

Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

Annual Comprehensive Financial Report

Fiscal Year Ended June 30, 2022 and 2021

Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

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Annual Comprehensive Financial Report

for the
Fiscal Years Ended June 30, 2022 and 2021

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***Chairman
Board of Trustees***

Honorable Francis X. Ryan

***Vice Chairman
Board of Trustees***

Terrill J. Sanchez

Executive Director

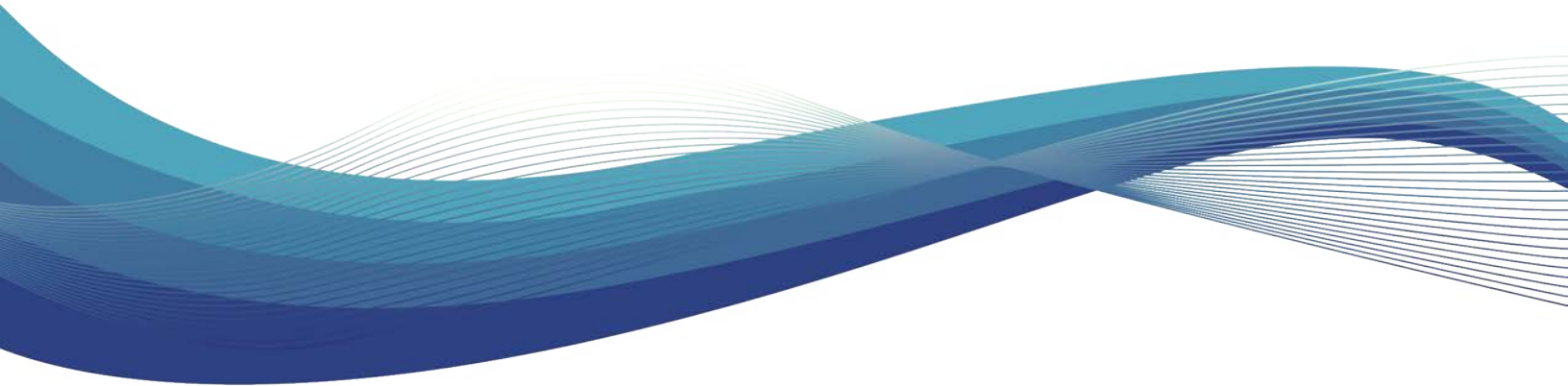
*Report prepared by the Public School Employees' Retirement System
Office of Financial Management Staff with support from many areas of PSERS*

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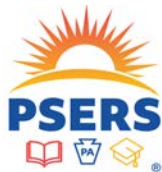
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Introductory Section

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Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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November 4, 2022

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 103rd edition of the Annual Comprehensive Financial Report (ACFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal years ended June 30, 2022, (FY 2022) and 2021 (FY 2021). This report provides financial, investment, actuarial, and statistical information in a single publication in accordance with the Government Finance Officers Association standards.

This year's theme highlights PSERS efforts to move forward in a positive direction during challenging times. Fiscal years 2021 and 2022 were difficult as global financial markets remained volatile. FY 2022 was also a year of great organizational change and development at PSERS. The year included multiple executive staff retirements, the hiring of a new Executive Director in June, and the beginning of implementation of governance reforms from the Funston Governance Review report. FY 2022 also marked the conclusion of the internal investigation of the shared-risk calculation error and the purchase and valuation of certain directly-owned properties, and the closure of the U.S. Department of Justice investigation. There were no findings of criminal conduct and no civil or criminal charges from either investigation. PSERS Board and Staff have embraced a collaborative, positive approach to move the Agency forward to become a best-in-class system among its public pension peers.

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.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, 2022, the System had over 248,000 active members with an estimated annual active payroll of \$14.7 billion.

The annuitant membership at June 30, 2022 was comprised of approximately 247,000 retirees and beneficiaries who receive approximately \$542 million in monthly pension and healthcare premium assistance benefits. The average yearly benefit paid to annuitants is \$26,078. (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.)

PSERS benefit payments provide a stable source of revenue for local economies throughout Pennsylvania. In FY 2022, PSERS distributed \$6.6 billion or nearly 91% of total pension benefits to annuitants 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.)

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. On June 30, 2022, there were approximately 94,000 members participating in the Premium Assistance Program. PSERS also manages a health insurance program, PSERS Health Options Program (HOP), that is entirely funded through participating member premiums. The HOP provides Medicare Supplemental, Medicare Advantage, Prescription Drug, Dental, and Vision plans to over 123,000 annuitants and their dependents.

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 375 and has 770 reporting units as of June 30, 2022. 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 15-member 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 the fiscal year 2022 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 ACFR. 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 thirteenth consecutive year that a management letter was not issued by the independent auditors and is reflective of the hard work and dedication of PSERS' Board and staff to continue to improve the internal controls, operations, and efficiency of the System.

Economic Summary

The combined aggressive response from monetary policy (central banks) and fiscal policy (governments) to the COVID-19 pandemic successfully transitioned economies from collapse in fiscal year 2020, to lift off in fiscal year 2021, to a more uncertain state in fiscal year 2022. This heightened uncertainty in fiscal year 2022 was due to the emergence of three powerful forces: inflation, geopolitical instability from Russia's invasion of the Ukraine, and the continued mutation of COVID-19 into new variants. Each issue on its own; would have been difficult for policymakers and investors to manage. Together, they made the cone of potential outcomes far wider than normal and the job of policymakers and investors that much more difficult to navigate.

Despite most every country and region of the world facing the same three powerful forces, specific conditions differed somewhat from country to country and region to region. The United States arguably had the largest monetary and fiscal response to COVID-19. The United States saw a significant rise in the level and stickiness of inflation and witnessed growing tightness in labor market conditions (where the demand for labor far exceeded the supply). As a result, the Federal Reserve (the U.S. central bank) increased its hawkish rhetoric and began to move to increase interest rates in an effort to subdue inflation. Nominal GDP growth remained healthy, giving the Federal Reserve some room to maneuver without inducing a recession.

Europe confronted a more dire set of conditions. It faced the same inflationary and labor market dynamics but saw nominal GDP growth worse than in the United States. Europe was also far closer, geographically, and economically, to the fallout of the Russia/Ukraine war than the United States. Europe's dependence on imports of oil and natural gas from Russia made it especially vulnerable to supply interruptions and spikes in energy prices. Finally, Europe's own political and economic heterogeneity among its constituent countries made a unified monetary and fiscal response very difficult to achieve, with the risk growing of the disintegration of the Eurozone.

China saw its “zero COVID” policy exact a material toll on economic growth, helping to keep China’s inflation rate moored at relatively modest levels compared to the rest of the world. Coupled with a weakening commercial and residential real estate sector – a large sector in China’s economy – China’s policymakers were concerned with preventing deflation and maintaining economic growth, admittedly at a growth rate lower than the high growth rate of the past two decades. In addition, policymakers were focused on maintaining political stability leading up to China’s party congress in late 2022.

Status of Pension Funding Initiatives

The ongoing budgetary commitment of Gov. Tom Wolf and the Legislature authorizing 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 2022, 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 return PSERS to fully funded status.

During FY 2022 investment markets were volatile and challenging. PSERS’ fiscal year return of 2.23% was above its public pension peers but below the Fund’s long-term earnings assumption of 7.00%. 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 59.6% at June 30, 2021, the most recent actuarial valuation. Subject to future investment returns and continued commitment to making employer contributions, the actuarial funded ratio is expected to climb to near 80% by 2030.

The System’s funded ratio on a market-value basis was 61.34% at June 30, 2022. The FY 2022 funded ratio decreased on a market-value basis due to lower investment returns in FY 2022. The longer-term trends remain positive. Since June 30, 2016, when full actuarial funding began, the System’s market value unfunded ratio has increased from 50.14% to 61.34% at June 30, 2022.

Major Initiatives

Organizational Changes and Developments in 2022

FY 2022 was a year of great organizational change and development at PSERS. The year included multiple executive staff retirements, the hiring of a new Executive Director in June, the completion of an internal investigation, and the beginning of implementation of governance reforms.

Three top executives retired during fiscal year 2022 - Executive Director Glen Grell, Chief Investment Officer James Grossman Jr., and Chief Counsel Jackie Lutz. PSERS Board conducted executive searches for these positions and has filled two of the vacancies to date.

- Ms. Terrill (Terri) J. Sanchez was hired in June 2022 as PSERS Executive Director.
- In August 2022, PSERS Board hired Joseph J. Indelicato, Jr. as a Special Advisor to the Board. After Pennsylvania licensing requirements are completed, Mr. Indelicato will assume the position of Chief Counsel at PSERS.
- The Chief Investment Officer executive search is ongoing as of the date of this report. Robert Devine, PSERS Fixed Income Director, has been serving as Interim Chief Investment Officer since December 2021.

FY 2022 also marked the conclusion of the internal investigation of the shared-risk calculation error and the purchase and valuation of certain directly-owned properties and the closure of the U.S. Department of Justice investigation. There were no findings of criminal conduct and no civil or criminal charges from either investigation. The SEC investigation noted in last year’s ACFR remains ongoing. PSERS continues to fully cooperate with the SEC.

Although there were no findings of criminal conduct, there are opportunities for improvement in every organization. Over the past fiscal year, several reviews were conducted to evaluate various governance controls, policies, and procedures, and provide insight and recommendations for improvement. The reviews include the following:

- **Funston Governance Report** - In December 2021, the PSERS Board accepted a governance review report it commissioned with Funston Advisory Services. Since then, the Board and staff have been working to evaluate and implement recommendations. In March 2022, the Board adopted a Model Governance Manual Framework (“Framework”) to serve as the new supporting structure for the Board’s governance documents. Along with adopting a new Framework, the Board repealed a few longstanding bylaws regarding Committees of the Board and replaced them with several of the Funston recommendations, including:
 - Reducing the number of committees from 10 to 7.
 - Providing for an election process for Committee Chair and Vice Chair.
 - Replacing descriptions of the Committees within the Bylaws with Committee Charters.
 - Reducing the composition of most committees to five members.
 - Creating a Chair/Vice Chair succession plan.
- The seven newly constructed committees have selected their respective chairs and vice chairs, and reviewed and updated their Committee Charters, creating clarity for each Committee’s purpose, authority, and responsibilities.
- Position descriptions for Board members and Board and Committee Chairs and Vice Chairs were developed and adopted.
- The Board also adopted a Public Participation Policy and a Strategic Planning Policy – a first for the Agency. In support of the new Strategic Planning Policy, in October 2022, the Board hired Dering Consulting Group to assist PSERS with developing a Strategic Plan. PSERS Staff and the Board will work collaboratively to develop a strategic direction and prioritize initiatives.
- **Investment Office Operational Processes and Procedures Review Report** - The Board engaged Verus Advisory Inc. to provide an assessment of the operational policies, processes, and procedures followed by the Investment Office. In March 2022, Verus presented their findings and determined that the PSERS Investment Office had generally implemented solid processes and controls that aligned with industry best practices, but they did note areas for improvement that could further strengthen those operational policies, processes, and procedures.
- **Ernst & Young Assessment** – E&Y is working with PSERS staff to review the Fund’s systems of internal controls, and provide recommendations to improve those controls, increase efficiencies, and reduce risk.
- PSERS has started the multi-year process to conduct a SOC 1/Type 2 Review and Audit, a rigorous review/audit of operations and controls which was proposed by Vice Chairman and Audit Committee Chair Rep. Frank Ryan to comply with Act 128 of 2020 and is fully supported by the Board and Staff. The Act, which was also sponsored by Rep. Ryan, directs PSERS board to provide for an internal control audit at least once every five years.

Member Communication and Services

Member Customer Service

PSERS continues to make improvements to its member service offerings, its pension administration system, and the associated online functionality.

Throughout the year, PSERS completed many undertakings to improve communication with members. PSERS continued monthly targeted email messages to all members, including aspects unique to DC plan participants. Multiple surveys were conducted to acquire feedback on various topics, including the DC Plan experience and overall engagement and satisfaction. The results will assist in developing PSERS short-term and longer-term communication plans and the redesign of current communication materials and efforts.

Introductory Section

New PSERS members have 90 days from notification of qualification to make an irrevocable membership class election decision which impacts their contribution amounts and their overall retirement benefit. To assist in making that decision, PSERS piloted large group and individual webinars to better educate new members on their options and assist them in making the choice that is best for their situation.

As PSERS and the rest of the Commonwealth continued to adjust to a post-pandemic world, PSERS restarted in-person retirement exit counseling sessions. These sessions are being offered both in-person and virtually. Additionally, school employers reopened their doors to allow PSERS to conduct on-site large group educational presentations, known as Foundations for Your Future sessions. After a two-year hiatus due to COVID-19, these sessions are drawing large crowds of interested members. A new, interactive map has been deployed to the PSERS website to make it easier for members to identify opportunities to attend these sessions in their local areas. Another major undertaking has been incorporating the IRS' revisions to the W-4P form for federal tax withholding. The changes remove the incorporation of allowances and set forth a new default standard deduction. Members on payroll as of December 31, 2022, will have their current withholding amounts converted to corresponding values within the new guidelines. Members receiving new payments after this date will need to select federal tax withholding using the new withholding options.

Member Self-Service

The PSERS Member Self-Service (MSS) Portal has continued to be a tremendous success. Since being implemented in April 2018, more than 225,000 members have created their online account and conducted nearly 400,000 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 94% of all MSS accounts have opted to go paperless and receive information from PSERS electronically. This paperless opportunity has exceeded \$1,000,000 in cumulative savings since inception in FY 2018.

A redesigned MSS platform has been deployed, making it easier for members to navigate from PCs and mobile devices. New customer service features were added giving members the ability to track the status of their requests for an estimate, the processing of a refund, and the processing of a retirement benefit. Work is currently underway to enable members to submit a refund application online, expediting the process and reducing the need for manual intervention, and to allow members to update their online banking with PSERS.

PSERS Health Options Program Update

The PSERS Health Options Program (HOP) continued to see steady growth in enrollment and had more than 123,000 PSERS retirees, spouses, and dependents enrolled as of June 30, 2022. Within the plan, there is a Dental Program offering and a Vision Program offering, each of which had over 32,000 enrollees as of June 30, 2022. An open enrollment was held during the 2021-22 plan year which also contributed to the growth of the HOP membership. In addition, PSERS' HOP Plan received two awards including:

- **PSERS HOP CMS Medicare 2022 Star Rating** - PSERS HOP Employer Group waiver Plan received a 4.5 Star Rating for the upcoming 2023 plan year. CMS' Medicare Star rating program evaluates Medicare Advantage (MA) and Prescription Drug Programs (PDP) based on a number of metrics around quality and performance. Rating criteria is based on a 1 to 5 point system. The ratings help members select the best plans for themselves or their families. PSERS PDP is among only six other plans in the United States to receive a 4.5 Star Rating and only two plans received the 5 Star Rating. The HOP PDP program has a history of earning high ratings annually since 2019 for overall service and quality of the prescription drug plan that retirees voluntarily pay for through monthly premiums. PSERS' latest CMS Star rating was based in part on how members rate the plan's services and care, and how well the plan helps members use recommended and safe prescription medications.
- **PSERS Prescription Drug Plan Earned National Award in May 2022** - PSERS HOP Prescription Drug Plan earned the Pharmacy Quality Alliance's (PQA) Laura Cranston Excellence in Quality Award. The alliance, founded in 2006 and based in Alexandria, VA, seeks to set national prescription medication safety and use standards in partnership with the federal CMS. For a dozen years, PQA has issued the award which

is named after the alliance's former Chief Executive Officer and is based on CMS' quality control healthcare rating system. The alliance bestowed this year's honor on 25 (2.9%) of the 850 Medicare Part D plan contracts in the CMS system.

Investment Office Developments

FY 2021 and FY 2022 was a time of great change and development in the Investment Office. In addition to the ongoing executive search for a new Chief Investment Officer noted above, PSERS continues to enhance internal controls and grow in-house Investment Staff which allows the Agency to manage more investments internally and save on external investment management fees.

PSERS Increased Internal Management

PSERS Investment Office continued the process of filling vacant positions with very capable investment professionals which will allow PSERS to continue its efforts to bring additional assets in-house, provide additional depth to the investment team, and/or enhance risk management, compliance, and operational practices. The expansion of professional staff allows 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. The Investment Office managed approximately 54%, or \$42.1 billion, of the gross assets (inclusive of leverage), in-house as of June 30, 2022. The estimated savings from managing those assets in-house is \$50 million per year.

PSERS is in the process of hiring 10 additional staff to continue its efforts toward enhanced risk and compliance management, meeting various legislative initiatives such as an internal control audit, and on-going support for increased internal investment portfolio management.

Investment Book of Record (IBOR)

Phase 2 of the IBOR project was launched during FY 2022 and is currently scheduled to be completed in 2023. Building on the foundations of Phase 1, the completion of Phase 2 should bring enhanced productivity in the areas of performance reporting, compliance, derivatives collateral management, and private asset tracking.

The IBOR is a technological platform designed to deliver the current best available view of investment data suitable for investment decision-making, incorporating the current status and forward projections of portfolio investment holdings and cash position, as well as reference data and derived analytics supporting the investment decision-making process. Benefits sought from the IBOR include, among other things, modernization of processes, increased transparency, and increased functionality.

Divestiture of Russian and Belarus Investments

At the start of the Russian invasion of Ukraine in late February 2022, PSERS estimated the Fund held under \$300 million (less than ½ of 1% of PSERS total assets of \$72.5 billion) in Russian and Belarusian investments.

On March 3, 2022, PSERS Board of Trustees passed a Resolution to divest PSERS from investments in Russia and Belarus as expeditiously as possible, consistent with the Board's fiduciary duty of prudence. In addition, future investments involving Russia or Belarus were prohibited until directed otherwise by the Board. Since that time, the amount of PSERS investment holdings in Russia and Belarus has steadily declined.

PSERS conservatively estimates as of July 31, 2022, PSERS direct Russian holdings had a market value of approximately \$1.4 million according to its custodian bank, BNY Mellon. Liquidation has not yet been achieved due to the Russian market's illiquidity. PSERS had indirect Russian holdings and alternative investments of approximately \$500,000. This is a long put position that is contractually set to expire at the end of calendar year 2022. PSERS does not have any indirect or direct holdings in Belarus.

In addition, Gov. Tom Wolf on November 3, 2022, signed into law Act 132 (House Bill 2447) directing PSERS, as well as the State Treasury, State Employees; Retirement System, and the Pennsylvania Municipal Retirement System to divest from Russian and Belarusian assets.

Asset Allocation Changes

The Board reviews the long-term asset allocation targets of the System annually and consults with its actuary, consultants, Investment Office professionals, and others in formulating the asset allocation plan.

In December 2021, the Board adopted an updated Strategic Asset Allocation. The Board's strategic asset allocation approval establishes the guidelines for how PSERS' investment professionals and external managers invest assets of the fund to meet its long-term retirement obligations to the System's members. The Board's allocation changes, including an increase in public equities and the elimination of its absolute return holdings, are expected to be implemented prudently over time.

PSERS Remains Committed to Transparency

PSERS has a long history of providing extensive investment records to the public, press, and policymakers in accordance with existing state laws, Commonwealth directives, and best practices in government finance. PSERS abides by its legal and fiduciary obligations when using the agency's website and other means to release investment returns, fee data, and budgetary and actuarial data. PSERS provides extensive investment information on its website www.psers.pa.gov. For example, detailed reports providing investment performance by manager and detailed fee reports, including carried interest, have been added to PSERS' website.

In July 2021, the PSERS Board adopted a new travel policy providing for the formal review, written approval, and disclosure of all System-related travel and travel expenses. Throughout the year in the course of fulfilling their fiduciary duties, Board and staff of the Fund may occasionally be required to travel on behalf of the System to attend meetings, educational seminars, due diligence reviews, and satisfy such other fiduciary oversight and public outreach responsibilities. In accordance with the travel policy, travel reports have been posted on PSERS' website. These reports allow PSERS members and the public to view staff and board member travel expenses.

Financial Highlights

The fair value of the System's fiduciary net position decreased by \$1.3 billion during FY 2022 to \$71.2 billion as of June 30, 2022. 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 2022, PSERS provided approximately \$7.8 billion in pension and healthcare benefits to its members.

Budgetary and Financial Governance

PSERS manages multiple budget appropriations which support its ongoing operations. Each October, the agency submits its budget requests to the Governor's Office of the Budget. PSERS' Administrative, Defined Contribution, 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. For FY 2022, the budgets for the System's two largest appropriations, the Administrative and the Investment Related Expenses, were \$52.3 million and \$34.8 million, respectively. 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 of similar size and complexity in its effective control of expenses while providing necessary services to its membership. During the last several years, the number of active and retired members electing to receive newsletters, statement of accounts, 1099-Rs, and other publications electronically has continued to grow, which saves the agency over \$275,000 per year in postage, printing, and paper costs.

During FY 2022 specifically, the agency lowered its postage costs, reduced contracted maintenance and repair services, decreased rental of equipment and software, and achieved significant savings in subscriptions, all of which keep more of PSERS assets available for the benefit of the Fund and its members. In addition to these savings, PSERS reduced costs by eliminating unnecessary parking leases at its headquarters location due to the adoption of an Agency-wide telework policy.

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 7% 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 \$3.4 million annually in administrative expenses compared to its peers.

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, 2021) 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 59.6%. Updated actuarial information will be presented at PSERS December 2022 Board meeting. (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. The purpose of this was to increase the Fund's resilience to economic and market uncertainty. Diversification continues to be the primary means by which the Fund addresses uncertainty.

Income from the investment portfolio represents the major source of revenue to the System, accounting for 57% of total revenues over the 25-year period from, FY 1998 to FY 2022. The investment portfolio, which is one part of the System's net position, totaled \$70.9 billion, at fair value, as of June 30, 2022. For FY 2022, the time-weighted net rate of return on the System's investments was 2.23%. While the FY 2022 return was positive, the net investment income (loss) was \$(282.4) million. (Please see the section titled *Investment Return Reporting vs. Financial Statement Reporting* on page 39 of Management's Discussion and Analysis in the Financial Section for an explanation of why the FY 2022 financial statements contain a net investment loss while the FY 2022 investment return was positive.)

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 25-year period ended June 30, 2022, was 7.05% and exceeded the Fund's current long-term investment rate of return assumption (7.00%). Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

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

Introductory Section

- 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;
- to earn a long-term total return, net of fees, and investment 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.)

Defined Contribution Plan

The Defined Contribution (DC) Plan has continued to rapidly grow. As of June 30, 2022, there were approximately 47,000 participants with a total DC Plan balance nearing \$99 million. The Retirement Code requires the DC Plan to provide no less than 10 investment options offered by three or more investment providers. Currently, the DC Plan lineup includes eight providers offering six asset classes and a portfolio of target funds, totaling 20 investment options among which participants in the DC Plan can diversify their portfolio. If a participant does not select individual investment options for themselves, they automatically default into a T. Rowe Price target date investment based on their date of birth.

In building upon the communication efforts within the relatively new defined contribution program, PSERS created multiple new education pieces on topics varying from general plan overviews, diversification, data security, maximizing savings and retirement readiness. PSERS also continued its efforts to acquire feedback and conducted specialized surveys to understand participant’s feelings regarding their financial wellness and investment preferences.

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 year, the in-depth assessment is focused on eight areas of PSERS operations: Actuarial Reporting, Actuarial Valuation, Financial Reporting, Human Resources, Information Technology, Investments, DC Plan, and Governance. Each internal control assessment is based on five major components. The five components include - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

As required by the Commonwealth, PSERS will submit the assessment and monitoring plan to the Commonwealth's Office of Budget by December 2022. No significant deficiencies have been identified in past internal control assessments.

As noted above PSERS has started a multi-year plan to conduct a SOC 1/Type 2 Review and Audit, a rigorous review/audit of operations and controls.

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 calculated 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.)

Litigation and Contingencies

In 2021, the System received subpoenas from two federal agencies regarding the certification of the shared risk member contribution rate in December 2020, as well as the purchase and valuation of certain directly-owned properties. In August 2022, PSERS was informed by the U.S. Department of Justice that it has closed its investigation of PSERS. In 2021, PSERS Board also retained outside counsel to conduct an independent internal investigation of the shared risk calculation and the purchase and valuation of certain directly-owned properties. PSERS' internal investigation concluded in January 2022 with no findings of criminal conduct. PSERS is cooperating fully with the remaining federal investigation which is ongoing. The System is subject to various threatened and pending lawsuits. The System had a lawsuit filed by a board member regarding access to various documents and communications related to investments. It is the opinion of management that the ultimate liability arising from such threatened, pending litigation and investigations will not have a material effect on the financial position of the System.

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. 52, No. 26). This information can be found at: <http://pacodeandbulletin.gov/Display/pabull?file=/secure/pabulletin/data/vol52/52-26/967.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 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021. 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 annual comprehensive financial report whose contents conform to program standards. Such an annual comprehensive 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 39 consecutive years, from FY 1983 to FY 2021. 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 Annual Comprehensive 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 2022 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, 2021, 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 six consecutive years, from FY 2016 to FY 2021. 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 2021. 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.

Acknowledgments

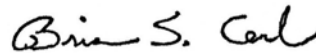
The preparation of this report reflects the combined efforts of PSERS' staff under the direction of the PSERS Board. Our sincere appreciation is extended to all who assisted in and contributed to the completion of this document. This report is intended to provide complete and reliable information in 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 future. We will continue to work closely with our Board, members, employers and stakeholders and are committed to a collaborative, positive approach to move the Agency forward for the benefit of our members.

Respectfully submitted,



Terrill J. Sanchez
Executive Director

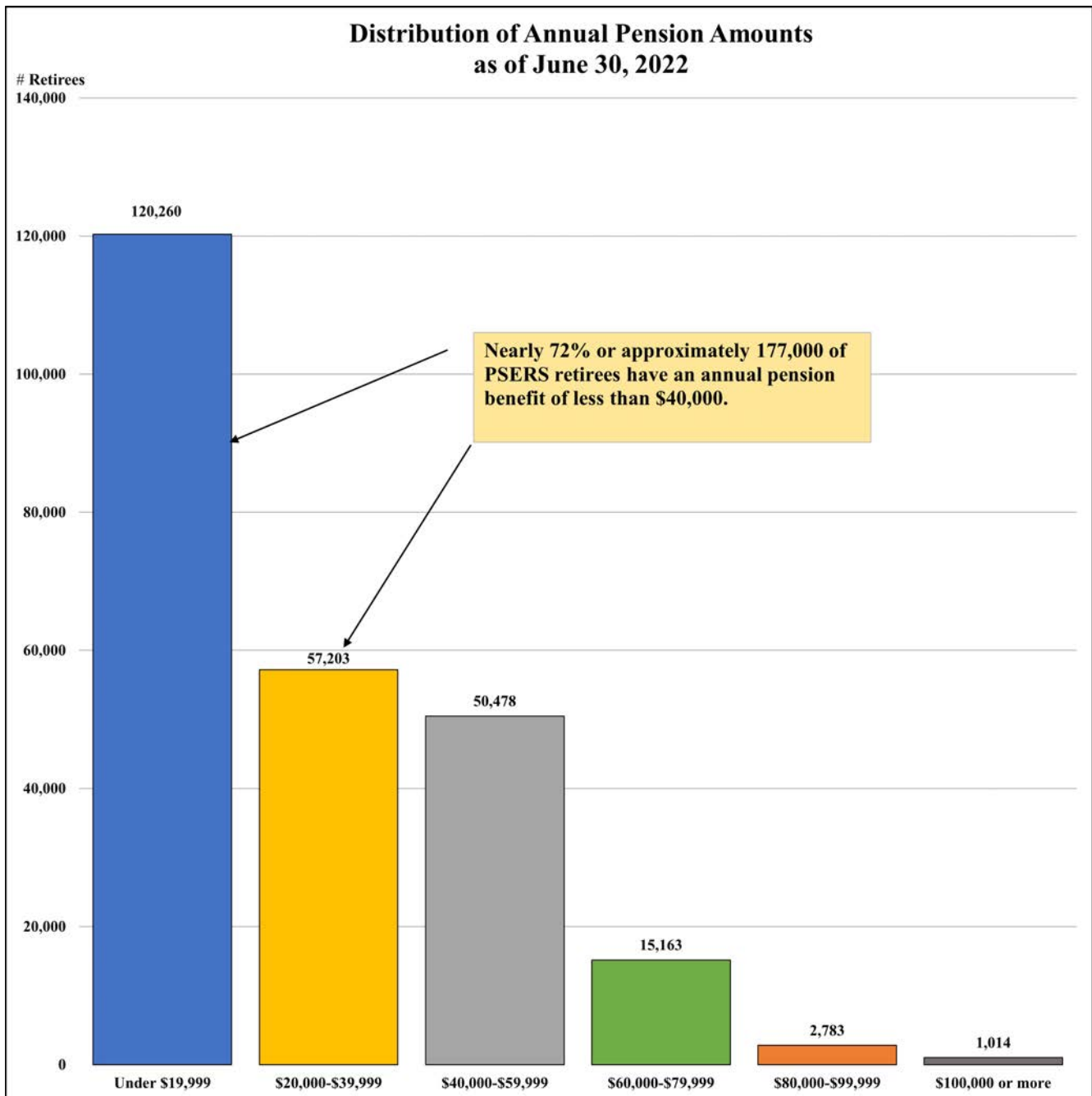


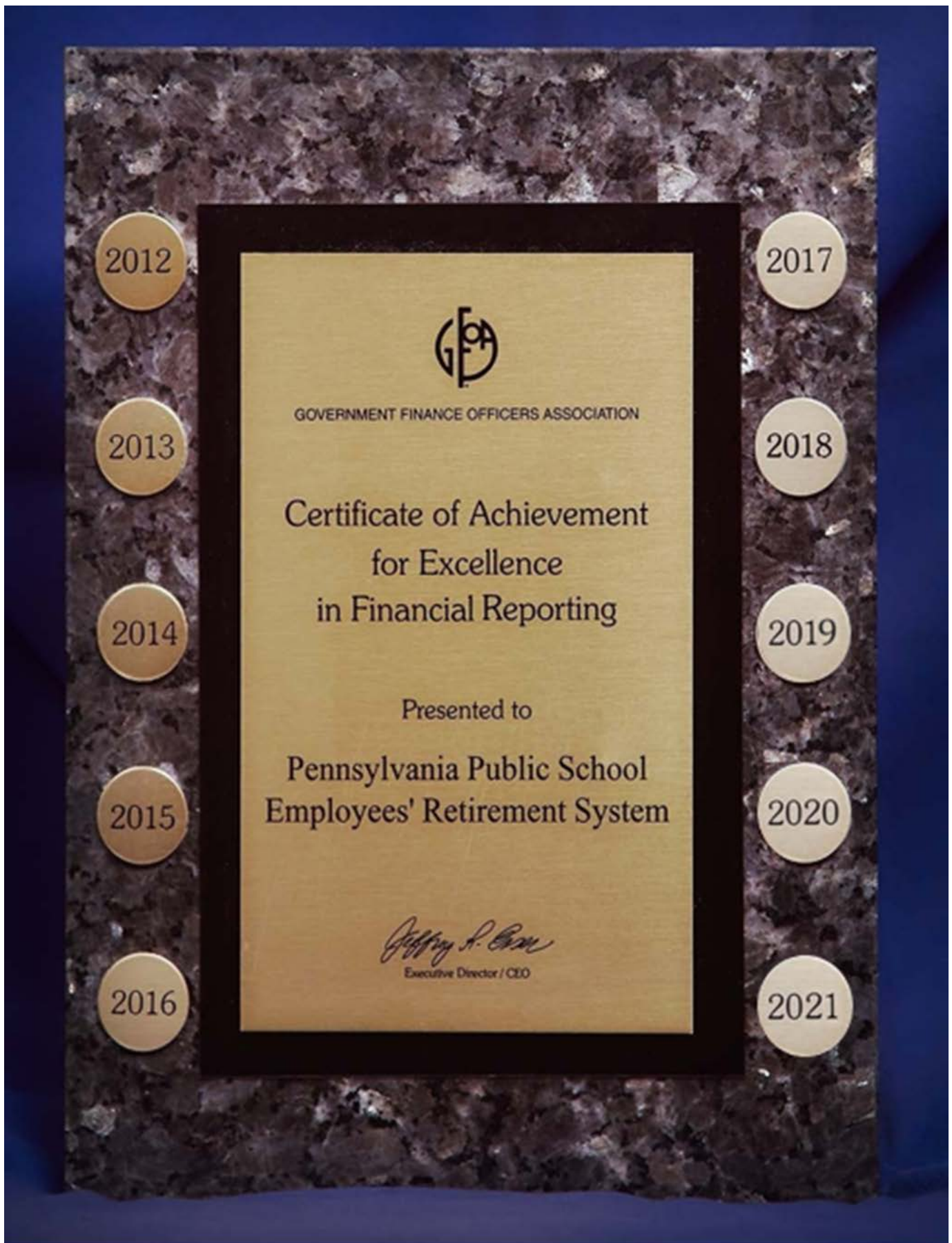
Brian S. Carl, CPA, CTP
Chief Financial Officer

Pension Benefit Amounts Fiscal Year 2022 (Dollar Amounts in Millions)

The average PSERS retiree receives a modest pension of \$26,078 on an annual basis, a benefit earned through a lengthy career averaging 23 years in public education. During their career, members make mandatory contributions, most of which are between 7.50% and 10.80% 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, 2022, there were 1,014 retired members receiving an annual benefit over \$100,000 out of approximately 247,000 PSERS retirees. These six-figure pension retirees spent an average of 38 years working in their public education careers and contributing to their benefit.







Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration*

2021

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.

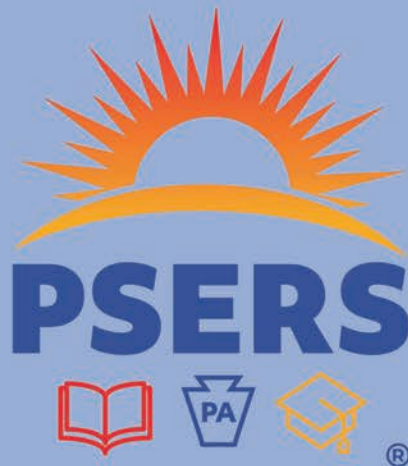
Presented by the Public Pension Coordinating Council, a confederation of

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 cursive script 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.*

updated October 28, 2008

Administrative Organization

PSERS Board of Trustees



Seated, front row (left to right): Melva S. Vogler; Ann Monaghan; Stacey Connors, designee for Honorable Patrick M. Browne; Treasurer Stacy Garrity; and Susan C. Lemmo

Standing, back row (left to right): PSERS Board Vice-Chair Honorable Francis X. Ryan; Secretary Richard Vague; Jason M. Davis, PSERS Executive Director and Board Secretary Terrill J. Sanchez; Eric DiTullio; John Callahan, designee for Nathan G. Mains; Patrick Shaughnessy, designee for Honorable Matthew Bradford; and PSERS Board Chair Christopher Santa Maria

Not pictured: Acting Secretary of Education, Eric Hagarty, Honorable Katie J. Muth, and Joseph M. Torsella

**PSERS Board of Trustees
as of June 30, 2022**

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

Acting Secretary Eric Hagarty

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

Secretary Richard Vague

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Stacy Garrity

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

Mr. Joseph M. Torsella (term expires 01/01/24)

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 12/31/24)

Mr. Christopher Santa Maria (term expires 12/31/23)

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

Ms. Ann Monaghan (term expires 12/31/24)

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 12/31/23)

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

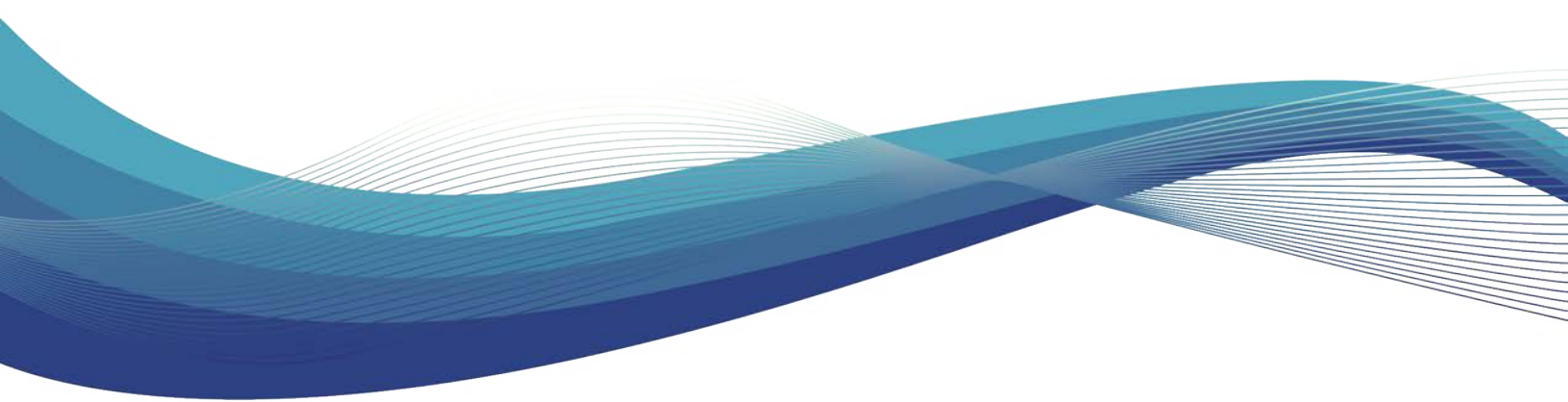
Honorable Francis X. Ryan (term expires 11/30/22)

Honorable Matthew D. Bradford (term expires 11/30/22)

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

Honorable Patrick M. Browne (term expires 11/30/22)

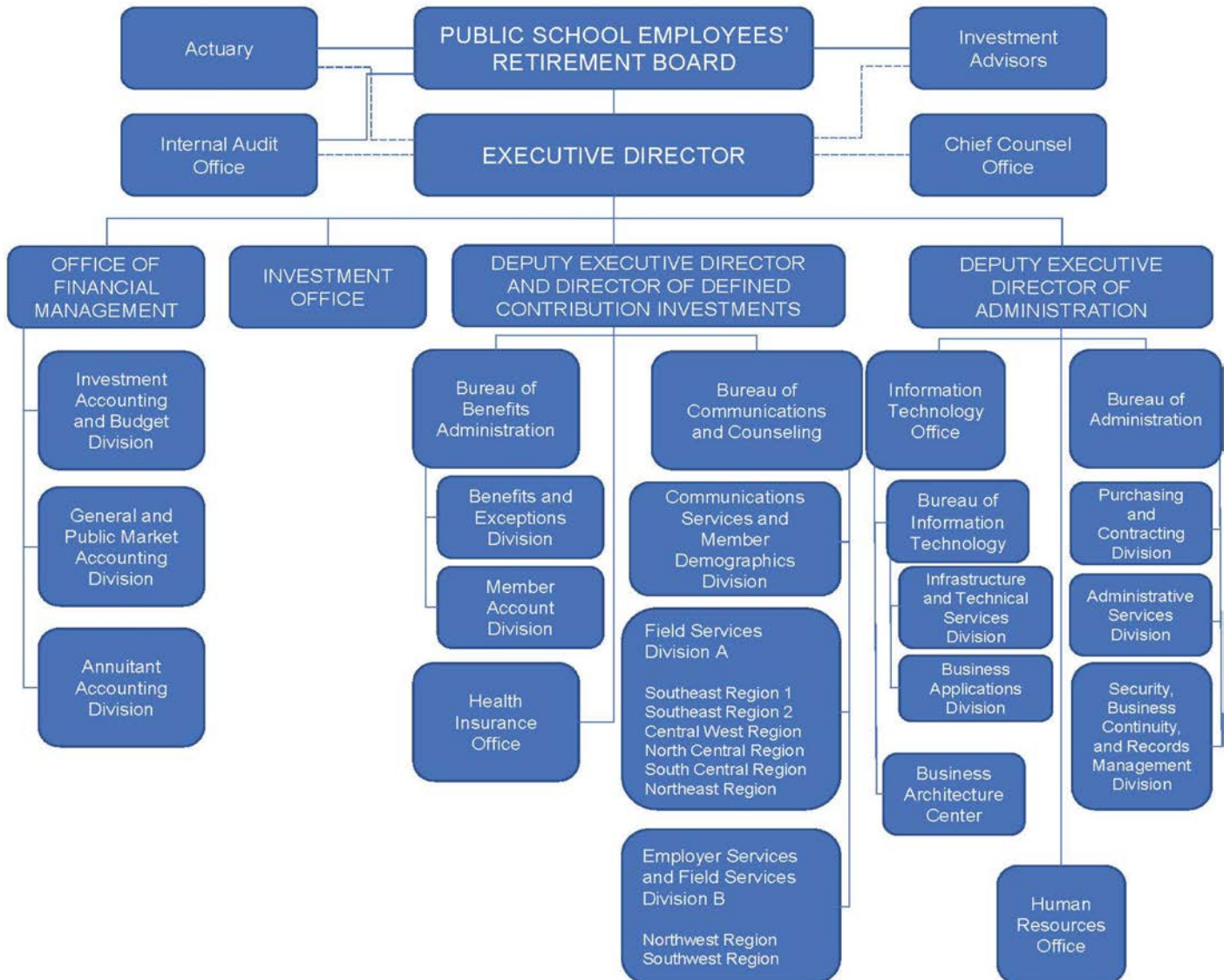
Honorable Katie J. Muth (term expires 11/30/22)



2022 Board Committees

<p>Audit, Compliance & Risk</p> <p>Representative Ryan, Chair Treasurer Garrity, Vice Chair Mr. Davis Mr. Mains Secretary Vague</p>	<p>Benefits & Appeals</p> <p>Ms. Vogler, Chair Ms. Monaghan, Vice Chair Mr. DiTullio Ms. Lemmo Senator Muth</p>	<p>Board Governance & Administration</p> <p>Representative Bradford, Chair Secretary Vague, Vice Chair Mr. Mains Mr. Torsella Ms. Vogler</p>
<p>Defined Contribution</p> <p>Representative Ryan, Chair Secretary Vague, Vice Chair Senator Browne Mr. Mains Senator Muth</p>	<p>Finance & Actuarial</p> <p>Senator Browne, Chair Mr. DiTullio, Vice Chair Acting Secretary Hagarty Mr. Torsella Ms. Vogler</p>	<p>Health Care</p> <p>Ms. Lemmo, Chair Mr. Davis - Vice Chair Representative Bradford Ms. Monaghan Acting Secretary Hagarty</p>
	<p>Investment</p> <p>Secretary Vague, Chair Mr. Davis, Vice Chair</p> <p>Committee is comprised of all Board Members</p>	

Organizational Chart of the Public School Employees' Retirement System



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

As of June 30, 2022

Administrative Staff



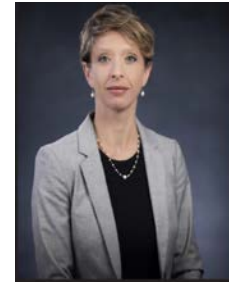
Terrill J. Sanchez
Executive Director



Robert J. Devine
Interim Chief Investment
Officer



Beverly Hudson
Deputy Executive Director
of Administration



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



Letitia Schubauer
Acting Chief Counsel



Brian S. Carl
Chief Financial Officer



Steven C. Goldstein
Chief Technology Officer



Patricia Dence
Director of Administration



Mei Gentry
Chief Audit Officer



Eugene W. Robison
Director of
Communications and
Counseling



Caitlin Witmer
Director of Human
Resources



Todd Fulton
Director of Benefits
Administration



Peter Camacci
Director of Health
Insurance



Evelyn M. Williams
Communications
Director

PSERS REGIONAL OFFICES

Northwest

Franklin Penn Wood 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

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Scranton, PA 18503-2013
Local: 1.570.614.0269
FAX: 1.570.614.0278
Toll-Free: 1.888.773.7748
John Kanvy, Administrator



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Pittsburgh, PA 15205-1159
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FAX: 1.412.920.2015
Toll-Free: 1.888.773.7748
Russell Miller, Administrator

Centralwest

219 West High Street
Ebensburg, PA 15931-1540
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FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748
Brian Farester, Administrator

Southcentral

5 North 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



As of June 30, 2022

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.