrolling new members; processing membership class elections; reporting and processing employee and employer contribution data; processing member demographic, salary, and service data; processing purchase of service, multiple service, disability, retirement, and refund applications; processing death benefits; supporting the Health Options Program; processing premium assistance applications and payments; issuing benefit payments related to the above activities; calculating and posting interest and delinquencies, and payments and receipts related to the above activities; providing self-service functionality to PSERS' members via the internet; calculating, submitting, and reporting tax information and dollars to the Internal Revenue Service (IRS); and reporting information to PSERS' actuary.

This refresh from the existing "classic" version to a new "browser-based" version not only helps ensure the viability of PSERS' core pension administration system into the future, it provides an enhanced "baseline" platform with built-in features that will make future business process and member self-service enhancements much easier to implement.

As work to upgrade to the new browser-based system began, PSERS incorporated changes into the classic version of the system that were required to integrate the system with the Department of Treasury's new system. Additionally, final changes were made to the classic system that would carry PSERS through the next few years, as resources are directed towards the conversion to the new browser-based system.

Act 120 of 2010 Implementation Update – Shared Risk

The System implemented the "shared risk" provisions of Act 120. With a shared risk program, Class T-E and T-F members share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E and T-F, but could increase or decrease by 0.5% every three years based on investment performance. Since the Fund's 8.66% three year return through June 30, 2014 outperformed the investment performance hurdle mandated by Act 120, pending Board approval, the member rate will not change. The next investment performance measurement period for TE-TF members ends June 30, 2017.

Financial Highlights

The fair value of the System's net assets totaled \$53.3 billion as of June 30, 2014. The System is the 19th largest state-sponsored public defined benefit pension fund in the nation and the 29th largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Position and Management's Discussion and Analysis included in the Financial Section of this report.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2014, PSERS provided over \$6.4 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2014, the appropriation was \$41.7 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding for a defined benefit pension plan entails an actuarial examination of the fund balances and liabilities to ensure money will be available for future and current benefit payments. The actuarial valuation measures the progress toward funding pension obligations of the System by comparing the actuarial assets to the actuarial liabilities of the System.

The results of PSERS' latest published actuarial valuation (as of June 30, 2013) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The funded status as of the latest actuarial valuation was 63.8%. Additional comparative information on the funded status of PSERS can be found in the Actuarial Section and in the Financial Section of this report.

Investments

Over the past few years, PSERS' Board and investment staff made significant changes to the Fund's investment asset allocation, including further refining the Fund's investment strategy and increasing the diversification of the Fund's

Introductory Section

assets. In particular, PSERS actively reduced its risk profile by significantly decreasing its equity exposure and by moving portions of the Fund's assets into asset classes that are less correlated to the equity markets.

Income from the investment portfolio represents the major source of revenue to the System, accounting for 71% of total revenues over the twenty-year period from FY 1995 to FY 2014. During FY 2014, net investment income was \$7.1 billion. The investment portfolio, which is one part of the System's net assets, totaled \$52.9 billion, at fair value, as of June 30, 2014. For FY 2014, the time-weighted net rate of return on the System's investments was 14.91%.

The investment portfolio is well diversified to emphasize a long-term investment approach. The overall objective of the System is to provide benefits to its members through a carefully planned and well-executed investment program. The return objectives are to (i) realize a return that exceeds the Policy Index (the Policy Index is a custom benchmark, based on the Board-established asset allocation structure that seeks to generate a return that meets the actuarial rate of return assumption); and (ii) invest the assets to maximize returns for the level of risk taken. The risk objectives are to (i) diversify the assets of the System to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location; and (ii) invest the assets so that the probability of investment losses (as measured by the Policy Index) in excess of 15.0% in any one year is no greater than 2.5% (or two standard deviations below the expected return). Additional information on the System's investments is contained in the Investment Section of this report.

Investment Fees and Active/Passive Investment Management at PSERS

PSERS is aware of both return expectations and investment manager fees, but it also has other considerations to balance when investing its assets. PSERS constantly monitors investment risk and diversification, and cash flow needs. For over a decade, PSERS has been underfunded by school employers and the Commonwealth while member benefit payments have increased. PSERS' negative cash flow is much larger than the average for public pension funds. As the underfunding continues, PSERS must adjust the asset allocation and increase diversification to reduce investment risk as it has less assets to invest and is not able to withstand large market losses as easily.

PSERS uses both passive (index) and active investment managers. Internal investment staff is utilized to passively invest (index) a portion of PSERS' assets. Active external investment managers are hired to invest in certain limited asset classes. They are expected to produce returns above the standard index returns.

PSERS indexes approximately 90% of its U.S. equity exposure and 50% of its non-U.S. equity exposure as it is difficult to find active managers that can produce better performance than the index in these areas. PSERS uses active managers in a variety of asset classes, including private equity, private real estate, commodities, master limited partnerships, and absolute return. Active managers are utilized by PSERS with the expectation that they can provide net of fee returns in excess of passive indexing, provide diversification benefits which otherwise are not available through indexing, and/or represent areas of the market which provide attractive risk-adjusted returns that otherwise would not be accessible to PSERS.

From a historical total fund perspective, using active managers for a portion of PSERS' assets has been very beneficial for the Fund. From FY 2011 through FY 2014, PSERS has generated gross excess returns (returns above the index) of approximately \$6.1 billion from active management and paid approximately \$2.1 billion in total management fees and all other investment expenses netting a gain of \$4.0 billion. Without active management, PSERS' net investment income would have been \$4.0 billion lower.

Federal and State Tax Status

The System is a qualified trust fund under Section 401(a) of the Internal Revenue Code (IRC). As a result of the qualified status, the trust fund is entitled to an exemption, under Section 501(a) of the IRC, from federal income taxation on its investment earnings. Additionally, contributions made on behalf of the active members are tax deferred under Section 414(h) of the IRC. The trust fund and any benefits accruing to the members of PSERS are exempt from Pennsylvania state and municipal taxes.

It should be noted that the IRS announced and initiated a renewed focus on the tax qualification of public pension funds in 2008. PSERS worked proactively, in conjunction with the State Employees' Retirement System, to address this IRS initiative.

In September of 2013, PSERS was notified by the IRS that their tax qualification status has been confirmed pending minor modifications to the Retirement Code. This most recent notification is set to expire on January 31, 2016.

Internal Controls and Reporting

PSERS' management is responsible for and has implemented internal controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America. The System maintains a full accrual accounting system. More specific accounting information is detailed in the Summary of Significant Accounting Policies (Note 2) in the notes to the financial statements found in the Financial Section of this report.

A system of internal controls provides reasonable, but not absolute, assurance that assets are properly safeguarded and that financial statements are reliable. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of the cost and benefits requires estimates and judgments by management.

PSERS' management believes the internal accounting controls currently in place are adequate to meet the purpose for which they were intended and also believes the financial statements, supporting schedules, and statistical tables are fairly presented.

GASB Pension Accounting and Financial Reporting Project (Pension Project)

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

Statement No. 67 replaced the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for most government employers. The new statements also replace the requirements of Statement No. 50, *Pension Disclosures*, for those governments and pension plans.

Statement No. 67 provides public employee pension plans such as PSERS guidance for financial reporting. Statement No. 67 significantly changed related financial reporting through note disclosures and new required supplementary information (RSI) schedules. These changes are necessary for government employers to comply with Statement No. 68.

PSERS adopted Statement No. 67 for the fiscal year ended June 30, 2014. An analysis of the major differences between Statement No. 67 and Statement No. 25 can be found in the Management's Discussion and Analysis, notes to the financial statements, and RSI found in the Financial Section of this report. PSERS will also post two schedules as recommended by the American Institute of Certified Public Accountants (AICPA) to the Employer page of PSERS' website. These two schedules, the Schedule of Employer Allocations, and the Schedule of Collective Pension Amounts, will further assist employers in implementing Statement No. 68.

Beginning in 2013, PSERS began an outreach effort to its employers. This mainly consisted of speaking at various conferences held by the Pennsylvania Association of School Business Officials (PASBO), Pennsylvania School Boards Association (PSBA), and the Pennsylvania Institute of Certified Public Accountants (PICPA). Additionally, PSERS has published articles in its Employer Bulletin, beginning with Volume 4 of 2014. These articles will continue with each Employer Bulletin issue through July of 2015.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform services essential to the efficient operation of the System. An annual audit by an independent certified public accounting firm and annual valuation by an actuarial consultant attest to the financial and actuarial soundness of PSERS. The investment performance of the System is reviewed by an investment evaluation firm on a quarterly basis. The consultants providing services to the System are listed in the Financial Section and Investment Section of this report.

Other Information

In compliance with the Retirement Code, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published in the *Pennsylvania Bulletin* (Vol. 31, No. 14). This information can be found at www.pabulletin.com/secure/data/vol31/31-14/index.html.

System Awards

Government Finance Officers Association of the United States and Canada Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for 31 consecutive years from FY 1983 to FY 2013. A photograph of this award appears in the Introductory Section of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the Comprehensive Annual Financial Report.

The System believes the current report continues to conform to the Certificate of Achievement program requirements and will be submitting this report to GFOA to determine eligibility for the 2014 certificate.

Public Pension Coordinating Council Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2013. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

The Public Pension Coordinating Council was formed in 1990 to assist the public employee retirement community. The Council is composed of representatives from three national associations whose members are directly involved in the administration of public employee retirement systems: the National Association of State Retirement Administrators (NASRA); the National Conference on Public Employee Retirement Systems (NCPERS); and the National Council on Teacher Retirement (NCTR). A reproduction of this award appears in the Introductory Section.

Private Equity Growth Capital Council Award

PSERS ranked 10th in private equity returns for large U.S. public pension funds in the Private Equity Growth Capital Council (PEGCC) annual pension study. This ranking is part of the PEGCC's third annual pension study, which analyzes public pension fund investment in private equity by returns and allocations. The PEGCC's annual pension study is compiled using information from publicly available 2013 annual and quarterly financial reports from the 150 largest public pension funds as compiled by Bison (www.bison.co). Bison is a financial technology company delivering software for analyzing private fund data.

The PEGCC is an advocacy, communications, and research organization established to develop, analyze, and distribute information about the private equity and growth capital investment industry and its contributions to the

national and global economy. Established in 2007 and formerly known as the Private Equity Council, the PEGCC is based in Washington, D.C.

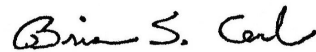
Acknowledgements

The preparation of this report reflects the combined efforts of PSERS' staff under the direction of the PSERS Board. It is intended to provide complete and reliable information in conformance with accepted standards and to document responsible stewardship of the System's assets.

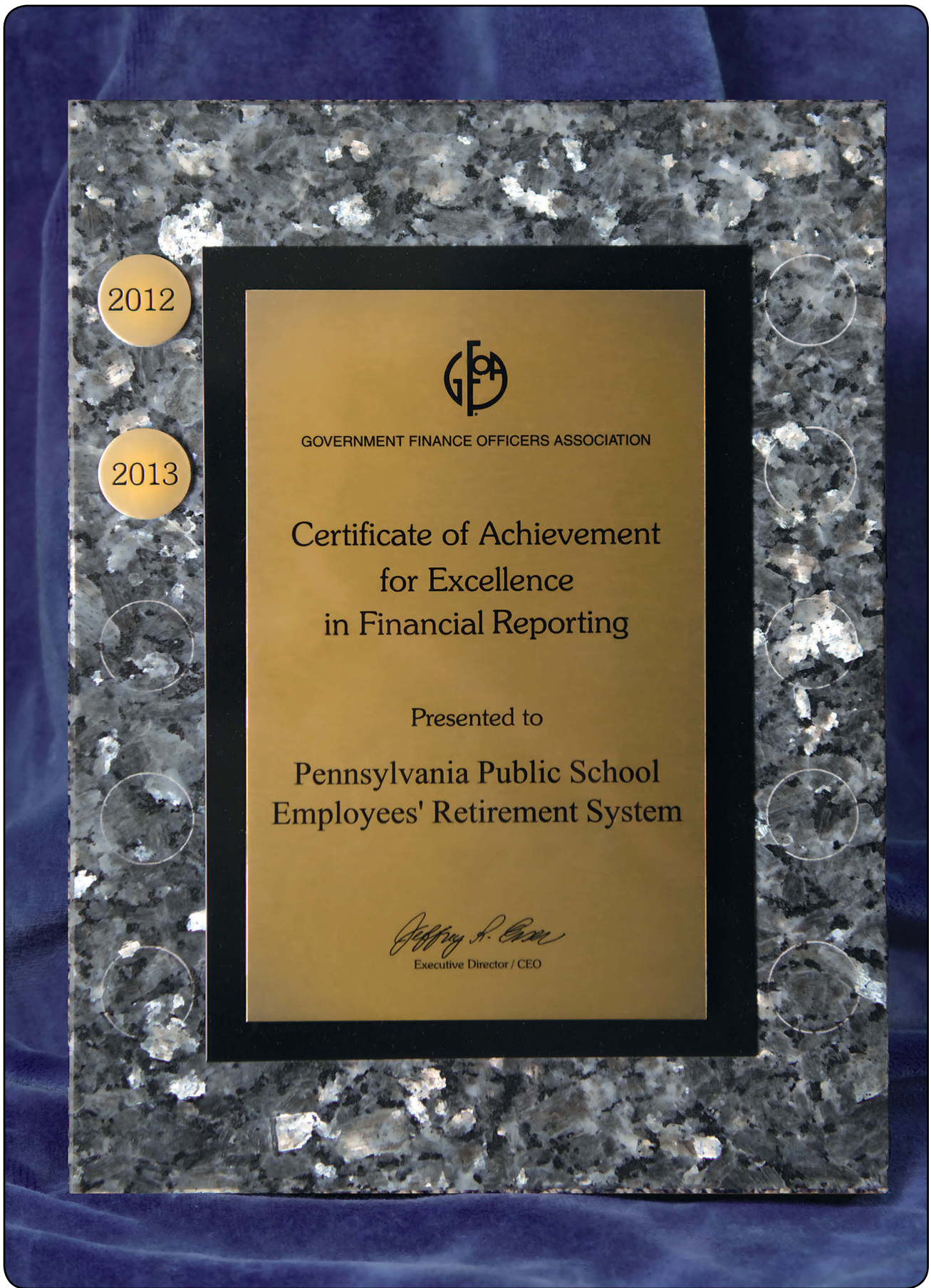
Respectfully submitted,



Jeffrey B. Clay
Executive Director



Brian S. Carl, CPA, CTP
Chief Financial Officer



2012

2013



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Certificate of Achievement
for Excellence
in Financial Reporting

Presented to

Pennsylvania Public School
Employees' Retirement System

Executive Director / CEO



Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration
2013*

Presented to

***Pennsylvania Public School 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)

A handwritten signature in black ink that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Mission Statement



The Board of Trustees and the employees of the Public School Employees' Retirement System (System) serve the members and stakeholders of the System by:

- Providing timely and accurate payment of benefits*
- Maintaining a financially sound System*
- Prudently investing the assets of the System*
- Clearly communicating members' and employers' rights and responsibilities, and*
- Effectively managing the resources of the System*

adopted 6/20/2008

Administrative Organization PSERS Board of Trustees



Seated, front row: Lisa Taglang, designee for Honorable Glen R. Grell; Susan C. Lemmo; Melva S. Vogler, Board Chairman; Deborah J. Beck; Bernard Gallagher, designee for Honorable Joseph F. Markosek

Standing, second row: Jeffrey B. Clay, PSERS' Executive Director, Board Secretary; Ambassador Martin J. Silverstein; Larry B. Breech; Frederick T. Berestecky; Anthony Mannino, designee for Honorable Lawrence M. Farnese; Craig Erdman, designee for Nathan G. Mains; James R. Biery; Honorable Patrick M. Browne

Not pictured: Dr. Carolyn C. Dumaresq; Honorable Robert M. McCord and James M. Sando

PSERS Board of Trustees

Acting Secretary of Education of the Commonwealth of Pennsylvania (ex officio)

Dr. Carolyn C. Dumaresq

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Robert M. McCord

Executive Director of the Pennsylvania School Boards Association, Inc. (ex officio)

Mr. Nathan G. Mains

Two members appointed by the Governor of the Commonwealth of Pennsylvania for a term of three years

Mr. James R. Biery (term expires 12/31/15)

Ambassador Martin J. Silverstein (term expires 12/31/14)

Three members elected from among the Active Certified Contributors of the System for a term of three years

Mr. Frederick T. Berestecky (term expires 12/31/16)

Ms. Susan C. Lemmo (term expires 12/31/15)

Mr. James M. Sando (term expires 12/31/17)

One member elected from among the Active Non-Certified Contributors of the System for a term of three years

Ms. Deborah J. Beck (term expires 12/31/15)

One member elected from among the annuitants of the System for a term of three years

Ms. Melva S. Vogler (term expires 12/31/16)

One member elected by the members of Pennsylvania Public School Boards from among their number for a term of three years

Mr. Larry B. Breech (term expires 12/31/17)

Two members appointed by the Speaker of the House from the Pennsylvania House of Representatives, one representing the Majority Party and one representing the Minority Party

Honorable Joseph F. Markosek (term expires 11/30/14)

Honorable Glen R. Grell (term expires 11/30/14)

Two members appointed by the President Pro Tempore of the Pennsylvania Senate, one representing the Majority Party and one representing the Minority Party

Honorable Lawrence M. Farnese (term expires 11/30/16)

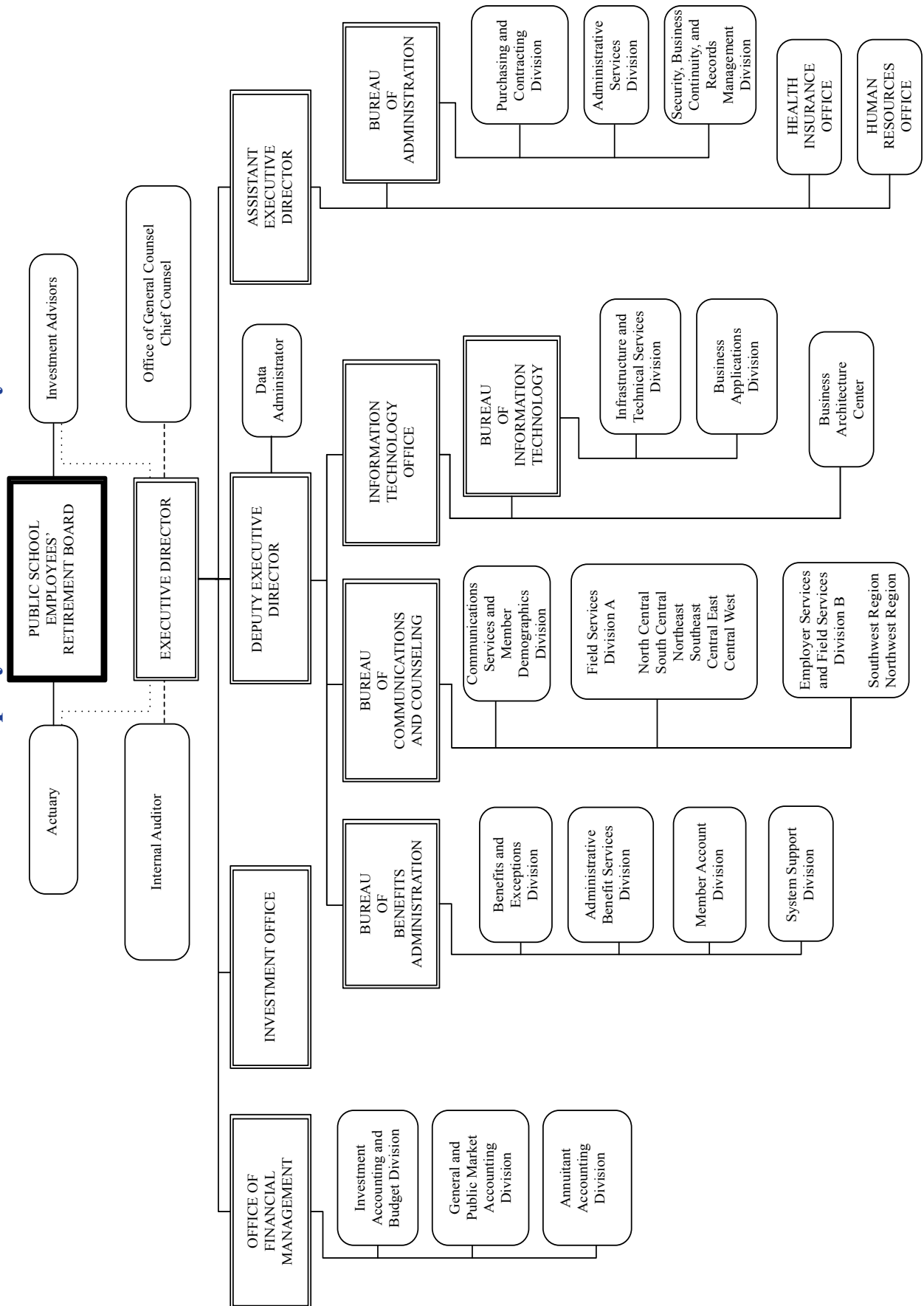
Honorable Patrick M. Browne (term expires 11/30/14)

2014 Board Committees

<p style="text-align: center;">Appeals/Member Services</p> <p style="text-align: center;">Ms. Beck, Chair Mr. Biery, Vice Chair Mr. Berestecky Mr. Breech Senator Farnese Mr. Mains Mr. Sando</p>	<p style="text-align: center;">Audit/Budget</p> <p style="text-align: center;">Mr. Berestecky, Chair Representative Grell, Vice Chair Ms. Lemmo Mr. Mains Representative Markosek Treasurer McCord Ambassador Silverstein</p>	<p style="text-align: center;">Bylaws/Policy</p> <p style="text-align: center;">Mr. Mains, Chair Ms. Beck Mr. Biery Senator Browne Representative Grell Representative Markosek</p>
<p style="text-align: center;">Corporate Governance</p> <p style="text-align: center;">Treasurer McCord, Chair Mr. Breech Senator Browne Representative Markosek Mr. Sando Ambassador Silverstein</p>	<p style="text-align: center;">Elections</p> <p style="text-align: center;">Ambassador Silverstein, Chair Dr. Dumaresq Senator Farnese Ms. Lemmo Representative Markosek</p>	<p style="text-align: center;">Finance</p> <p style="text-align: center;">Mr. Sando, Chair Committee is comprised of all Board Members</p>
<p style="text-align: center;">Health Care</p> <p style="text-align: center;">Ms. Lemmo, Chair Ms. Beck Mr. Berestecky Representative Grell Representative Markosek</p>	<p style="text-align: center;">Personnel</p> <p style="text-align: center;">Representative Grell, Chair Treasurer McCord, Vice Chair Mr. Breech Senator Browne Mr. Mains Mr. Sando</p>	<p style="text-align: center;">Technology Steering</p> <p style="text-align: center;">Senator Farnese, Chair Mr. Sando, Vice Chair Mr. Biery Dr. Dumaresq Ms. Lemmo Treasurer McCord</p>

NOTE: The chair of the Board of Trustees is a voting ex officio member of all Committees

Organizational Chart of the Public School Employees' Retirement System



Administrative Staff



James H. Grossman Jr.
Chief Investment Officer



Jeffrey B. Clay
Executive Director



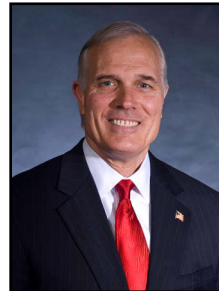
Terrill J. Sanchez
Deputy Executive Director



Michele M. Ferencz
Chief Counsel



Brian S. Carl
Chief Financial Officer



Joseph E. Wasiak
Assistant Executive Director



Richard R. Spinks
Chief Technology Officer



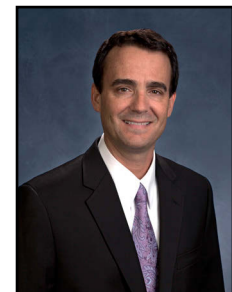
James F. Noone
Director of Administration



Mark F. Schafer
Director of Health
Insurance



Eugene W. Robison
Director of Communications
and Counseling



Steven C. Goldstein
Director of Information
Technology



Tammy L. Meshey
Director of Human
Resources



Donald J. Halke, II
Internal Auditor



Francis J. Ryder
Director of Government
Relations



Evelyn M. Williams
Press Secretary

PSERS REGIONAL OFFICES
Public School Employees' Retirement System of Pennsylvania
PSERS FIELD SERVICES DIVISION
Serving You in the 21st Century

NORTHWEST

Suite C, Franklin Penn Wood Center
 464 Allegheny Blvd.
 Franklin, PA 16323-6210
 Local (814) 437-9845
 FAX (814) 437-5826
Toll Free 1-888-773-7748 ext. 5175
 Donald Gregory, Administrator

NORTHCENTRAL

Suite 201
 300 Bellefonte Avenue
 Lock Haven, PA 17745-1903
 Local (570) 893-4410
 FAX (570) 893-4414
Toll Free 1-888-773-7748 ext. 5275
 Jeremy Wible, Administrator

NORTHEAST

Suite 201
 417 Lackawanna Avenue
 Scranton, PA 18503-2013
 Local (570) 614-0269
 FAX (570) 614-0278
Toll Free 1-888-773-7748 ext. 5375
 Sherry L. Hoxie, Administrator

SOUTHWEST

Suite 208, 900 Sarah Street
 Pittsburgh, PA 15203-1106
 Local (412) 488-2031
 FAX (412) 488-2338
Toll Free 1-888-773-7748 ext. 5775
 Russell J. Miller, Administrator

SOUTHEAST

Suite 500, 605 Louis Drive
 Warminster, PA 18974-2825
 Local (215) 443-3495
 FAX (215) 443-3487
Toll Free 1-888-773-7748 ext. 5575
 Deborah Puskas, Administrator
 Linda Visco, Administrator

CENTRALWEST

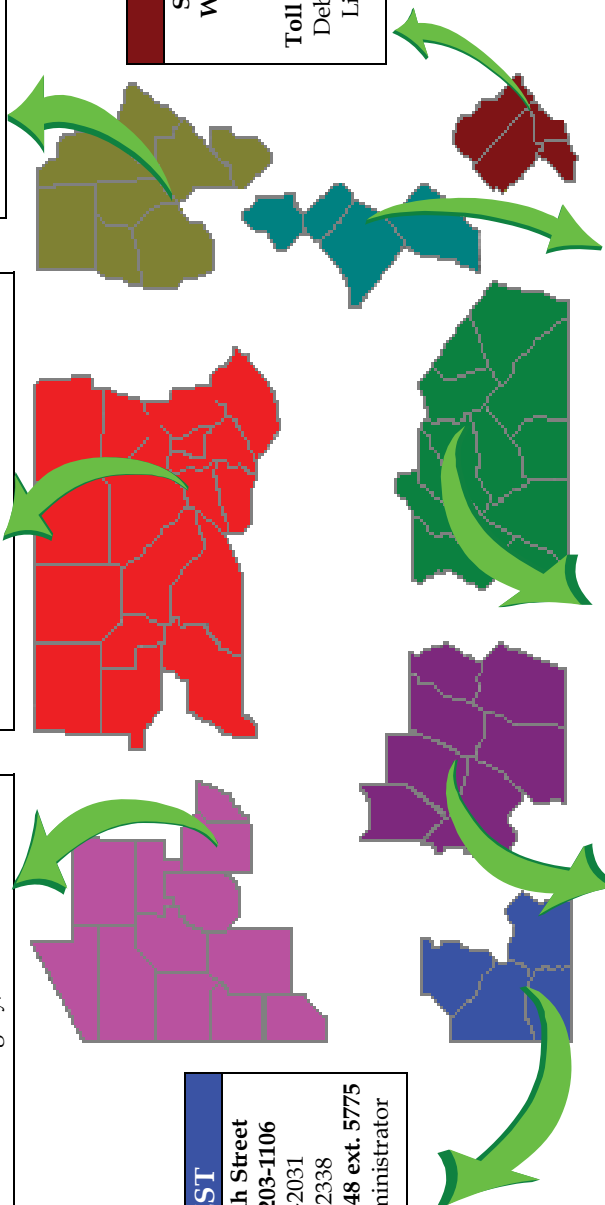
219 W. High Street
 Ebensburg, PA 15931-1540
 Local (814) 419-1180
 FAX (814) 419-1189
Toll Free 1-888-773-7748 ext. 5875
 Brian Farester, Administrator

SOUTHCENTRAL

5 N 5th Street
 Harrisburg, PA 17101-1905
 Local (717) 720-6335
 FAX (717) 783-9606
Toll Free 1-888-773-7748 ext. 6335
 Wendy Stevens, Administrator

CENTRALEAST

Suite 103, 110 West Arch Street
 Fleetwood, PA 19522-1321
 Local (610) 944-9113
 FAX (610) 944-9275
Toll Free 1-888-773-7748 ext. 5475
 Lisa A. York, Administrator



PSERS Headquarters Building



The administrative headquarters of the Public School Employees' Retirement System (PSERS) is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania within the State Capitol complex. Regional field offices are also maintained in Ebensburg, Fleetwood, Franklin, Lock Haven, Harrisburg, Pittsburgh, Warminster and Scranton.

The headquarters building was constructed and first occupied by the Retirement System in 1987. It is the first time a building was constructed for PSERS use. It is owned by the Five North Fifth Street Corporation, a holding entity formed by PSERS, and is managed by Property Management Inc.



This page intentionally left blank