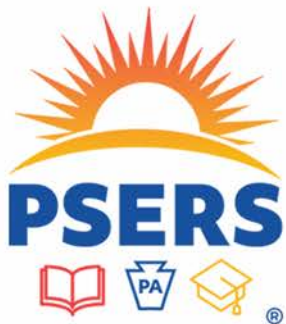


Allegheny National Forest
Marienville, PA

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2020 & 2019



PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the Commonwealth of Pennsylvania

Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

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Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2020 and 2019

Christopher SantaMaria
Chairman
Board of Trustees

Honorable Francis X. Ryan
Vice Chairman
Board of Trustees

Glen R. Grell
Executive Director

*Report prepared by the Public School Employees' Retirement System
Office of Financial Management Staff with support from many areas of PSERS*

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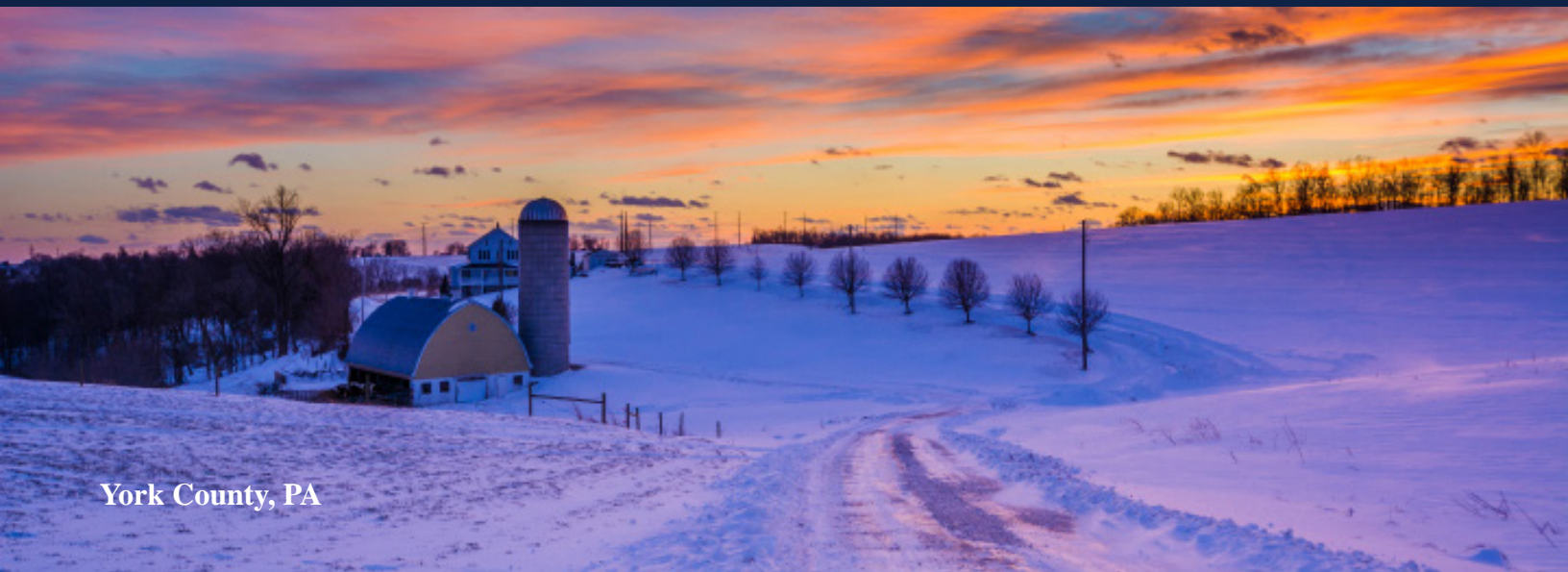


**Worlds End State Park
Forksville, PA**

*Photo Courtesy of Pennsylvania Department of
Conservation and Natural Resources*

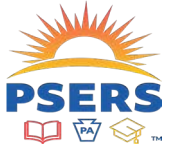
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Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM



5 North 5th Street
Harrisburg PA 17101-1905

Toll-Free - 1-888-773-7748

(1-888-PSERS4U)

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Web Address: www.pfers.pa.gov

November 6, 2020

The Honorable Thomas W. Wolf, Governor of Pennsylvania
Members of the PA 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 Wolf, Legislators, Members, Employers' Board members, and PSERS Board of Trustees:

We are pleased to present the one hundred-first edition of the Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal years ended June 30, 2020 (FY 2020) and 2019 (FY 2019). This report is intended to provide financial, investment, actuarial, and statistical information in a single publication in accordance with the Government Finance Officers Association standards.

The theme of this year's CAFR highlights the natural beauty and wonder of Pennsylvania's great outdoors. Autumn in Pennsylvania is an exceptionally colorful display with towering mountains and lush valleys, dense forests and rolling patchwork of farmland. This year's CAFR theme is a reminder that there is much to be thankful for and we are fortunate to have the ability to escape to the solitude and tranquility of the outdoors as the country continues to battle the COVID-19 pandemic. Through good times and bad, PSERS staff's dedication and commitment to our members and employers has never wavered. PSERS' members remain our priority and we continue to operate the System for their exclusive benefit.

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.pfers.pa.gov.

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania (PA). 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 reporting entities in Pennsylvania. As of June 30, 2020, the System had approximately 256,000 active members with an estimated annual active payroll of \$14.0 billion.

The annuitant membership at June 30, 2020 was comprised of approximately 240,000 retirees and beneficiaries who receive approximately \$520 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$25,753. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report. See the Distribution of Annual Pension Amounts chart in the Introductory Section of this report.

In addition to retirement benefits, PSERS administers the Premium Assistance Program that provides a health insurance premium subsidy of up to \$100 per month for those retirees who qualify. At June 30, 2020, there were over 94,000 members participating in the Premium Assistance Program. PSERS also manages a health insurance program, PSERS Health Options Program, that is entirely funded through participating member premiums and provides Medicare Supplemental, Medicare Advantage, Prescription Drug, and Dental plans to over 120,000 retirees and their dependents.

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. In FY 2020, PSERS distributed \$6.5 billion or nearly 94% of total pension benefits to retired members who reside in Pennsylvania. These pension benefits are a significant economic driver that benefit the economy of the Commonwealth. See the Pension Benefits by County map in the Introductory Section of this report.

The System is a governmental cost-sharing, multiple-employer defined benefit pension plan, to which most members and reporting units contribute. PSERS also administers a defined contribution plan to which all new members and reporting units contribute. PSERS is administered by a staff of 361 and has 770 reporting units as of June 30, 2020. The System is headquartered in Harrisburg, Pennsylvania, and has seven 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 CliftonLarsonAllen LLP for this audit of its financial statements and has received an unmodified opinion as evidenced in the Report of Independent Auditors 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 eleventh consecutive year that a management letter was not issued by the independent auditors 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

The past fiscal year will be remembered as a tale of two halves. The first half was highlighted by a strong period for equity returns due to the easing of monetary policies in the United States and Europe as well as a "phase one" trade deal between the U.S. and China which alleviated trade tensions between the two countries. The second half was dominated by a global pandemic with many economies in the world completely shutting down and plunging the global economy into a recession. However, the challenge of falling incomes was met by unprecedented monetary and fiscal policies in the United States and elsewhere to prevent depression-like conditions. The U.S. economy languished in contraction territory during a large part of the fiscal year as measured by the Institute of Supply Management (ISM) Purchasing Managers' Index (PMI), an indicator of activity in the sector. During the fiscal year, the ISM PMI fell from 51.6 at June 30, 2019 to a low of 41.5 on April 30, 2020 during the depths of the COVID-19 crisis before recovering to 52.6 on June 30, 2020. The COVID-19 pandemic affected economies globally with economic activity being negatively impacted in Europe and Asia.

The U.S. economy suffered a significant economic contraction during the fiscal year due to the pandemic. However, these negative economic conditions were alleviated by swift and aggressive fiscal and monetary policy. The Federal Reserve dropped the Federal Funds target rate range by 2.25% during the fiscal year from 2.25% - 2.50% in June 2019 to 0.00% - 0.25% in June 2020. In addition, the Federal Reserve implemented numerous liquidity programs to ensure the proper function of the bond markets. The Federal Government approved over \$3 trillion of fiscal spending in the form of tax rebates, a Payroll Protection Program, unemployment insurance benefits, and other forms of fiscal relief. The official unemployment rate rose significantly during the fiscal year from 3.7% at June 30, 2019 to 11.1% at June 30, 2020.

The Euro Area economy was struggling prior to the pandemic and has only worsened since that time. The Euro Area's response to the COVID-19 pandemic was more modest than the U.S. response. The European Central Bank (ECB) and the European Union adopted various monetary and fiscal stimulus programs which amounted to over \$1.7 trillion. As of the second quarter 2020, the Euro Area was contracting at a 14.5% annual pace, meaningfully down from the modest 1.3% growth rate one year earlier. The unemployment rate remained relatively stable at 7.7% as of June 2020 compared to 7.5% a year earlier due to companies receiving financial incentives to maintain employee payroll during the pandemic. The Euro Area economy remained in contraction territory as evidenced by the Markit Eurozone Manufacturing PMI measurement of 47.4 in June 2020 down slightly from 47.6 last June, and falling as low as 33.4 during the depth of the pandemic. The ECB continued its policy of very accommodative overnight interest rates (negative 0.5% at June 30, 2020, down from negative 0.4% at June 30, 2019).

Japan's economy was not spared difficulties from the COVID-19 pandemic, although from a health perspective Japan had little in the way of COVID-19 cases relative to the U.S. and Europe. As of the second quarter 2020, Japan's real GDP fell by a year-over-year rate of 9.9% versus a 0.9% year-over-year growth rate for the second quarter 2019. Japanese policy makers continued to aggressively attempt to stimulate their economy through a combination of low interest rates, the purchase of higher risk assets by the Bank of Japan, coordinated diversification into higher risk assets by large public investors, and fiscal spending policies to encourage liquidity to move into riskier assets.

Introductory Section

China had robust growth compared to the other developed regions of the world and their aggressive actions fighting the COVID-19 virus allowed them to recover more quickly economically. China's real GDP increased by 3.2% over the past year, significantly slower than the 6.2% pace for the year ended June 2019 due to the weak March 2020 quarter when the economy was shut down due to the pandemic.

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, 2020 was 7.48% and exceeded the Fund's long-term investment rate of return assumption. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

Status of Pension Funding Initiatives

The ongoing budgetary commitment of Gov. Tom Wolf and the Legislature authorizing the state and school employers to pay the full amount of the actuarially required contributions continues to help improve PSERS' funded status.

From FY 2017 to FY 2020 PSERS received full actuarial funding from school employers and the Commonwealth after 15 previous years of underfunding. Full actuarial funding from employers, along with member contributions and investment income, are all necessary sources of funds that will pay down the unfunded liability and bring PSERS back to fully funded status.

During FY 2020, however, investment markets were volatile and challenging. PSERS' fiscal year return of 1.11% was below the Fund's long-term earnings assumption of 7.25%. Pension plans like PSERS are well-diversified and built to generate long-term returns, so one negative year is not expected to have a significant impact on the System's funded status. On an actuarial basis, the funded ratio was 58.1% at June 30, 2019. Subject to future investment returns and continued commitment to making employer contributions, the actuarial funded ratio is expected to climb to 70% by 2028.

The System's funded ratio on a market-value basis was 54.3% at June 30, 2020. A small decrease in the FY 2020 funded ratio on a market-value basis was expected based on the negative impact of the ongoing COVID-19 pandemic on investment markets during FY 2020. Since June 30, 2016, when full actuarial funding began, the System's market value unfunded ratio has increased from 50.14% to 54.3% at June 30, 2020.

Major Initiatives

PSERS Adapted Quickly to Pandemic Impacts

Since March 16th, most of PSERS employees have been working remotely from their homes with very limited visits to physical office locations. PSERS operations and processes had to be adjusted with staff working remotely, moving from a 100% on-site presence to a 95+% teleworking presence.

Over 250 laptops were deployed and PSERS staff adapted to the situation and kept up their work with minimal, if any, delays in service. While office locations, including the member call center, were initially closed, PSERS continued to process daily and monthly benefit payrolls, invest assets, process retirements, respond to members inquiries through emails, and issue refunds, all while working remotely.

Since the March 16th office closure PSERS has processed over 6,600 retirements, issued over 3,000 refunds, responded to over 38,500 emails, answered over 66,500 phone calls, and processed eight monthly benefit payrolls that included over 1.8 million payments to members of approximately \$4.1 billion, remotely. PSERS Employer Service Center (ESC) has responded to nearly 17,800 emails from employers since working from home began on March 16th. Additionally, since March 16th over 91,300 agency-wide workflows were created for class elections, estimates, address changes, nomination of beneficiaries, power of attorney, disability, account verification, and many other types of services.

When office locations closed, PSERS encouraged members to email, rather than call, the member service center. As a result, PSERS saw email volumes more than triple within weeks of closing. Email continues to be a medium being used by members at a higher than normal average, despite the fact that PSERS prioritized reopening the member service call center using remote technology in May. Moreover, regional offices were opened with additional safety

precautions in place while maintaining minimal staffing to ensure safety while also being available to assist walk-ins at PSERS locations beginning in June.

PSERS Retirement Exit Counseling (REC) sessions also needed to be migrated to remote technology. PSERS quickly converted REC sessions for members who are retiring, from small in-person group meetings of 8 to 10 members to small group online counseling sessions using Skype technology at the end of March. As of October 2020, over 659 small group online counseling sessions have been conducted with over 3,849 members attending these online retirement counseling sessions.

The COVID-19 pandemic has certainly been a challenge for PSERS. Processes and communication methods had to rapidly change as the pandemic progressed. PSERS was able to continue to provide excellent service to our members without any major interruptions due to prior emergency planning and the ability to quickly adapt to migrating conditions.

Member Self-Service

Members continued to benefit from improvements to the PSERS Member Self-Service (MSS) Portal, particularly during the pandemic. Even as offices were temporarily closed, the MSS Portal remained available and has continued to be a tremendous success.

Since being implemented in April 2018, more than 160,000 members have created their online account and conducted more than 200,000 transactions for themselves. The most common actions taken are to create their own retirement estimates, update their beneficiaries, update their address and generate their own income verification. MSS also allows members to “Go Green” and as a result, nearly 96% of all MSS accounts have opted to go paperless and receive information from PSERS electronically.

In July of 2020, in an ongoing effort to ensure the protection of members’ data, PSERS implemented Multi-Factor Authentication (MFA) in the MSS portal. MFA is an authentication method in which a user is granted account access only after successfully presenting two or more pieces of information. It provides additional security beyond requiring a standard username and password to ensure sensitive data remains secure.

Secure messaging functionality, which will enable members and employers to communicate with PSERS securely within the online portal, will be coming later in 2020.

Defined Contribution Plan

The Defined Contribution (DC) Plan was successfully implemented with the assistance of Voya Institutional Plan Services (VIPS), as the Third Party Administrator for the DC plan, and Charles W. Cammack Associates, as the pension consultant. School employees who become new members of PSERS on or after July 1, 2019 can choose from three classes of membership: two consisting of defined benefit and defined contribution components and one that is a stand-alone defined contribution plan. As of June 2020, over 16,000 participants were enrolled in the DC plan. Additionally, current members who were active on July 1, 2019 had a one-time option to elect prospectively into one of the new membership classes; only 10 current members made such election.

The Retirement Code requires the DC plan to provide no less than ten investment options offered by three or more investment providers. Currently, the DC plan has nine providers offering twelve investment options. As of June 2020, the total DC plan balance was approximately \$21 million.

Improved Communication to Members

Throughout the year PSERS completed many undertakings to improve communication with members. PSERS created a Twitter account (Twitter handle is @PA_PSERS) and a Facebook account (PA Public School Employees’ Retirement System) and posts valuable content daily. Multiple videos have been added to our website ranging from general updates, investments, and PSERS services during the pandemic, with many more being planned for the upcoming year.

Monthly financial education messages were provided to members of the DC plan focusing on a variety of topics from budgeting, saving, retirement planning, and understanding the investment options within the DC plan. Specialized emails were also sent to members with targeted messages such as the need to nominate a beneficiary or update other information within their account. Multiple surveys were conducted on a variety of topics as well as a focus group

and an experience survey about choosing membership class, contact preferences, and outreach experiences. The results will assist in developing PSERS' short-term and long-term communication plan and the redesign of current communication materials and efforts.

PSERS Health Options Program Updates

The PSERS Health Options Program (HOP) continues to see steady growth in enrollment and now has more than 120,000 PSERS retirees, spouses, and dependents enrolled as of June 30, 2020. Within the plan, there is a Dental Program offering which has eclipsed 21,000 enrollees. Additionally, efforts are currently underway to add a Vision Plan as an additional offering in conjunction with the Dental Program.

Once again, the HOP Prescription Drug Employer Group Waiver Plan earned a 4.5 star rating (out of 5 stars) from the Centers for Medicare and Medicaid Services (CMS) for the 2020 calendar year. Each year, CMS evaluates applicable health and prescription drug plans based on a plan's quality and performance. CMS uses a 5-star rating system that helps beneficiaries know how well a plan is doing. The star rating is a quality rating system of 14 measures of Medicare beneficiaries' experience with their drug plans. Star ratings can be used by beneficiaries to compare a plan's performance with other plans. PSERS' HOP Prescription Drug Plan scored very high in its recent CMS evaluation in the following areas: Quality Improvement, Rating of Drug Plan, and Obtaining Needed Prescription Drugs. PSERS is committed to keeping the HOP prescription drug program affordable, offering meaningful member choice, and holding vendors accountable to provide our members with best-in-class service.

PSERS Increased Internal Management

PSERS Investment Office received approval to increase its professional complement by ten during the past fiscal year. We are in the process of filling those positions with very capable investment professionals which will allow us to continue our efforts to bring additional assets in-house as well as provide additional depth to the investment team. The complement increase will allow the Investment Office to support the large amount of assets managed in-house at a significantly lower cost than if those assets were managed externally. Over the past three years, the Investment Office increased the amount of assets managed internally from 34% to 39%, or by \$5.6 billion. The estimated savings from managing those assets in-house is over \$46 million per year.

Investment Book of Record

The Investment Operations group began implementation of an Investment Book of Record ("IBOR") this year, following a robust 18 month needs assessment, future state identification, and competitive selection process where Ernst & Young served as the Board's consultant. The IBOR will become the Fund's investment technology "engine", designed to deliver the best available view of investment data suitable for investment decision-making, incorporating the current status and forward projections of portfolio investment holdings and cash positions, as well as reference data and derived analytics supporting the investment decision-making process. Implementation of the IBOR will modernize PSERS' Investment Operations, facilitating more complete straight-through processing, stronger data quality control, and enhanced analytics tools supporting the allocation, performance, risk, compliance, and deep reporting needs of PSERS' stakeholders.

Custodial Bank Service Level Agreement

PSERS, in conjunction with the Pennsylvania Office of the State Treasury, was able to successfully negotiate a Service Level Agreement with PSERS' custodial bank, BNY Mellon. The agreement documents PSERS' operational and service expectations for the quality, responsibilities, and service levels provided by BNY Mellon, including various performance metrics.

Budgetary and Financial Governance

PSERS manages multiple budgets/appropriations which support its ongoing operations. Each October, the agency submits its budget requests to the Governor's Office of the Budget. PSERS' Administrative and Directed Commissions Recapture Program Budgets each require legislative approval. None of PSERS' budgets are funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself or participant charges. Historically, PSERS has underspent its approved budgets, keeping more funds available to invest for PSERS' members.

PSERS continues to be a leader among large U.S. public pension funds in its effective control of expenses while providing necessary services to its membership. In the past two years, the System has added significantly to the number of active and retired members electing to receive newsletters, statement of accounts, 1099-Rs and other publications electronically, which saves the agency over \$200,000 per year in postage, printing and paper costs.

During FY 2020 specifically, the agency achieved substantial savings in postage, reduced overtime, decreased rental of equipment and software, and lowered consultant and legal fees, all of which helps to maintain more investment earnings for the benefit of the Fund. In addition to these savings, PSERS purchased programming hours from its pension administration system vendor at a reduced prepaid rate in order to allow for vital changes to be made in the near future to the pension administration system.

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 13% lower pension administration cost per member than the average cost for its peer group. By running a lean and efficient operation, PSERS saves the Commonwealth and school employers approximately \$6.4 million annually in administrative expenses compared to its peers.

In addition, during FY 2020, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received \$2.1 million in settlements from these cases in FY 2020 and \$53 million over the past five years.

PSERS Commitment to Fee Transparency

PSERS remains one of the most transparent among large public pension funds in the nation for the disclosure of management fees. On December 6, 2019, PSERS Board of Trustees approved an investment transparency policy that codified many of the agency's long-standing methods of disseminating investment records to the public, press and policymakers in accordance with existing state laws, Commonwealth directives and best practices in government finance. The policy stresses that PSERS will abide by its legal and fiduciary obligations when using the agency's website and other means to release investment returns and fee data under the Pennsylvania Right to Know Law, Sunshine Act, Public School Retirement Code, various other state codes, and Institutional Limited Partners Association (ILPA) standards. The policy also states PSERS has the discretion to publicize voluntarily "additional financial and investment information" that may go beyond the above-mentioned laws, rules and standards.

The policy also asserts that PSERS has the legal and fiduciary right to protect itself from demands for "additional fee disclosure" that could contain trade secrets and other non-public contractual agreements, which if exposed could hurt investment returns, lead to violations of state and federal statutes, or costly litigation. The policy also urges policymakers and stakeholders to defend the System against "false comparisons" with other pension funds that may not disclose similar data.

Additionally, PSERS investment professionals have provided the Trustees with an end-of-the-year private markets report for more than two decades. As part of PSERS' historic commitment to transparency, the report has evolved to provide more information on asset performance, profits and costs. For the second year in a row, the report tabulated cumulative carried interest paid and accrued across asset classes.

Carried interest is a share of investment profits that is paid out when fund performance is strong. Contractually, the general partner only receives profit shares if it repays all of PSERS' start-up, investment and fixed management fees, and hits an annual preferred rate of return.

Financial Highlights

The fair value of the System's fiduciary net position declined \$0.1 billion during FY 2020 to \$59.0 billion as of June 30, 2020. The System is the 16th largest state-sponsored public defined benefit pension fund in the nation and the 37th largest among public and corporate pension funds in the nation. More specific information on the System's net position is detailed in the Statements of Fiduciary 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 2020, PSERS provided approximately \$7.4 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the PA General Assembly and funded by the investment income of the System. For FY 2020, the appropriation was \$51.8 million. PSERS' Investment Related Expenses budget, which is also entirely sourced by the investment income of the System, totaled \$35.3 million for FY 2020.

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 current and future 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, 2019) 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 for all benefits payable under the System at that date. The total funded status as of the latest actuarial valuation was 58.1%. Additional comparative information on the funded status of PSERS can be found in the Financial Section and in the Actuarial Section of this report.

Investments

In the years following the Great Recession of 2008-2009, PSERS' Board and investment professionals made significant changes to the Fund's investment asset allocation, including further refining its investment strategy and increasing the diversification of 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 59% of total revenues over the twenty five-year period from FY 1996 to FY 2020. During FY 2020, net investment income was \$1.0 billion. The investment portfolio, which is one part of the System's net position, totaled \$57.8 billion, at fair value, as of June 30, 2020. For FY 2020, the time-weighted net rate of return on the System's investments was 1.11%.

The Board is responsible for the formulation of investment policies for the System. Professional Staff is responsible for the implementation of those investment policies. The overall investment objectives of the System are as follows:

- to generate returns to support the System's actuarial soundness so it may provide its members with benefits as required by law;
- to earn a long-term total return, net of fees, investment, and administrative expenses, that equals or exceeds the Actuarial Assumed Rate approved by the Board (currently 7.25%);
- to earn a long-term total return, net of fees, investment and administrative expenses, that equals or exceeds the Policy Index approved by the Board; and
- to prudently manage investment risks that are related to the achievement of investment goals.

Additional information on the System's investments is contained in the Investment Section of this report.

Federal and State Tax Status

The System's defined benefit and defined contribution plans are qualified trust funds under Section 401(a) of the Internal Revenue Code (IRC). As a result of the qualified status, the trust funds are entitled to an exemption, under Section 501(a) of the IRC, from federal income taxation on their investment earnings. Additionally, contributions made on behalf of the active members are tax deferred under Section 414(h) of the IRC. The trust funds and any benefits accruing to the members of PSERS are exempt from Pennsylvania state and municipal taxes. The Internal Revenue Service (IRS) issued a determination letter dated March 16, 2017 which stated that the defined benefit plan and its underlying trust qualify under the provisions of Section 501(a) of the IRC and therefore are exempt from federal income taxes. A similar letter from the IRS dated April 3, 2019 was received for the defined contribution plan.

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.

In addition, each year PSERS undergoes a very thorough internal controls assessment. This past year the in-depth assessment reviewed five areas of PSERS operations: Benefit Processing, Communications, Healthcare, Investments, and Financial Reporting. Each internal control assessment was based on five major components. The five components included, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

As required by the Commonwealth, PSERS submitted the assessment and monitoring plan in a timely manner to the Commonwealth's Office of Budget. No significant deficiencies were identified in this past year's internal control assessment; therefore no corrective action plan was needed.

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 an 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. 48, No. 26). This information can be found at <https://www.pabulletin.com/secure/data/vol48/48-26/1029.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, 2019. 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 37 consecutive years from FY 1983 to FY 2019. 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 2020 certificate.

GFOA Popular Annual Financial Reporting Award

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to PSERS for its Popular Annual Financial Report for the fiscal year ended June 30, 2019, which PSERS refers to as its Summary Annual Financial Report. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for four consecutive years from FY 2016 to FY 2019. Its attainment represents an important accomplishment by the System.

Public Pension Coordinating Council Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award for Funding and Administration to PSERS for 2019. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards. Achievement of the Funding portion of this award is in recognition of the commitment of the Governor and General Assembly to fund 100% of the actuarially required contributions.

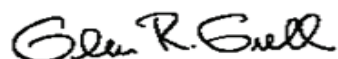
The Public Pension Coordinating Council was formed in 1990 to assist the public employee retirement community. The Council is composed of representatives from three national associations whose members are directly involved in the administration of public employee retirement systems: the National Association 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.

Acknowledgements

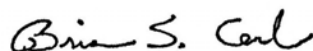
The preparation of this report reflects the combined efforts of PSERS' staff under the direction of the PSERS Board. Our sincere appreciation is extended to all who assisted in and contributed to the completion of this document. This report is intended to provide complete and reliable information in conformance with accepted standards and to document responsible stewardship of the System's assets.

We embrace our responsibilities of being prudent stewards and to proactively prepare for the anticipated challenges ahead. We will continue to take responsible action and will work with our members, employers and stakeholders to position PSERS to be a strong pension system.

Respectfully submitted,



Glen R. Grell
Executive Director



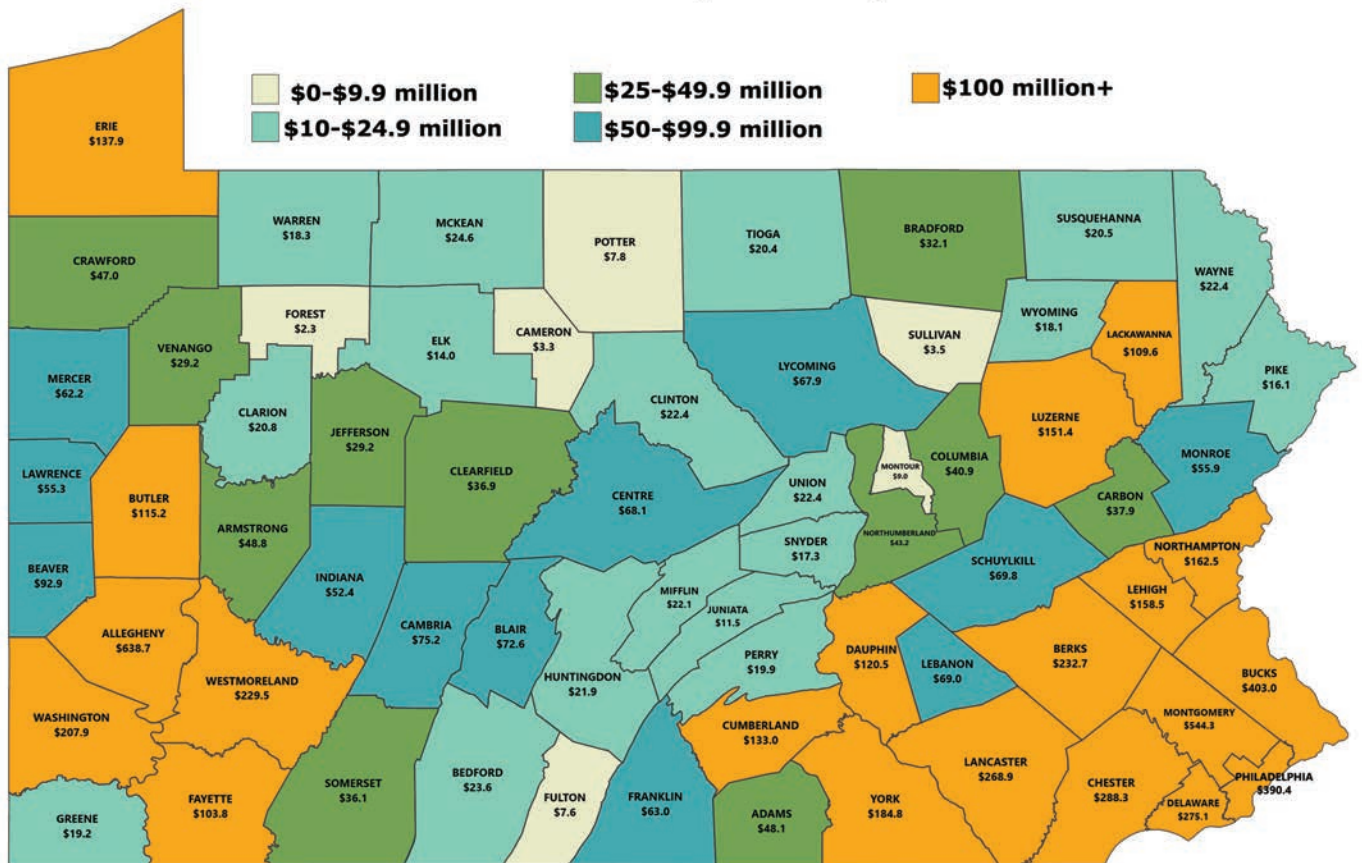
Brian S. Carl, CPA, CTP
Chief Financial Officer

Pension Benefits by County Fiscal Year 2020 (Dollar Amounts in Millions)

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. Each year PSERS pays out billions in pension benefits to retired members who reside in Pennsylvania. In fiscal year 2020, PSERS pension benefits to retirees totaled approximately \$6.9 billion. Of this amount nearly 94%, or \$6.5 billion, went directly into state and local economies. These pension benefits are a significant economic driver that benefit the economy of the Commonwealth.

Top 10 Counties Based on Pension Benefits (Dollars in Millions)	
Allegheny	\$638.7
Montgomery	\$544.3
Bucks	\$403.0
Philadelphia	\$390.4
Chester	\$288.3
Delaware	\$275.1
Lancaster	\$268.9
Berks	\$232.7
Westmoreland	\$229.5
Washington	\$207.9

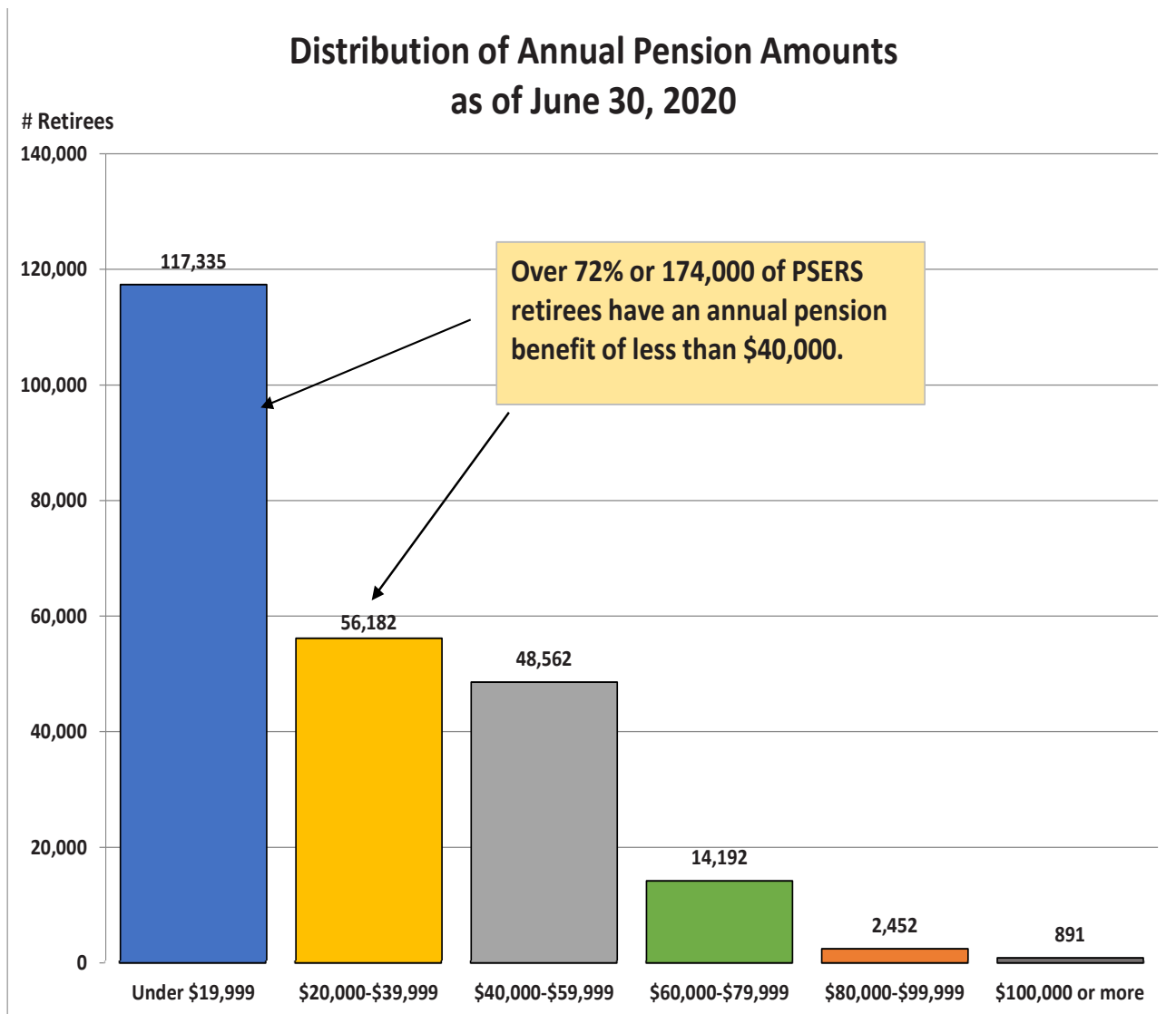
Total Benefits in Pennsylvania - \$6.5 Billion



Pension Benefit Amounts Fiscal Year 2020 (Dollar Amounts in Millions)

The average PSERS retiree receives a modest pension of \$25,753 on an annual basis, a benefit earned through a lengthy career of 23 years in public education. During their career, members make mandatory contributions between 7.50% and 10.30% of their pay depending on their class of membership to help fund their own retirement benefit. In accordance with Act 120, new members as of July 1, 2011 and thereafter are funding the majority of the cost of their benefit. This is in contrast to many non-public (private) pension plans. In over 90% of such plans, members do not contribute and the employers bear 100% of the cost of the benefit.

Six-figure pensions are rare. At June 30, 2020, there were 891 retired members receiving an annual benefit over \$100,000 out of a total 240,000 PSERS retirees. These six-figure pension retirees spent an average of 38 years working in their public education careers and contributing to their benefit.





2012

2017

2013

2018

2014

2019

2015

2016



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Certificate of Achievement
for Excellence
in Financial Reporting

Presented to

Pennsylvania Public School
Employees' Retirement System

Jeffrey A. Chan
Executive Director / CEO



Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration*

2019

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.

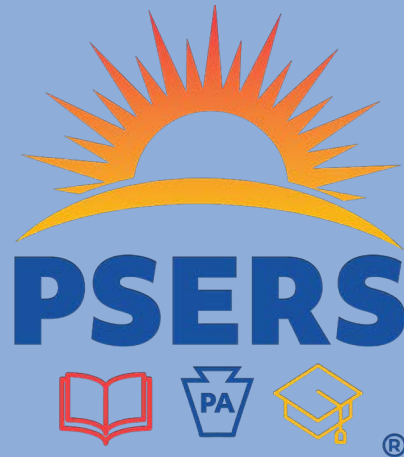
Presented by the Public Pension Coordinating Council, a confederation of

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". The signature is written in a cursive style.

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 June 20, 2008

Administrative Organization PSERS Board of Trustees



Seated, front row: Secretary Robin L. Wiessmann; Melva S. Vogler, Susan C. Lemmo; Deborah J. Beck*

*Standing, second row: Honorable Francis X. Ryan; Miriam Fox** designee for Honorable Matthew D. Bradford; Stacey Connors, designee for Honorable Patrick M. Browne; Jonathan Berger Designee for Nathan G. Mains; Christopher SantaMaria, Board Chairman; Honorable Joseph M. Torsella; Jason M. Davis; Patrick Lord, designee for Secretary Pedro A. Rivera; Honorable John P. Blake*

Not pictured: Eric DiTullio and Acting Secretary Richard Vague

* Robin Wiessmann, former Secretary of Banking and Securities, was replaced by Acting Secretary Richard Vague in February 2020.

** Miriam Fox, designee for the Honorable Matthew D. Bradford, retired effective December 2019.

**PSERS Board of Trustees
as of June 30, 2020**

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

Mr. Pedro A. Rivera

Secretary of Banking and Securities of the Commonwealth of Pennsylvania (ex officio)

Acting Secretary Richard Vague

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Joseph M. Torsella

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

Mr. Nathan G. Mains

One member appointed by the Governor of the Commonwealth of Pennsylvania for a term of three years

Vacant

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

Mr. Jason M. Davis (term expires 12/31/22)
Ms. Susan C. Lemmo (term expires 12/31/21)
Mr. Christopher SantaMaria (term expires 12/31/20)

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

Ms. Deborah J. Beck (term expires 12/31/21)

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

Ms. Melva S. Vogler (term expires 12/31/22)

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

Mr. Eric DiTullio (term expires 12/31/20)

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 Francis X. Ryan (term expires 12/31/20)
Honorable Matthew D. Bradford (term expires 12/31/20)

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

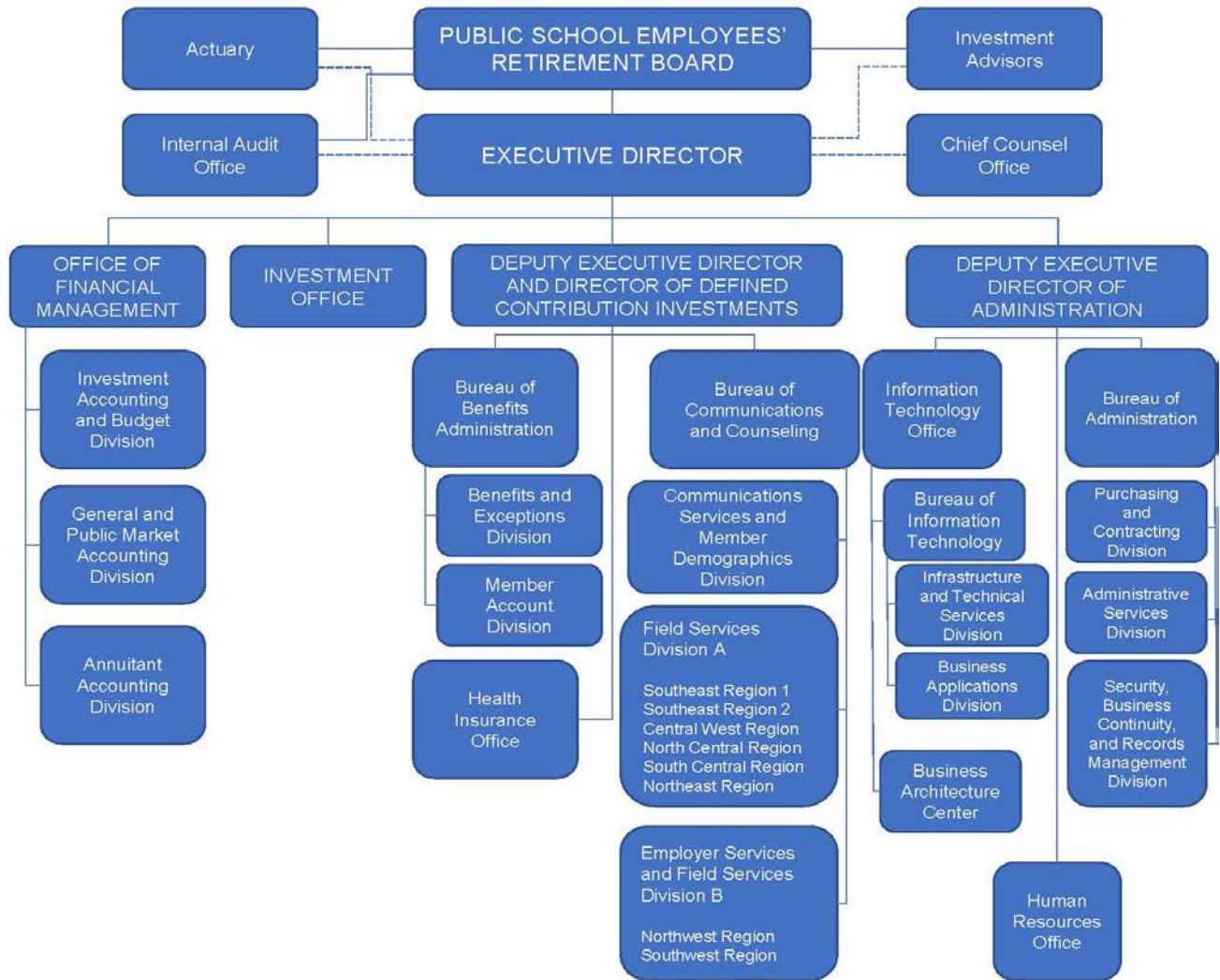
Honorable John P. Blake (term expires 12/31/20)
Honorable Patrick M. Browne (term expires 12/31/20)

2020 Board Committees

	<p>Appeals/Member & Employer Services</p> <p>Ms. Beck, Chair Ms. Vogler, Vice Chair Representative Ryan Mr. Davis Ms. Lemmo Treasurer Torsella</p>	
<p>Audit/Compliance</p> <p>Representative Ryan, Chair Mr. Mains, Vice Chair Representative Bradford Mr. Davis Mr. Vague Treasurer Torsella</p>	<p>Budget/Finance</p> <p>Senator Browne, Chair Mr. DiTullio, Vice Chair Ms. Beck Representative Blake Mr. Rivera</p>	<p>Bylaws/Policy</p> <p>Representative Bradford, Chair Treasurer Torsella, Vice Chair Senator Browne Mr. DiTullio Mr. Mains Mr. Vague</p>
<p>Corporate Governance</p> <p>Treasurer Torsella, Chair Senator Browne, Vice Chair Representative Bradford Mr. DiTullio Ms. Vogler</p>	<p>Defined Contribution Plan</p> <p>Senator Blake, Chair Mr. Vague, Vice Chair Representative Bradford Mr. Davis Mr. DiTullio Ms. Lemmo Mr. Mains</p>	<p>Elections</p> <p>Mr. Rivera, Chair Vacant, Vice Chair Senator Browne Mr. Davis Representative Ryan Mr. Vague</p>
<p>Health Care</p> <p>Ms. Lemmo, Chair Ms. Beck, Vice Chair Senator Blake Mr. Rivera Representative Ryan Ms. Vogler</p>	<p>Investment</p> <p>Mr. Davis, Chair Mr. DiTullio, Vice Chair</p> <p>Committee is comprised of all Board Members</p>	<p>Personnel</p> <p>Ms. Vogler, Chair Mr. Mains, Vice Chair Senator Blake Representative Bradford Ms. Lemmo Mr. Rivera</p>

NOTE: Mr. SantaMaria, 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



For Schedules of Fees and Commissions please refer to the Financial section page 82 and Investment section page 100.

As of June 30, 2020

Administrative Staff

As of June 30, 2020



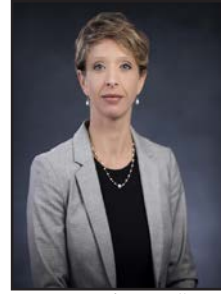
Glen R. Grell
Executive Director



James H. Grossman Jr.
Chief Investment Officer



Joseph E. Wasiak
Deputy Executive Director
of Administration



Jennifer A. Mills
Deputy Executive Director and Director
of Defined Contribution Investments



Charles K. Serine
Chief Counsel



Brian S. Carl
Chief Financial Officer



Steven C. Goldstein
Chief Technology Officer



Patricia Dence
Director of Administration



Peter Camacci
Director of Health Insurance



Eugene W. Robison
Director of Communications and Counseling



Charles Hodge
Director of Human Resources



Todd Fulton
Director of Benefits Administration



Tony Parisi
Legislative Liaison



Evelyn M. Williams
Communications Director

The Chief Audit Officer position was vacant.

PSERS REGIONAL OFFICES

Northwest

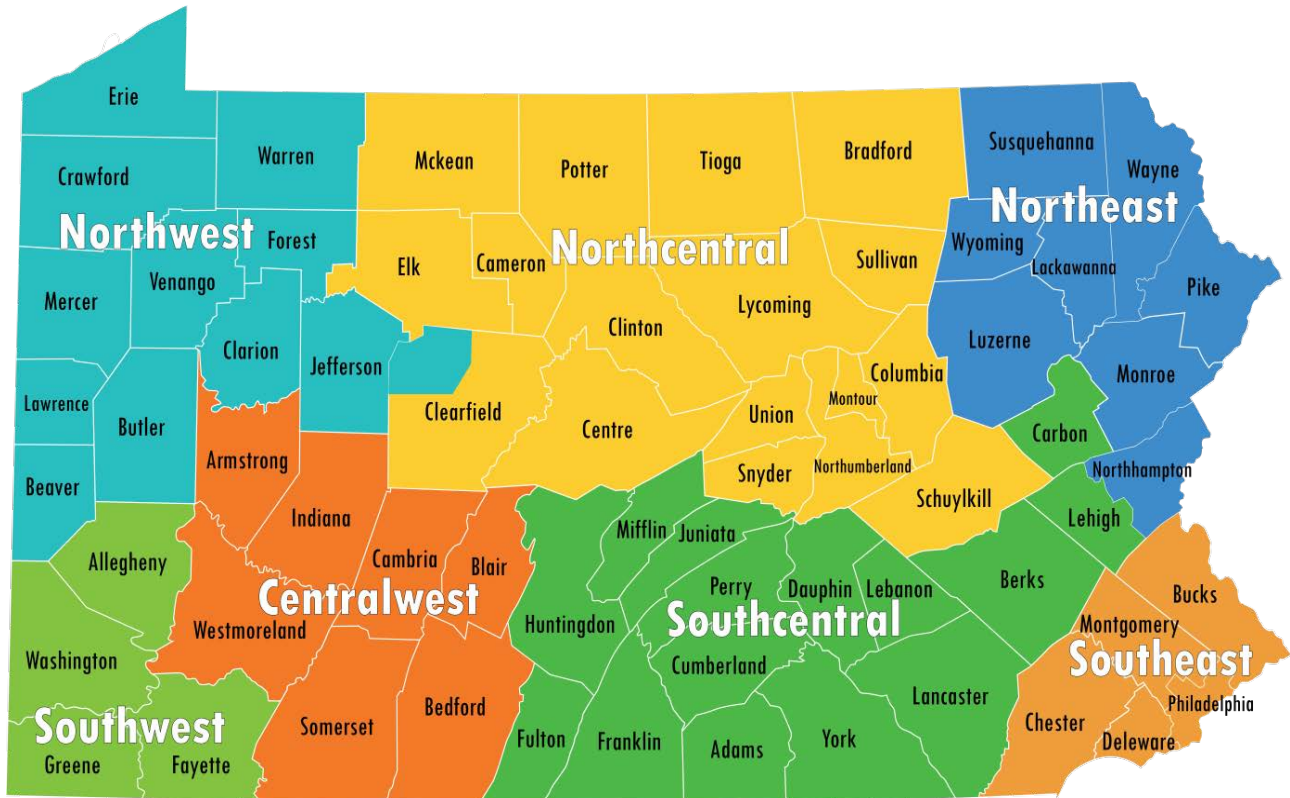
Pennwood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
 Local: 1.814.437.9845
 FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
 Donald Gregory, Administrator

Northcentral

300 Bellefonte Avenue, Suite 201
Lock Haven, PA 17745-1903
 Local: 1.570.893.4410
 FAX: 1.570.893.4414
Toll-Free: 1.888.773.7748
 Jeremy Wible, Administrator

Northeast

417 Lackawanna Avenue, Suite 201
Scranton, PA 18503-2013
 Local: 1.570.614.0269
 FAX: 1.570.614.0278
Toll-Free: 1.888.773.7748
 Sherry Sibio, Administrator



Southwest

300 Cedar Ridge Drive, Suite 301
Pittsburgh, PA 15205-1159
 Local: 1.412.920.2014
 FAX: 1.412.920.2015
Toll-Free: 1.888.773.7748
 Russell Miller, Administrator

Centralwest

219 W. High Street
Ebensburg, PA 15931-1540
 Local: 1.814.419.1180
 FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748
 Brian Farester, Administrator

Southcentral

5 N 5th Street
Harrisburg, PA 17101-1905
 Local: 1.717.720.6335
 FAX: 1.717.783.9606
Toll-Free: 1.888.773.7748
 John Tucker, Administrator

Southeast

605 Louis Drive, Suite 500
Warminster, PA 18974-2830
 Local: 1.215.443.3495
 FAX: 1.215.443.3487
Toll-Free: 1.888.773.7748
 Joshua Catalfu, Administrator
 Linda Visco, 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, 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.