

**Public School Employees'
Retirement System**

**Comprehensive Annual
Financial Report**

Fiscal Year Ended June 30, 2005

**A Component Unit of the
Commonwealth of Pennsylvania**

Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

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Comprehensive Annual Financial Report

for the

Fiscal Year Ended June 30, 2005

Roger H. May

Chairman

Honorable Steven R. Nickol

Vice Chairman

Board of Trustees

Jeffrey B. Clay

Executive Director

Report prepared by the Public School Employees' Retirement System staff

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Employees'
Retirement System,
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director



Public Pension Coordinating Council
Public Pension Standards
2005 Award

Presented to

Pennsylvania Public School Employees' Retirement System

In recognition of meeting professional standards for
plan design 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 fluid and cursive, with the first name being the most prominent.

Alan H. Winkle
Program Administrator

Chairman's Report



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Telephone (717) 720-4749

Roger H. May, Chairman of the Board

December 1, 2005

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the Legislature
Members of the Retirement System

Dear Governor Rendell, Legislators, and Members:

On behalf of the Board of Trustees of the Pennsylvania Public School Employees' Retirement System (the System, PSERS), I am pleased to present this eighty-sixth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2005. The report provides an in-depth review of the financial, actuarial, and investment status of the Retirement Fund and the PSERS' postemployment healthcare programs.

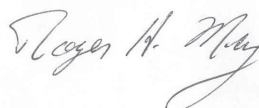
As the System's report details, as of June 30:

1. The funded status of the pension plan as reported in the System's June 30, 2004 Actuarial Valuation was 91.2%.
2. The net assets held in trust for pension benefits were \$51.9 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were \$175.0 million at fair value.
4. The active contributing membership of the System numbered approximately 255,000.
5. The number of annuitants totaled over 156,000 and received in excess of \$3.8 billion in pension and postemployment healthcare benefits during the fiscal year.

The Board of Trustees is committed to prudent management of the System's assets for the benefit of the membership. At the same time, we are aware of our responsibilities to the Commonwealth, its taxpayers, and the System's employers.

The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and make timely provisions for the challenges ahead.

The Board of Trustees pledges to continue to administer the affairs of the Pennsylvania Public School Employees' Retirement System in the most competent and efficient manner possible.



Roger H. May
Chairman
Board of Trustees

Public School Employees' Retirement System

Introductory Section

Mission Statement



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

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

adopted 12/9/2005

Letter of Transmittal



COMMONWEALTH OF PENNSYLVANIA

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - (717) 787-8540

Building Location
5 North 5th Street
Harrisburg PA 17101

December 1, 2005

The Board of Trustees
Pennsylvania Public School Employees' Retirement System
Harrisburg, PA 17101

We are pleased to present the eighty-sixth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2005. 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 System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The System has experienced various benefit modifications throughout its existence.

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 for any of the 734 reporting entities in Pennsylvania. As of June 30, 2005, the System had approximately 255,000 active members with an annual active payroll of \$10.6 billion.

The annuitant membership at June 30, 2005 was comprised of over 156,000 retirees and beneficiaries who receive nearly \$235 million each month. The average yearly benefit paid to annuitants is \$18,464. The average benefits for each option type are detailed in the **Statistical Section** of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which 734 reporting units contribute. PSERS is administered by a staff of 290. The System is headquartered in Harrisburg, Pennsylvania, and maintains eight field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

This report has been prepared in accordance with the principles of governmental accounting and reporting as promulgated by the Governmental Accounting Standards Board (GASB). The report consists of five sections: the **Introductory Section** containing the Chairman's Report, the Transmittal Letter, and the Administrative Organizational Structure; the **Financial Section** containing the opinion of the independent certified public accounting firm, the financial statements of the System, and Management's Discussion and Analysis of the financial statements (MD&A); the **Investment Section** containing an overview of the System's investment activities; the **Actuarial Section** containing the opinion of the independent actuarial firm and the results of its latest actuarial valuation; and the **Statistical Section** containing significant data pertaining to the System.

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 GASB. An annual audit of the System by a certified public accounting firm is required by the Retirement Code. PSERS has contracted with Clifton Gunderson LLP for this audit of its financial statements and has received an unqualified opinion as evidenced in the **Independent Auditors' Report** in the **Financial Section** of this report.

Economic Summary

Investment market conditions showed continued strength during the fiscal year ended June 30, 2005 (FY 2005) enabling PSERS' investment portfolio to generate a rate of return of 12.87%. The total net assets of the System increased from \$48.5 billion to \$52.1 billion from July 1, 2004 to June 30, 2005. The increase is primarily attributable to net investment income and member and employer contributions combined that exceeded the payment of pension benefits and administrative expenses.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the strength of the System with respect to its funding status. Of utmost importance to the Board is the assurance that the required reserves are available for payment of current and prospective retirement benefits. PSERS has maintained its position among the top twenty-five largest pension systems in the nation.

Major Initiatives

New Pension Administration System (NPAS)

NPAS, PSERS' largest project ever, continued throughout FY 2005 with Release 1 being implemented on time and under budget in July 2004. This phase of NPAS brought about significant changes in the way the school employers report salary and service data for their employees. The remainder of the fiscal year was spent supporting this new functionality while working towards the finalization of the design, development, and testing of the second phase of NPAS, which will be fully implemented during the fiscal year ending June 30, 2006 (FY 2006).

The first part of the second phase of NPAS will include the production of member statements of account, the second part will include the production of PSERS annuitant payroll as well as daily benefit disbursements, and the third part will include all remaining functionality.

Independent Accounting Book of Record Project

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In FY 2005, as planned, the domestic and international fixed income portfolios were converted to the System's internal accounting software provided by Financial Control Systems, Inc. In FY 2006, work will begin to convert the real estate and alternative investment portfolios from an Excel-based accounting system to the internal accounting software and various management reports will be written for the new software.

PSERS Health Options Program (HOP) — and Medicare Prescription Drug Benefits

In early 2005, PSERS' Board of Trustees designated a small working group to address the prescription drug component of the Medicare Modernization Act (MMA). Subsequently, PSERS entered into an Employer/Union Direct Medicare Prescription Drug Plan Contract with the Centers for Medicare and Medicaid Services (CMS). Effective January 1, 2006, HOP will provide prescription drug benefits to HOP participants who are eligible for Medicare and receive payments from CMS to defray the cost of providing these benefits. In essence, HOP will offer more prescription drug coverage choices at reduced monthly premium rates as a result of the changes to Medicare.

As a consequence of PSERS implementing MMA, PSERS conducted a limited open enrollment period from early October to November 16, 2005 for benefit coverage effective January 1, 2006. For the open enrollment period, HOP:

- Produced and distributed over 115,000 personalized statements that explained retirees' medical and prescription drug coverage Options for 2006.
- Conducted 75 meetings across the Commonwealth and in New Jersey, Delaware, North Carolina and Florida with 20,000 attendees.
- Handled over 68,000 telephone calls from members inquiring about the open enrollment and the new Medicare Prescription Drug Options.

Financial Highlights

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.

The System has established policies and procedures for the review and verification of all payments made by PSERS.

The fair value of the System's net assets totaled \$52.1 billion as of June 30, 2005. The System is the 14th largest public pension fund in the nation and the 21st largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Assets and Management's Discussion and Analysis included in the **Financial Section** of this report.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY2005, the appropriation was \$41.8 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding entails an actuarial examination of the fund balances to ensure money will be available for future and current benefit payments.

The results of the latest published actuarial valuation (as of June 30, 2004) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The 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 funded status as of the latest actuarial valuation was 91.2%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and MD&A in the **Financial Section** of this report.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for over 76% of total revenues over the period from FY 1996 to FY 2005. During FY 2005 net investment income was \$6.1 billion. The investment portfolio totaled \$52.9 billion, at fair value, as of June 30, 2005. For FY 2005, the time-weighted rate of return on the System's investments was 12.87%.

The investment portfolio is of high quality and well-diversified to emphasize a long-term investment approach. The overall investment objectives of the System are to: (i) preserve capital

in real terms; (ii) maximize total returns while limiting the risk of volatility through diversification; (iii) achieve returns in excess of the policy benchmark (the policy benchmark is a custom index based on the Board-established asset allocation structure to generate a return that meets the actuarial rate of return assumption); (iv) achieve a real rate of return over CPI over time; and (v) provide sufficient liquidity to meet the current operating needs of the System.

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

Federal and State Tax Status

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

Professional Services

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

Other Information

In compliance with the Retirement Code, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published in the *Pennsylvania Bulletin* (Vol. 31, No.14).

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, 2004 (FY 2004). 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 only. PSERS has received a *Certificate of Achievement* for 22 consecutive years for FY 1983 to FY 2004. 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 2005 certificate.

A reproduction of this award appears in this **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*.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2005. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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

A reproduction of this award appears in the **Introductory Section**.

Respectfully submitted,



Jeffrey B. Clay
Executive Director



Arthur J. Granito
Chief Financial Officer

Administrative Organization PSERS Board of Trustees



Secretary of Education
Gerald R. Zahorchak
Acting Secretary
(*ex officio*)



Executive Director
Pennsylvania School
Boards Association
**Thomas J.
Gentzel**
(*ex officio*)



Treasurer of the
Commonwealth of
Pennsylvania
**Honorable
Robert P. Casey, Jr.**
(*ex officio*)



Two members appointed by the Governor
Arthur J. Rooney, II **Tina Byles-Williams**



One member elected
by retired members
Sally J. Turley



Three members elected by active certified contributors
Gerald A. Katona



Roger H. May
Chair



Melva S. Vogler



One member elected by
active noncertified
contributors
Susan L. Clapper



Two members appointed by the Speaker of the
Pennsylvania House of Representatives
**Honorable
Dwight Evans**



**Honorable
Steven R. Nickol**
Vice-Chair



One member elected
by members of
Pennsylvania Public
School Boards
Richard N. Rose



Two members appointed by the President
Pro Tempore of the Pennsylvania Senate
**Honorable
Vincent J. Fumo**



**Honorable
Joseph B. Scarnati, III**

PSERS Board of Trustees

as of December, 2005

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Robert P. Casey, Jr.

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

Dr. Gerald R. Zahorchak, Acting Secretary

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

Mr. Thomas J. Gentzel

Two members appointed by the Governor of the Commonwealth of Pennsylvania

Mr. Arthur J. Rooney, II (term expires 12/31/2007)

Ms. Tina Byles-Williams (term expires 12/31/2005)

Three members elected from among the certified contributors of the System for a term of three years

Mr. Gerald A. Katona, (term expires 12/31/2007)

Mr. Roger H. May, *Chairman* (term expires 12/31/2006)

Ms. Melva S. Vogler (term expires 12/31/2008)

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

Ms. Susan L. Clapper (term expires 12/31/2006)

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

Mrs. Sally J. Turley (term expires 12/31/2007)

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

Mr. Richard N. Rose (term expires 12/31/2008)

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 Dwight Evans (term expires 02/05/2007)

Honorable Steven R. Nickol, *Vice-Chairman* (term expires 02/05/2007)

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

Honorable Vincent J. Fumo (term expires 02/05/2009)

Honorable Joseph B. Scarnati, III (term expires 02/05/2009)

2005 Board Committees

as of October 2005

Appeals / Member Services

Ms. Clapper, Chair
Mr. Gentzel
Mr. Katona
Mr. May
Rep. Nickol
Mr. Rose
Mrs. Turley

Health Care

Mrs. Turley, Chair
Ms. Clapper
Rep. Evans
Mr. Gentzel
Mr. Katona
Mr. May
Rep. Nickol

Finance

Ms. Vogler, Chair
Committee is comprised
of all Board members.

Elections

Rep. Evans, Chair
Ms. Clapper
Mr. Rooney
Dr. Zahorchak

Audit / Budget

Mr. Rose, Chair
Rep. Evans
Sen. Fumo
Mr. Gentzel
Mr. Rooney
Sen. Scarnati
Ms. Vogler

Personnel

Mr. Gentzel, Chair
Ms. Byles-Williams
Mr. Casey
Ms. Clapper
Rep. Evans
Mr. May

Bylaws / Policy

Rep. Nickol, Chair
Ms. Byles-Williams
Mr. Casey
Rep. Evans
Mr. Katona
Mrs. Turley
Ms. Vogler

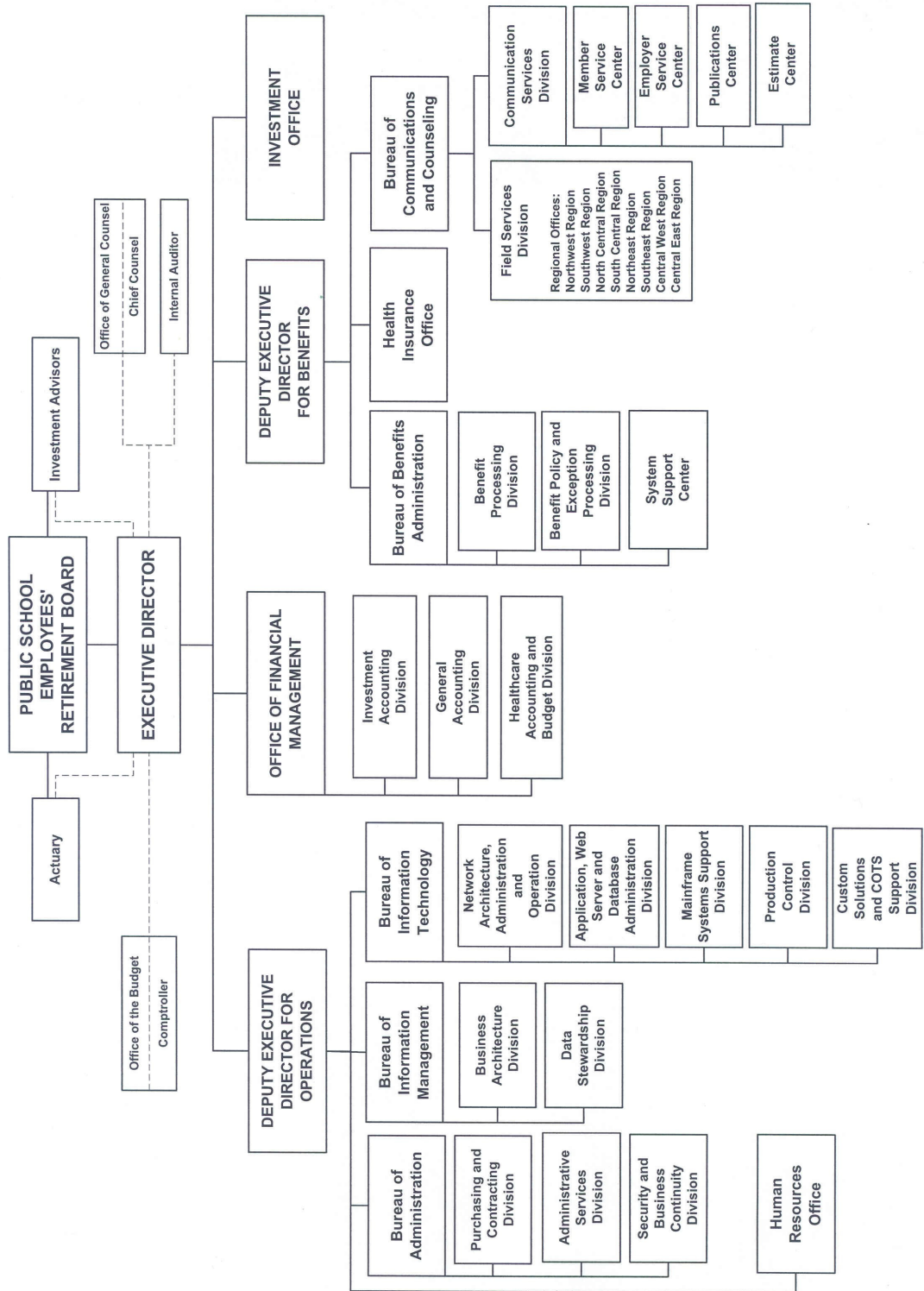
Technology Steering

Sen. Fumo, Chair
Ms. Byles-Williams
Mr. Katona
Mr. Rose
Sen. Scarnati
Ms. Vogler
Dr. Zahorchak

NOTE: The chair of the Board of Trustees is a voting *ex-officio* member of all committees.

Organizational Chart of the Public School Employees' Retirement System

September 9, 2004



Organizational Structure of the Public School Employees' Retirement System

Executive Office

The Executive Office is responsible for the overall management of the Public School Employees' Retirement System (PSERS) to achieve the primary objectives of the Fund as established by the Board of Trustees (Board). Reporting directly to the Executive Director are the Deputy Executive Director for Operations, Deputy Executive Director for Benefits, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, Board Liaison, and Legislative Liaison. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds for and services to the active members and annuitants of the System.

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also appraises the Board of any development that will in any way affect the System and its operation.

Investment Office

The Investment Office is responsible for the investment activities of the System. In accordance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals. Refer to the **Investment Section** Pages 78 to 83 for lists of professional investment advisors and Page 63 in the **Financial Section** for a summary of investment expenses.

Office of Chief Counsel

Legal services are provided by a team of professional personnel under the Governor's

Office of General Counsel. The legal staff is responsible for representing the System in all administrative hearings and other litigation matters and providing counsel on a wide variety of matters including the interpretation of the Retirement Code, the form and legality of all System contracts, corporate governance issues and the structure and implementation of the System's varied financial investments.

Internal Auditor's Office

The Internal Auditor's Office performs systematic reviews of the various activities of PSERS, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of the System's internal control system.

Office of Financial Management

The Office of Financial Management has responsibility for planning, organizing and directing a complete accounting and financial reporting system in conformance with accounting principles generally accepted in the United States of America. Oversight is provided for new systems development and maintenance of existing systems, and ensuring appropriate accounting controls. The Office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting matters. The Office is organized into three divisions: General Accounting, Healthcare Accounting and Budget, and Investment Accounting.

General Accounting Division

The General Accounting Division has the responsibility of recording all financial transactions for the pension and health care operations of the system. It maintains PSERS' General Ledger, maintains the annuitant payroll, audits and processes administrative expenses, and prepares interim and annual financial statements. It bills and collects contributions due to the Fund from

its employers. It provides accounts receivable services to the System for member debts. It also interacts with the other divisions in the Office of Financial Management to assure that the basic financial statements of the System include all financial activity monitored and controlled by those accounting divisions.

Healthcare Accounting and Budget Division

The Healthcare Accounting and Budget Division has the responsibility of monitoring and recording Postemployment Healthcare transactions. It reconciles and monitors the financial activities of the third party administrator of the Health Options Program. Additionally, the Division is responsible for developing and monitoring the System's annual budget.

Investment Accounting Division

The Investment Accounting Division (IAD) has responsibility for processing, monitoring, and recording all investment transactions. It contracts with a third-party application service provider to assist with monitoring the overall internal control structure for investments and assure adequate custody of all investment assets. It serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. It audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations.

The IAD is also responsible for directing and administering the Class Action Revenue Recovery, the Foreign Cash Overdraft and the Foreign Tax Reclaim Collection programs as part of PSERS' investment activities. It also supports PSERS' Investment Office and the Board in achieving investment objectives and monitoring compliance with investment policy. The Division is comprised of the Public Market Reporting and Analysis, Special Investment Reporting and Analysis, and Treasury and Manager Administration sections.

Deputy Executive Director, Operations

The Deputy Executive Director for Operations

administers the facilities, technologies, data and records, policies and procedures, human resource, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by this position include the Bureau of Administration, Bureau of Information Management, Bureau of Information Technology, and the Human Resources Office.

Human Resources Office

The Human Resources Office is responsible for supporting management and staff to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunity and other miscellaneous programs.

Bureau of Administration

The Bureau of Administration provides facilities, purchasing and contracting, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions.

Purchasing and Contracting Division

The Purchasing and Contracting Division procures materials, supplies, and services needed to support organizational goals and develops, monitors, processes and evaluates contract usage in the agency.

Administrative Services Division

The Administrative Services Division manages building and grounds for the agency both at headquarters and at the regional locations, provides mail, imaging, and work introduction services to the agency, asset management, automotive and other administrative services to the agency.

Security and Business Continuity Division

The Security and Business Continuity Division develops and implements those policies, programs and procedures necessary to ensure that PSERS' human, technology, and capital resources are secure and to ensure that PSERS is prepared to quickly recover and continue critical operations in the event of a disaster.

Bureau of Information Management

PSERS' organization, business processes, data, and information systems are inextricably intertwined with each other. To understand PSERS' business, as it exists, as well as the impact of change and potential for improvements, each of these components must be understood on their own, within the context of each other, and in context of PSERS' mission, vision, values and goals.

The goal of the Bureau of Information Management is to understand, analyze, document, and improve PSERS' organization, business rules, processes, information systems, and data and the relationships among these components so that PSERS is able to:

- conduct its business consistently and according to established rules
- understand each component, its relationship to each of the other components and to PSERS' mission, vision, values and goals
- fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others
- more effectively identify inefficient, duplicate, or suspect processes, data, or technologies
- account for its organization, business rules and processes, information systems and technologies, and data
- best manage its electronic data records, imaged records, paper and film/fiche records
- understand the meaning and know the location of its data
- ensure that PSERS' data, information systems, and business processes meet established quality goals

- manage PSERS' forms
- ensure that PSERS' data, forms, information systems, and business processes are in support of its business.

Division of Business Architecture

The Division of Business Architecture includes analysts who collect, analyze, and document PSERS' organization, business rules, processes, information systems, and data, and perform detailed impact analysis as and when change is proposed. Additionally, staff in this unit confirm that changes have been applied correctly. Staff in this unit also look for opportunities for improvement, lead the development of business requirements and serve as liaisons between PSERS' end-users and Information Technology staff.

This division serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff.

This division also receives and responds to data queries from agency staff and investigates system, data, or process problems. Finally, this division maintains responsibility for PSERS' records and forms management programs.

Division of Data Stewardship

PSERS has realized that poor data quality and/or the lack of data can be a significant inhibitor to timely and efficient processing. Staff in the Division of Data Stewardship are the trustees and primary maintainers of PSERS' member and employer data, working to make this data most usable to agency processing staff. Specifically, this group maintains PSERS' member demographic information, affiliate information, and is responsible for correctly applying monetary and non-monetary adjustments to member accounts.

Bureau of Information Technology

The Bureau of Information Technology is responsible for planning, coordinating, administering, implementing, and supporting information technology resources within PSERS. The Bureau is organized into five Divisions: Network Architecture, Administration, and

Operation Division; Application, Web Server, and Database Administration Division; Mainframe Systems Support Division; Production Control Division; and Custom Solutions and COTS Support Division.

Network Architecture, Administration, and Operation Division

This division provides consultative and technical support in the planning, design, specification, implementation, deployment, operation, support, and troubleshooting of all PSERS' Network Servers, Desktop Systems, Operating Systems and associated Hardware Components.

Application, Web Server, and Database Administration Division

This division provides consultative and technical support in the planning, design, specification, implementation, deployment, operation, support, and troubleshooting of all PSERS' Database Management systems, Web Application servers and Web servers.

Mainframe Systems Support Division

The Mainframe Systems Division maintains the legacy COBOL and LINC mainframe business applications and for the development of data migration import and export programs and interface programs resident on the legacy mainframe platform.

Production Control Division

The Production Control Division develops job control programs, maintains mainframe system batch schedules, and controls the movement of legacy programs into the production environment. This division also manages the agency printing and post-processing operations.

Custom Solution and Commercial off the Shelf (COTS) Division

The Custom Solution and COTS Division supports PSERS' server-based COTS applications such as E-image and Workflow,

Lawson General Ledger, Investment Accounting, etc. and for supporting the use of the Microsoft Office Suite in combination with data access tools such as Open/A. This division also designs, develops, tests and implements customized interfaces necessary to support the interaction between various COTS and custom business applications.

Deputy Executive Director, Benefits

The Deputy Executive Director for Benefits oversees the administration of the benefits programs for all active and retired members of the System and oversees the development and implementation of the communications and counseling programs. Organizational units under the management of the Deputy include the Bureau of Benefits Administration, the Bureau of Communications and Counseling and the Health Insurance Office.

Bureau of Benefits Administration

The Bureau of Benefits Administration provides professional and technical services to all Pennsylvania full-time and part-time public school employees in any of the System's 734 employers. They also provide services to retirees, their beneficiaries and their personal representatives.

Benefits Processing Division

The Benefits Processing Division handles the high volume of benefit calculations. The staff calculates estimated retirement benefits, creates payroll records, and originates the initial benefit payments and direct rollovers. As the employers report final salary and service data, staff conducts in-depth reviews of accounts and calculates finalized benefits.

This division has responsibility for determining eligibility and calculating the cost to the members and to the employers for the purchase of additional service credit. The division processes requests to refund contributions and interest from members terminating from the system who are not eligible for retirement benefits. The calculation and payment of death benefits for

members who die subsequent to retirement is also performed within this division.

Benefits Policy and Exception Processing Division

The Benefit Policy and Exception Processing Division has responsibility for creating and writing all benefits policies, procedures, business rules and calculations and presenting policies to the Executive staff and the Board's Appeals/Members Services Committee; for coordinating all requests for legal analyses and legal opinions; and for working with the System's actuaries regarding benefit calculations and audits. The staff also manages the first level of the member's administrative appeal process.

This division makes determinations relative to membership eligibility, retirement covered compensation and emergency employment where circumstances are suspect or atypical. To insure compliance with the Retirement Code, the division is also responsible for the review and approval of domestic relations orders.

The staff of this division also handles the benefits determinations that are more complex, more time-sensitive or have a significant impact on the agency or the members. This work includes divorce transactions, death benefits for in-service members, frozen annuity calculations, computations that must comply with special IRS regulations, multiple service eligibility and calculations, post finalized benefit adjustments, calculating cost of living increases and processing changes to annuitant or survivor gross benefits.

System Support Center

The System Support Center's primary responsibility is to work with technical staff in the Bureau of Information Technology to enhance automated business systems and the use of technology within the business areas. Enhancements are the result of changing technology as well as changes to legislation, court decisions and board policies. Work involves workflow analysis, requirements definition, testing and implementation. The Center is also responsible for reporting and providing assistance to resolve all problems with production, hardware

and software.

Bureau of Communications & Counseling

The Bureau of Communications and Counseling is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to the members, the employers, the Legislature, the Governor's Office, other government organizations, professional organizations and the public.

Field Services Division

The Field Services Division provides services to both active and retired PSERS' members through eight regional offices located throughout the Commonwealth of Pennsylvania. The regional representatives conduct various meetings and workshops for members and employers and provide counseling services.

Communication Services Division

The Communication Services Division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web and various publications. There are four centers within this division:

Member Service Center

This center answers the PSERS' toll-free telephone number, responding to general inquiries about the benefits and processes of the System as well as specific inquiries related to members' accounts.

Employer Service Center

Staffing of the center includes customer service representatives to answer phone calls and emails, as well as field representatives to visit employers and conduct workshops, to provide assistance and training for proper reporting to the System.

Publications Center

This center is responsible for the development, production, and distribution of all printed and audiovisual materials for the System. Publications include newsletters, handbooks, pamphlets, annual reports, mass communications to the membership, and presentation material. Staff also responds to general correspondence and email inquiries.

Estimate Center

This center computes a large volume of estimates showing the potential monthly benefits members will receive at retirement through the normal, early, vested or disability benefit.

Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program and administering the annuitants' health insurance premium assistance benefits. HOP is a voluntary statewide plan that provides group health insurance coverage for school retirees, their spouses, and eligible dependents.

Administrative Staff



Jeffrey B. Clay
Executive Director



Gerald Gornish
Chief Counsel



Arthur J. Granito
Chief
Financial Officer



Terrill J. Savidge
Deputy Executive
Director, Operations



Veronica P. Thomas
Deputy Executive
Director, Benefits



Alan H. Van Noord
Chief
Investment Officer



Douglas A. Bonsall
Director of
Communications &
Counseling



**Deborah L.
Garraway**
Director of Information
Management



Donald J. Halke, II
Internal Auditor



Helen D. Hosler
Director of Benefits
Administration



Maribel La Luz
Director of Human
Resources

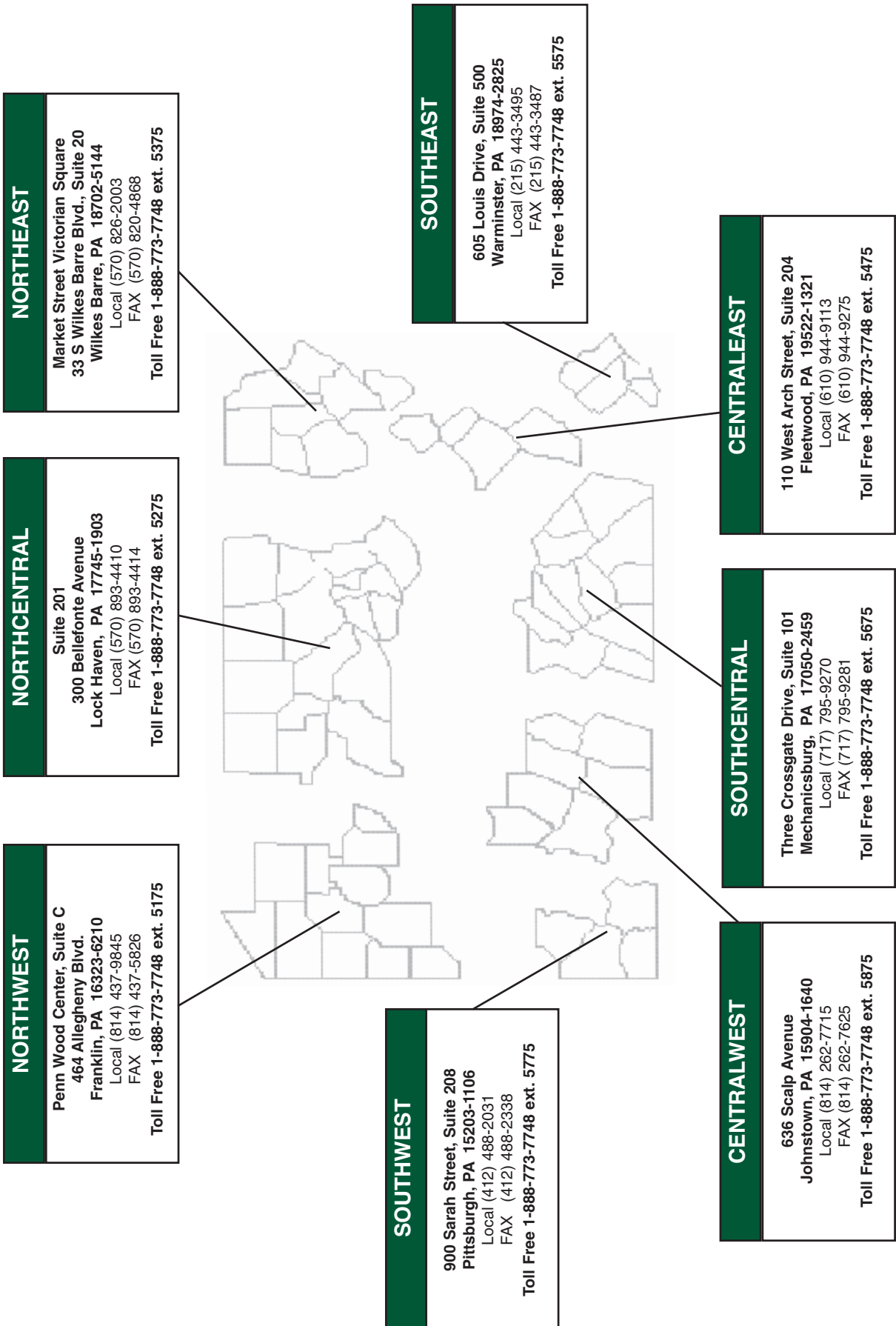


James F. Noone
Director of
Administration



Mark F. Schafer
Director of Health
Insurance

PSERS REGIONAL OFFICES



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PSERS Headquarters Building



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

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