PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

A COMPONENT UNIT OF THE
COMMONWEALTH OF PENNSYLVANIA

IN THE NINETY-ONE YEARS OF ITS EXISTENCE SINCE THE 1917 PENNSYLVANIA PUBLIC SCHOOL EMPLOYES' RETIREMENT ACT CREATED THE SYSTEM, THE PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HAS ENDURED AND THRIVED DESPITE NUMEROUS AND FAR REACHING DISRUPTIONS IN THE COUNTRY AND THE WORLD. PSERS HAS STAYED THE COURSE SET BY ITS MISSION STATEMENT REGARDLESS OF WAR, SOCIAL UPHEAVAL, ECONOMIC DURESS, AND COMPLEX POLITICAL ENVIRONMENTS. AS PSERS MOVES THROUGH THE CURRENT DECADE IN ADVANCE OF ITS GOLDEN ANNIVERSARY, IT'S BOARD OF TRUSTEES, MANAGEMENT, AND STAFF DILIGENTLY STRIVE TO FULFILL THEIR FIDUCIARY RESPONSIBILITIES TO SERVE THEIR STAKEHOLDERS OVER THE LONG-TERM.

Pennsylvania Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

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Toll-Free **-** 1-888-773-7748
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Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 2008

Report prepared by the Public School Employees' Retirement System staff

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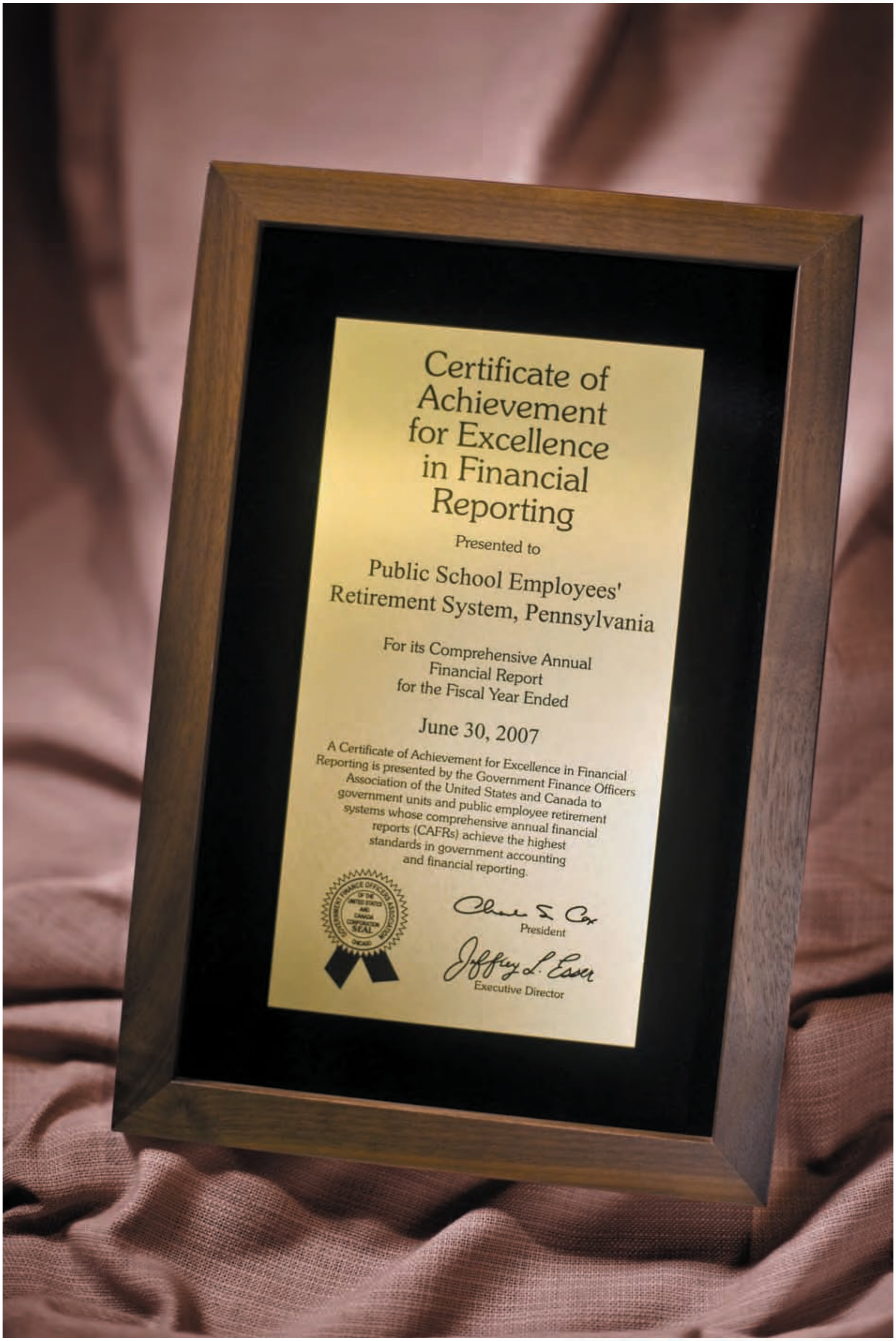

Certificate of Achievement for Excellence in Financial Reporting
Presented to
Public School Employees' Retirement System, Pennsylvania
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2007
A Certificate of Achievement for Excellence in Financial Reporting is presented 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.
President
Executive Director

Public Pension Coordinating Council

Public Pension Standards

2007 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)

Alan H. Winkle

Alan H. Winkle
Program Administrator

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

November 14, 2008

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the General Assembly
Members of the Retirement System
Members of the Boards of PSERS' Employers

Dear Governor Rendell, Legislators, Members, and Employer Board 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-ninth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2008. The report provides an in-depth review of the financial, actuarial, and investment status of the Pension Fund and PSERS' post-employment healthcare programs. The report also highlights many of the significant activities of PSERS for the fiscal year ended June 30, 2008, as well as programs to improve services to the active and retired members of the System.

Through the years the System has experienced overall growth in net assets as well as the total numbers of its members and annuitants. At June 30, 2008, the net assets held in trust for pension and post-employment healthcare benefits were $62.7 billion; the active membership was approximately 279,000; and the number of retirees and beneficiaries was approximately 176,000.

The financial integrity and actuarial soundness of the System are attested by the accompanying reports of the independent auditor and consulting actuary. Moreover, for the 25th consecutive year, PSERS received the Government Finance Officer's Association's prestigious Certificate of Achievement for Excellence for Financial Reporting Award for its June 30, 2007 CAFR.

As is reflected in its *Mission Statement*, the Board of Trustees is also keenly aware of its responsibilities to the Commonwealth, its taxpayers, and the employers of the System; all stakeholders in the System. Therefore the Board of Trustees pledges to continue to administer the affairs of the PSERS in the most competent and efficient manner possible, with the ultimate goal that the retirement and post-employment healthcare funds are managed prudently for the sole benefit of the System's members.

Finally, the Board of Trustees appreciates the continuing cooperation extended by the Governor's Office, the General Assembly and PSERS' Employers, which enables and empowers PSERS to meet its current challenges and make timely provisions for the future.

Melva S. Vogler

Melva S. Vogler
Chairman, Board of Trustees

• 5 North 5th Street • PO Box 125 • Harrisburg, Pennsylvania 17108-0125 •

Introductory

1975

Act 96, a new Retirement Code, was enacted with profound effects on the System, some of which were:

- PSERS became an independent administrative "Board"
- Board of Trustees membership increased to fifteen
- The System's authority to invest in common stocks was liberalized
- Part-time school employees were made eligible for PSERS membership

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:

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

adopted 6/20/2008

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address	***Toll-Free*** **-** 1-888-773-7748	***Building Location***
PO Box 125	(1-888-PSERS4U)	5 North 5th Street
Harrisburg PA 17108-0125	***Local*** - (717) 787-8540	Harrisburg PA 17101

November 14, 2008

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

We are pleased to present the eighty-ninth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2008. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The management of the System is solely responsible for the accuracy and completion of this report, pursuant to section 24 Pa.C.S. §8502(n) of the Public School Employees' Retirement Code (Retirement Code). The entire report can be downloaded from PSERS' website at www.psers.state.us.

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 739 reporting entities in Pennsylvania. As of June 30, 2008, the System had approximately 279,000 active members with an estimated annual active payroll of $11.9 billion.

The annuitant membership at June 30, 2008 was comprised of approximately 176,000 retirees and beneficiaries who receive over $300 million each month. The average yearly benefit paid to annuitants is $21,653. 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 739 reporting units contribute. PSERS is administered by a staff of 310. 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.

PSERS was established by law as an independent administrative board, directed by a governing board of trustees (Board) which exercises control and management of the System, including the investment of its assets. PSERS is considered a component unit of the Commonwealth of Pennsylvania as defined by the Governmental Accounting Standards Board (GASB). An annual audit of the System by 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

The past fiscal year saw mixed investment market returns across the major asset classes. The market psychology became increasingly negative as the fiscal year progressed. The credit crunch which began with the bursting of the housing bubble in the fiscal first quarter has yet to run its course as of this writing. As a result, for the year ended June 30, 2008 (FY 2008) PSERS' investment portfolio generated a rate of return of -2.82%. The total net assets of the System decreased from $67.5 billion to $62.7 billion from July 1, 2007 to June 30, 2008. The decrease is primarily attributable to net investment loss and payment of benefits and administrative expenses combined that exceeded member and employer contributions.

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 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)

PSERS is pleased to announce that it has successfully completed the implementation of the last major phase of the NPAS project, bringing this multi-year project to a close and allowing PSERS to decommission its outdated legacy mainframe system. This new system brings with it many new features and capabilities that not only helps today, but also positions PSERS well for the future. PSERS' staff is quickly learning how to make the most of the new system, improving process efficiency as well as customer service levels. PSERS plans to continue to use this tremendous opportunity to raise the bar, bringing the organization to new levels of efficiency and adaptability as it strives to serve its members in the best possible manner.

Reducing the Projected Employer Contribution Rate Increase

One of the most widely publicized events at PSERS over the past several years has been the employer contribution rate increase that is projected to occur in the 2012-2013 fiscal year. The rate increase was first projected in the June 30, 2003 actuarial valuation. This projection took into consideration the actuarial impact of the pension benefit enhancement enacted in 2001 (Act 9 of 2001), a major downturn in the investment markets between 2001 and 2003 and a series of legislative actions (Act 38 of 2002 and Act 40 of 2003) that changed the basic funding methodologies for PSERS and suppressed the employer contribution rate for a period of ten years.

PSERS' investment returns over the past five years have reduced the projected fiscal year 2012-2013 employer contribution rate by more than 35%, from a projected high of over 27% to the current projected rate of below 17.00% and have decreased the projected amount of contributions needed from school employers and Commonwealth taxpayers in fiscal year 2012-2013 by $1.7 billion. The volatile financial markets since the end of the fiscal year on June 30, 2008, however, have the potential to reverse the progress made to reduce the 2012-2013 projected rate increase. PSERS continues to work with its various stakeholders on potential solutions to reduce the projected impact of the projected rate increase.

Royal Dutch Shell and Qwest Settlements

In March 2008 Royal Dutch Shell Plc. agreed to terms with PSERS and the PA State Employees Retirement System (SERS) to settle a securities class action litigation case, and received tentative Court approval of the settlement in June 2008. PSERS and SERS were the lead plaintiffs in the litigation and negotiated a settlement of $130 million to be shared by U.S. class members and were instrumental in the $352 million settlement of non-U.S. class members (and potential additional relief of up to $60.5 million, should certain contingencies occur). The settlement includes the following:

- An $89.5 million cash benefit, plus interest;
- Payment of all expenses related to implementing the settlement in the approximate amount of $8.0 million, and
- Payment of $30 million in counsel fees and $3 million in expenses (paid directly by Royal Dutch Shell – over and above the amounts going directly to the class).

In addition, in October 2007 Qwest Communications, Inc. agreed to terms with PSERS in a securities fraud case in which PSERS had opted out of the settlement of the securities class action lawsuit against Qwest. PSERS was able to negotiate more favorable settlement terms with Qwest than if PSERS had remained a member of the class.

Implementation of Medicare Advantage Private Fee-For-Service Plan

In April 2008 PSERS issued a request-for-proposal (RFP) for a nationwide Medicare Advantage Private Fee-For-Service Plan (MA-PFFS) and companion Pre-65 Managed Care Plan for the Health Options Program (HOP) effective January 1, 2009. HOP is a voluntary group health benefits program available to PSERS retirees, their spouse and dependents. As of January 1, 2008 there were 63,000 participants (51,000 retirees plus their dependents) in the HOP. The purpose of the RFP is to consolidate the regional Medicare Advantage benefit plans into one MA-PFFS Plan option and to obtain the most competitive vendor in terms of service and cost. Highmark was the successful bidder and in addition to the HOP Medical Plan and companion Pre-65 Medical Plan will provide the only Medicare Advantage and companion Pre-65 Managed Care Plan available to new enrollees effective January 1, 2009.

Financial Highlights

The fair value of the System's net assets totaled $62.7 billion as of June 30, 2008. The System is the 14th largest public defined benefit 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.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2008 PSERS provided $4.9 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2008, the appropriation was $40.8 million.

Funding

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

The results of PSERS' latest published actuarial valuation (as of June 30, 2007) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The funded status as of the latest actuarial valuation was 85.8%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and in the **Financial Section** of this report.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for nearly 77% of total revenues over the period from FY 1999 to FY 2008. During FY 2008 the net investment loss was $1.8 billion. The investment portfolio, which is one part of the System's net assets, totaled $63.9 billion, at fair value, as of June 30, 2008. For FY 2008, the time-weighted rate of return on the System's investments was -2.82%.

The investment portfolio is well diversified to emphasize a long-term investment approach. The overall objective of the System is to provide benefits to its members through a carefully planned and well-executed investment program. The return objectives are to (i) realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis and that exceeds the Policy Index (the Policy Index is a custom benchmark based on the Board-established asset allocation structure to generate a return that meets the actuarial rate of return assumption); and (ii) invest the assets to maximize returns for the level of risk taken. The risk objectives are to (i) diversify the assets of the System to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location; and (ii) invest the assets so that the probability of investment losses (as measured by the Policy Index) in excess of 12.0% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

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

Federal and State Tax Status

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

It should be noted that the Internal Revenue Service (IRS) held a Roundtable discussion on voluntary compliance for public plans in April 2008 to announce a renewed focus on the tax qualification of public pension funds. PSERS is working proactively in conjunction with the SERS to address this new IRS initiative.

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.

We believe the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

Professional Services

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

Other Information

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

System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2007 (FY 2007). 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 25 consecutive years from FY 1983 to FY 2007.** A photograph of this award appears in the **Introductory Section** of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the *Comprehensive Annual Financial Report*.

The System believes the current report continues to conform to the *Certificate of Achievement* program requirements and will be submitting this report to GFOA to determine eligibility for the 2008 certificate.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2007. 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.**

Acknowledgements

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

Respectfully submitted,

Jeffrey B. Clay
Executive Director

Brian S. Carl, CPA, CTP
Chief Financial Officer

Administrative Organization
PSERS Board of Trustees

Secretary of Education
Gerald R. Zahorchak
(ex officio)

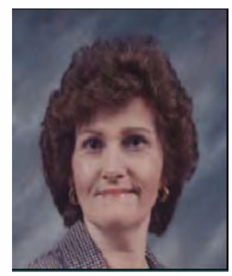
Executive Director Pennsylvania School Boards Association
Thomas J. Gentzel
(ex officio)

Treasurer of the Commonwealth of Pennsylvania
Honorable Robin L. Wiessmann
(ex officio)

Two members appointed by the Governor
Hal Moss **Tina Byles-Williams**

One member elected by retired members
Sally J. Turley

Three members elected by active certified contributors
Glen S. Galante **James M. Sando** **Melva S. Vogler**
Chair



One member elected by active noncertified contributors
Patricia A. Tozer

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 Rob Wonderling**

PSERS Board of Trustees

as of June 30, 2008

2008 Board Committees

as of June 30, 2008

Appeals / Member Services

Ms. Tozer, Chair
Representative Evans
Mr. Gentzel
Representative Nickol
Mr. Rose
Mr. Sando
Mrs. Turley

Audit / Budget

Mr. Galante, Chair
Senator Fumo
Mr. Gentzel
Mr. Moss
Mr. Rose
Treasurer Wiessmann

Bylaws / Policy

Representative Nickol, Chair
Ms. Byles-Williams
Representative Evans
Senator Fumo
Mr. Sando
Mrs. Turley

Corporate Governance

Mr. Sando, Chair
Ms. Byles-Williams
Mr. Galante
Mr. Rose
Treasurer Wiessmann
Senator Wonderling

Elections

Dr. Zahorchak, Chair
Representative Evans
Mr. Moss
Ms. Tozer
Treasurer Wiessmann
Senator Wonderling

Finance

Mr. Rose, Chair

Committee is comprised of all Board members.

Health Care

Mrs. Turley, Chair
Representative Evans
Mr. Galante
Mr. Gentzel
Representative Nickol
Ms. Tozer

Personnel

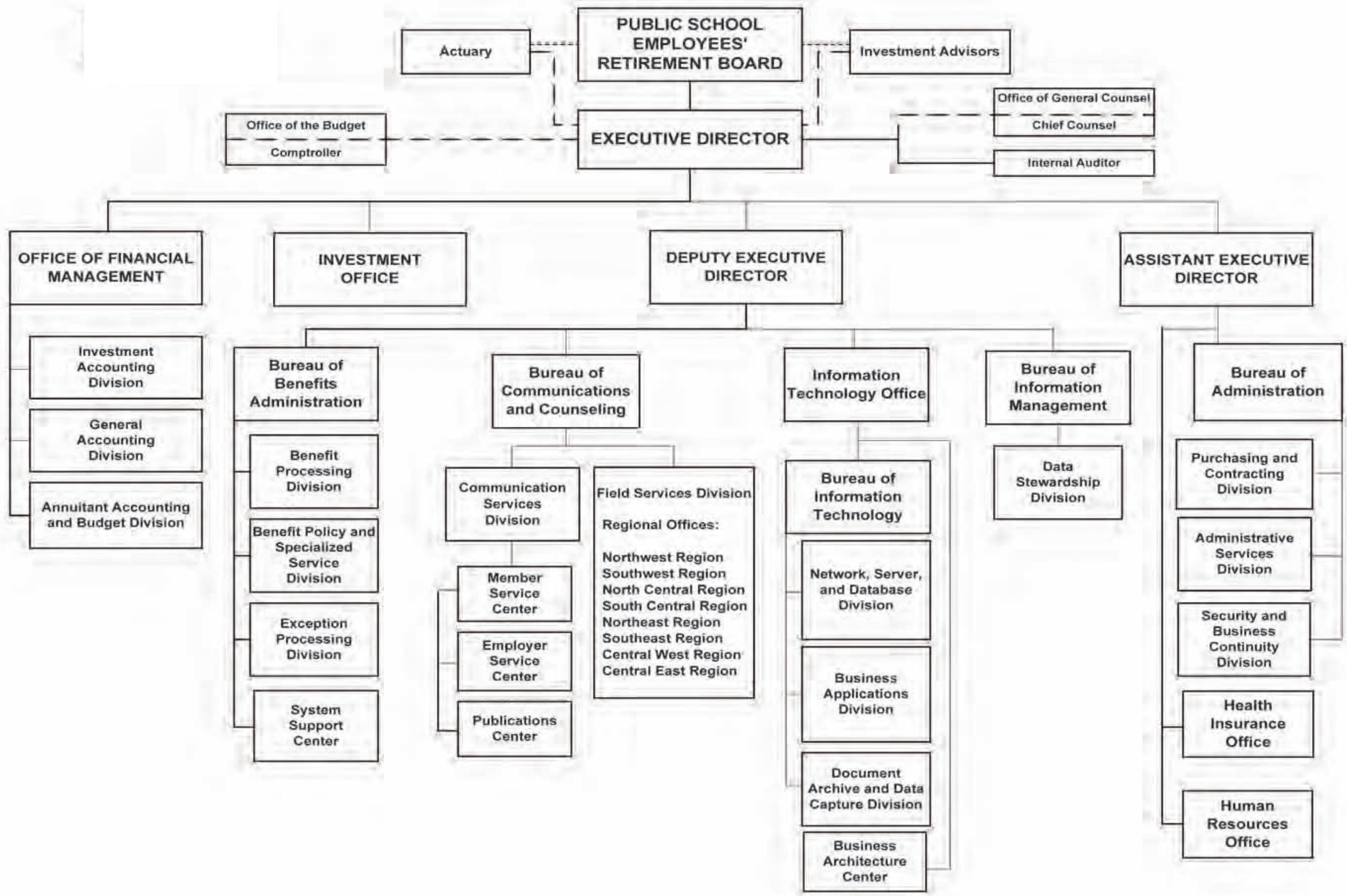
Mr. Gentzel, Chair
Representative Nickol
Mr. Rose
Mr. Sando
Mrs. Turley
Representative Wonderling
Dr. Zahorchak

Technology Steering

Senator Fumo, Chair
Ms. Byles-Williams
Mr. Galante
Mr. Moss
Treasurer Wiessmann
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



Organizational Structure of the Public School Employees' Retirement System

Executive Office

This 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, Assistant Executive Director, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, 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 apprises the Board of any development that will in any way affect the System and its operation.

Investment Office

This office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals.

Chief Counsel's Office

This office provides legal services through a team of professional personnel under the Governor's Office of General Counsel. The Legal staff is responsible for representing PSERS in all administrative hearings and other litigation matters; drafting and negotiating PSERS' investment and administrative services contracts; and providing counsel on a wide variety of matters, including the interpretation of the Retirement Code and the Right-to-Know Law.

Internal Auditor's Office

This 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 PSERS' internal control system.

Office of Financial Management

This office is directed by the Chief Financial Officer and 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 accounting 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, treasury operations, taxation, actuarial and budgetary matters. The office is organized into three divisions: General Accounting Division, Annuitant Accounting and Budget Division, and Investment Accounting Division.

General Accounting Division

This division has the responsibility of recording all financial transactions for the pension and health care operations of the System. It maintains PSERS' General Ledger 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.

Annuitant Accounting and Budget Division

This division is responsible for the mission-critical annuitant payroll and disbursement function. The division also has the responsibility of monitoring and recording post-employment 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

This division serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. The division processes, audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations. Working with the assistance of a third-party application service provider, it has the responsibility for monitoring the overall internal control structure for investments thereby assuring adequate custody of all investment assets.

The division 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, Private Market Reporting and Analysis, and Treasury and Manager Administration sections.

Deputy Executive Director

The Deputy Executive Director directly oversees the benefit programs for all active and retired members of the System, the development and implementation of the member and employer communications programs and the member counseling programs, and the maintenance of agency policies, procedures, and benefit related data. Additionally, this position supervises a Chief Information Officer who oversees business and information technology strategic planning, policy development, and implementation. The organizational units directly reporting to this position include the Bureau of Benefits Administration, the Bureau of Communications and Counseling, and the Bureau of Information Management. The position oversees the Bureau of Information Technology through the Chief Information Officer.

Information Technology Office

This office oversees the Bureau of Information Technology and the Business Architecture Center. It is responsible for strategic information technology planning and policy development, ensuring that information technology plans and policies are aligned with, in support of, and prioritized according to agency needs and requirements, as well as those Commonwealth needs and requirements that are consistent with agency needs, and for communicating such to the agency's information technology staff. Large information technology contracts and projects are managed by this office. This office is responsible for understanding, analyzing, documenting, and improving PSERS' organization, business rules, processes, information systems, 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, technologies; and account for its organization business rules and processes, information systems and technologies.

Business Architecture Center

This center serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff. The center receives and responds to data queries from agency staff and investigates system, data, or process problems. This center 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. They look for opportunities for improvement, lead the development of business requirements, and serve as liaisons between PSERS' end-users and information technology staff.

Bureau of Information Technology

This bureau is responsible for planning, coordinating, administering, and implementing information technology resources in accordance with the agency's strategic plans, goals, objectives, and priorities as communicated by PSERS' Chief Information Officer, and for providing operational support for those technologies and initiatives. The bureau is organized into three divisions: The Network, Server, and Database Division, the Business Applications Division, and the Document Archive and Data Capture Division.

Network, Server, and Database Division

This division is responsible for administering those information technology resources that collectively provide the fundamental hardware, software, and network components and services required to support PSERS' various applications.

Business Applications Division

This division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' business applications.

Document Archive, and Data Capture Division

This division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' enterprise archive application software, scanning software, and data capture software, as well as the interfaces of those applications with PSERS' various business applications.

Bureau of Information Management

This bureau is responsible for maintaining, documenting, and cleansing PSERS' member and employer data, managing PSERS' electronic data records, imaged records, paper and film/fiche records, understanding the meaning and knowing the location of its data. The bureau currently includes the Data Stewardship Division which houses PSERS' records management program, and the Data Integrity and Member Accounting sections.

Data Stewardship Division

Staff in this division 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. This division maintains responsibility for PSERS' records management programs.

Bureau of Benefits Administration

This bureau is responsible for administering a comprehensive pension benefits program for PSERS. The bureau provides professional and technical services to individuals who are employed full-time and part-time in one of Pennsylvania's 734 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf. The bureau is organized into three divisions: the Benefit Processing Division, Benefit Policy and Specialized Service Division, and Exception Processing Division.

Benefit Processing Division

This division is responsible for handling a high volume of benefit requests. It houses the Retirement Processing Center and Purchase of Service and Refund Center.

<u>Retirement Processing Center:</u> The Retirement Processing Center determines eligibility and calculates estimated retirement benefits, creates payroll records, and originates the initial benefit payments and direct rollovers. When employers report final salary and service data, staff conduct in-depth reviews of accounts and calculate finalized benefits.

<u>Purchase of Service and Refund Center:</u> The Purchase of Service and Refund Center determines eligibility and calculates the cost to the members and to the employers for the purchase of additional service credit. Staff also process requests to refund contributions and interest from members terminating from the System who at the time of termination are ineligible for a retirement benefit.

Benefit Policy and Specialized Service Division

This division is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. In addition, the division processes the most complex and sensitive benefit requests. Last, the division has a quality assurance program responsible for the review and approval of all benefit payments. It houses the Benefit Policy Center and Specialized Service and Quality Assurance Center.

<u>Benefit Policy Center:</u> The Benefit Policy Center is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. Policy writing involves extensive research into existing laws, regulations and policy as well as impact analysis. Staff coordinate all requests for legal analysis and legal opinions. When unique and/or new calculations are needed, this area works with the agency's consulting actuary. This area also manages the first level of the administrative appeal process which involves presenting recommendations, supporting legal analyses, and relevant documents to the Executive Staff Review Committee. In addition, the center reviews unusual and suspicious salary contracts to ensure only retirement-covered compensation is reported by employers. Last, staff reviews atypical requests for membership eligibility.

Specialized Service and Quality Assurance Center: The Specialized Service and Quality Assurance Center is responsible for both processing the most complex benefit requests and for quality assurance. Much of the work is generated by the review and implementation of portions of Domestic Relations Orders that address the distribution of pension benefits when divorce occurs. This area calculates benefits for members affected by Section 415(b) of the IRS code and is responsible for the calculation of a workers compensation (WC) offset. Last, a team of auditors review and approve all retirement and death benefit calculations, all requests for payment, and all purchase of service calculations.

Exception Processing Division

This division is responsible for a variety of benefit requests which involve manual or special processing. It houses the Manual Processing and Multiple Service Membership Center and the Disability and Death Benefit Center.

Manual Processing and Multiple Service Membership Center: The Manual Processing and Multiple Service Membership Center is responsible for a variety of benefit requests such as frozen annuity calculations, intent to change recalculations, cost of living increases and the calculation of retirement benefits for Multiple Service (MS) members who are retiring from SERS or PSERS. The MS Membership Section processes requests for MS membership eligibility and the calculation of purchase of service requests.

Disability and Death Benefit Center: The Disability and Death Benefit Center handles all requests for disability benefits. Medical examiners work with staff to obtain sufficient and current medical information. Staff are responsible for the review of annual earnings affidavit and for the calculation of both initial and final disability retirement benefits. Staff are also responsible for the payment of death benefits when members die prior to retirement. These payments frequently exceed $1 million and involve extensive communication with beneficiaries, survivors and estate representatives. Last, this area also processes survivor and death benefits when members die subsequent to retirement. Because approximately 5,000 retired members die each year, the center responds to high volumes of requests. The process includes the return of checks issued after death, collection of premium assistance, and the calculation and payment of death benefits.

System Support Center

The System Support Center reports directly to the bureau director and is comprised of a team of management analysts who serve as the bureau's link to information technology (IT). The analysts work closely with IT consultants, the Bureau of Information Technology, the Bureau of Information Management, bureau managers and supervisors to ensure the effectiveness of business processes and the integration of those processes with application systems and other technology resources. They are responsible for project management, training, system design, workflow analysis and user acceptance testing. They participate in implementation of new business processes, new systems and system enhancements. They utilize end-user software to extract routine data and to provide statistical information.

Bureau of Communications and Counseling

This bureau 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. It is organized into two divisions: Field Services Division and Communications Services Division.

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 provide counseling services.

Communications Services Division
This division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web, and various publications. This division houses the Member Service Center, Employer Service Center and Publications Center.

Member Service Center: This center answers the PSERS' telephone system, responding to general inquiries about the benefits and processes of PSERS 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, mass communications to the membership, and presentation material. It also responds to general correspondence and email inquiries.

Assistant Executive Director
This position reports to the Executive Director and may provide assistance to the Executive Director on agency-wide projects. The position administers the Health Options and Premium Assistance Programs in addition to the facilities, human resources, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by the Assistant Executive Director include the Bureau of Administration, the Human Resources Office, and the Health Insurance Office.

Bureau of Administration
This bureau provides facilities, purchasing and contracting, policies and procedures, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions. The bureau is organized into three divisions: the Purchasing and Contracting Division, Administrative Services Division and Security and Business Continuity Division.

Purchasing and Contracting Division
This 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
This division manages building and grounds for the agency both at headquarters and at the regional locations. It provides mail, imaging, and work introduction services to the agency, in addition to asset management, automotive and other administrative services.

Security and Business Continuity Division

This 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.

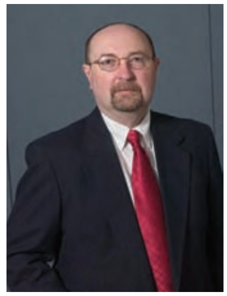
Human Resources Office

This 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 Opportunities and other miscellaneous programs.

Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program (HOP) and administering PSERS' annuitant 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

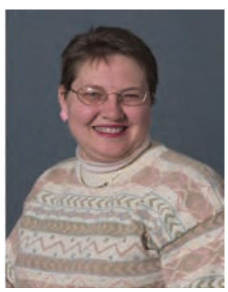
Brian S. Carl
Chief
Financial Officer

Terrill J. Savidge
Deputy Executive
Director

Joseph E. Wasiak
Assistant Executive
Director

Alan H. Van Noord
Chief
Investment Officer

Eugene W. Robison
Director of Communications
& Counseling



Deborah L. Garraway
Director of Information
Management

Donald J. Halke, II
Internal Auditor

Ginger L. Bucher
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

NORTHWEST

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

NORTHCENTRAL

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

NORTHEAST

Market Street Square, Suite 20
33 S Wilkes Barre Blvd.
Wilkes Barre, PA 18702-5144
Local (570) 826-2003
FAX (570) 820-4868
Toll Free 1-888-773-7748 ext. 5375

SOUTHWEST

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

SOUTHEAST

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

CENTRALWEST

636 Scalp Avenue
Johnstown, PA 15904-1640
Local (814) 262-7715
FAX (814) 262-7625
Toll Free 1-888-773-7748 ext. 5875

SOUTHCENTRAL

Three Crossgate Drive
Suite 101
Mechanicsburg, PA 17050-2459
Local (717) 795-9270
FAX (717) 795-9281
Toll Free 1-888-773-7748 ext. 5675

CENTRALEAST

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

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.

FINANCIAL

1983

The System's Comprehensive Annual Financial Report, reviewed by the Government Finance Officers Association of the United States and Canada, was awarded its first *Certificate of Achievement for Excellence in Financial Reporting*. PSERS has won this award for 25 consecutive years, 1983 through 2007.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Public School Employees' Retirement System (PSERS), a component unit of the Commonwealth of Pennsylvania as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the PSERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, PSERS' plan net assets as of June 30, 2008 and 2007, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Required Supplemental Schedules of Funding Progress and Employer Contributions (Schedules 1 and 2) are not a required part of the financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The Supplemental Schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental Schedules 1 through 3 have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

The Chairman's Report, Introductory Section, Investment Section, Actuarial Section and Statistical Section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Chairman's Report and the Introductory, Investment, Actuarial and Statistical Sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
September 25, 2008

Offices in 17 states and Washington, DC

Member of HLB International

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) for the fiscal year ended June 30, 2008, provides a narrative summary of PSERS' financial position and performance, including highlights and comparative data. The MD&A is presented as required supplemental information to the financial statements and should be read in conjunction with the financial statements, the notes to financial statements and the supplementary schedules.

Overview of Financial Statements

PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. PSERS also administers two postemployment healthcare programs, the Health Insurance Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP), for its annuitants. The financial statements present the financial activities for the pension plan and the two postemployment healthcare programs.

The *Statements of Plan Net Assets* provide a snapshot of the financial position of PSERS at June 30, 2008, including comparative amounts for the prior year.

The *Statements of Changes in Plan Net Assets* summarize PSERS' financial activities that occurred during the fiscal period from July 1, 2007 to June 30, 2008, including comparative amounts for the prior year.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements such as accounting policies, with plan membership and benefits and summary disclosures of selected financial data.

The *Required Supplemental Schedules* immediately following the notes to financial statements provide two schedules showing historical information concerning the funded status of PSERS and the employer contributions. These schedules emphasize the long-term nature of the pension and premium assistance plans and show the progress of PSERS in accumulating assets sufficient to pay benefits when due.

The remaining supplemental schedules provide additional detailed information concerning the operating expenses, investment expenses and payments to non-investment consultants. All of this supplemental information is considered useful in understanding and evaluating the financial activities of PSERS.

Financial Highlights

- The rate of return on investments was -2.82% for the fiscal year ended June 30, 2008 (FY 2008), 22.93% for the fiscal year ended June 30, 2007 (FY 2007) and 15.26% for the fiscal year ended June 30, 2006 (FY 2006).

Management's Discussion and Analysis (Continued)

- PSERS' total plan net assets decreased by $4.8 billion from $67.5 billion at June 30, 2007 to $62.7 billion at June 30, 2008. The decrease is primarily attributable to net investment loss and payment of pension benefits and administrative expenses combined that exceeded member and employer contributions. PSERS' total plan net assets increased by $10.1 billion from $57.4 billion at June 30, 2006 to $67.5 billion at June 30, 2007, the highest fiscal year-end total in PSERS' history. The increase was attributed to net investment income and member and employer contributions combined that exceeded the payment of pension benefits and administrative expenses.
- PSERS' funded ratio as of the latest actuarial valuation dated June 30, 2007 increased from 81.2% at June 30, 2006 to 85.8% at June 30, 2007. This is the first increase in the funded ratio since FY 2000. The increase is primarily due to experience gains on assets and liabilities that occurred during the year that were partially offset by contributions less than the normal cost. The primary driver of the experience gains on assets was the favorable investment performance from FY 2003 to FY 2007. The funded ratio at June 30, 2005 was 83.6%.
- Total member contributions increased from $1.0 billion in FY 2007 to $1.04 billion in FY 2008 due to a slight increase in the average member contribution rate and an increase in the active member payroll. Total member contributions also increased from FY 2006 to FY 2007 because of the same factors.
- Total employer contributions increased from $746.3 million in FY 2007 to $834.9 million in FY 2008. The net increase is primarily attributable to an increase in the total employer contribution rate from 6.46% in FY 2007 to 7.13% in FY 2008. Total employer contributions increased from FY 2006 to FY 2007 due to an increase in the total employer contribution rate from 4.69% to 6.46%.
- Total PSERS' benefit expense increased by $600.0 million from $4.3 billion in FY 2007 to $4.9 billion in FY 2008. The increase is primarily attributable to an increase in the number of retirees and beneficiaries currently receiving benefits and an increase in the average benefit paid per annuitant. Benefit expense also increased by $200.0 million from FY 2006 to FY 2007 due to an increase in the number of retirees and beneficiaries currently receiving benefits.
- Total administrative expenses decreased by $1.2 million from $50.5 million in FY 2007 to $49.3 million in FY 2008 primarily due to lower administrative expenses for Premium Assistance and HOP. Administrative expenses increased by $1.9 million between FY 2006 and FY 2007 primarily due to higher administrative expenses for Premium Assistance and HOP. Administrative expenses were within PSERS' budgeted amounts for each of the fiscal years.

Funded Status

PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or

Management's Discussion and Analysis (Continued)

funded status. The most recent actuarial valuation reports that PSERS is 85.8% funded as of June 30, 2007. The results of operations for FY 2008 will be reflected in the actuarial valuation for the year ended June 30, 2008. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the 2008 calendar year and will be reported in the financial statements for the fiscal year ended June 30, 2009 (FY 2009).

Analysis of Plan Net Assets

	(Dollar Amounts in Thousands)				
Summary of Plan Net Assets:	**FY 2008**	Increase (Decrease)	FY 2007	Increase (Decrease)	FY 2006
Assets:					
Receivables	**$ 2,257,692**	$ 490,786	$ 1,766,906	$ 180,343	$ 1,586,563
Investments	**63,892,220**	(4,634,313)	68,526,533	9,807,264	58,719,269
Securities lending collateral pool	**4,846,999**	(3,959,980)	8,806,979	2,469,806	6,337,173
Capital assets	**665**	(205)	870	227	643
Total Assets	**$ 70,997,576**	(8,103,712)	$ 79,101,288	12,457,640	66,643,648
Liabilities:					
Payables and other liabilities	**3,491,953**	720,348	2,771,605	(117,569)	2,889,174
Obligations under securities lending	**4,846,999**	(3,959,980)	8,806,979	2,469,806	6,337,173
Total Liabilities	**8,338,952**	(3,239,632)	11,578,584	2,352,237	9,226,347
Plan Net Assets	**$ 62,658,624**	$ (4,864,080)	$ 67,522,704	$ 10,105,403	$57,417,301
Summary of Changes in Plan Net Assets:					
Additions:					
Contributions	**$ 1,902,436**	$ 128,832	$ 1,773,604	$ 245,874	$ 1,527,730
Net investment income (loss)	**(1,775,585)**	(14,478,306)	12,702,721	4,760,082	7,942,639
Total Additions	**126,851**	(14,349,474)	14,476,325	5,005,956	9,470,369
Deductions:					
Benefit expense	**4,941,681**	621,241	4,320,440	204,575	4,115,865
Administrative expenses	**49,250**	(1,232)	50,482	1,853	48,629
Total Deductions	**4,990,931**	620,009	4,370,922	206,428	4,164,494
Changes in Plan Net Assets	**$ (4,864,080)**	$(14,969,483)	$ 10,105,403	$ 4,799,528	$ 5,305,875

Investments

PSERS is a long-term investor and manages the pension fund with long-term objectives in mind. A primary element of PSERS' investment philosophy is that diversification among various asset classes is the best way to achieve its goals. PSERS makes estimates of future long-term market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

Management's Discussion and Analysis (Continued)

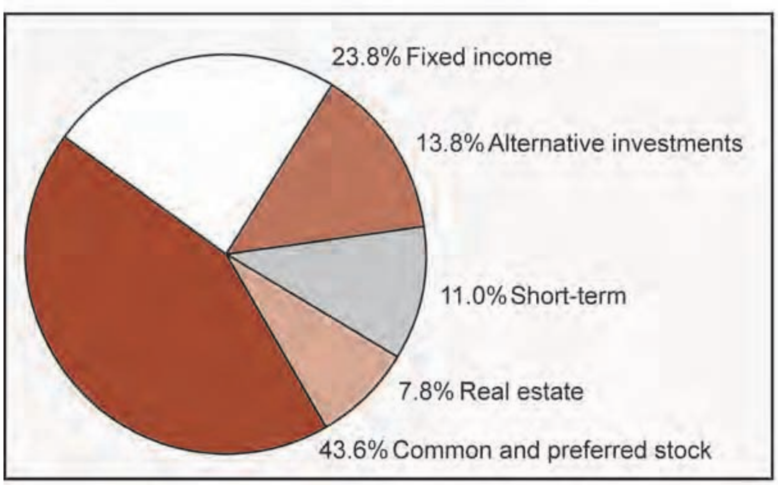
The System had a very challenging fiscal year ended June 30, 2008, as the System generated negative absolute returns. The deflating housing bubble, weakening economy, soaring commodity prices, weakening U.S. dollar, and rising inflation led to negative returns for U.S. and international equity markets and real estate. For FY 2008, PSERS' rate of return on investments was -2.82%. The FY 2008 investment return trailed PSERS' total fund policy index of -1.84% and placed PSERS' performance in the 2nd quartile of the Public Fund Universe prepared by the System's investment consultant, Wilshire Associates Inc. (Wilshire). The annualized rate of return over the past three and five-year periods ended June 30, 2008 was 11.25% and 13.21%, respectively. These returns exceeded the total fund Policy Index returns for the three- and five-year periods ended June 30, 2008 by 208 and 240 basis points, respectively, and placed PSERS performance in the top decile of the Public Fund Universe prepared by Wilshire for both time periods. The annualized rate of return for the ten-year period ended June 30, 2008 was 7.76%. PSERS' long-term actuarial investment rate of return assumption is 8.50%.

The asset distribution of PSERS' investment portfolio at June 30, 2008, June 30, 2007 and June 30, 2006, at fair value, including postemployment healthcare assets, was:

(Dollar Amounts in Thousands)

Asset Class	**2008**	**%**	2007	%	2006	%
Short-term	**$ 7,022,511**	**11.0**	$ 4,164,010	6.1	$ 4,061,926	6.9
Fixed income	**15,176,893**	**23.8**	15,919,998	23.2	13,962,196	23.8
Common and preferred stock	**27,875,324**	**43.6**	38,715,473	56.5	32,951,976	56.1
Real estate	**4,951,840**	**7.8**	3,887,986	5.7	2,542,399	4.3
Alternative investments	**8,865,652**	**13.8**	5,839,066	8.5	5,200,772	8.9
Total	**$ 63,892,220**	**100.0**	$ 68,526,533	100.0	$ 58,719,269	100.0

Asset Distribution At June 30, 2008



Management's Discussion and Analysis (Continued)

Short-term investments (cash and cash equivalents) increased by $2.8 billion from $4.2 billion in FY 2007 to $7.0 billion in FY 2008. The significant rise in short-term investments was primarily due to a few key investment managers shifting a large portion of their direct common and preferred stock holdings to short-term while gaining equity exposure through the use of futures and total return swaps. Fixed income investments decreased by $700.0 million from $15.9 billion in FY 2007 to $15.2 billion in FY 2008 mostly due to allocation decreases to this asset class which were partially offset by several investment managers shifting a portion of their short-term investments to fixed income. Common and preferred stock investments decreased by $10.8 billion from $38.7 billion in FY 2007 to $27.9 billion in FY 2008. This decline was primarily the result of negative returns in the domestic and international equity markets, allocation reductions to the asset class and certain investment managers shifting a substantial portion of their common and preferred stock investments to short-term as described above. Real estate investments increased by $1.1 billion from $3.9 billion in FY 2007 to $5.0 billion in FY 2008 due to net allocation increases to new and existing real estate partnerships which were offset in part by market value depreciation. Alternative investments increased by $3.1 billion from $5.8 billion in FY 2007 to $8.9 billion in FY 2008 due almost entirely to the addition of new investment partnerships and drawdowns of commitments to existing partnerships which were partially offset by distributions.

Short-term investments at the close of FY 2007 increased by $100.0 million from $4.1 billion in FY 2006 to $4.2 billion in FY 2007. Short-term investments remained high as the Fund continued to maintain a portion of its fixed income allocation in cash and cash equivalents due to favorable short-term yields and a relatively flat yield curve at the end of FY 2007. Fixed income investments increased by $1.9 billion from $14.0 billion in FY 2006 to $15.9 billion in FY 2007 due to favorable investment returns partially reinvested in fixed income, additional allocations to the asset class and as the result of several investment managers shifting a portion of their short-term investments to fixed income. Common and preferred stock investments increased by $5.7 billion from $33.0 billion in FY 2006 to $38.7 billion in FY 2007. The increase was primarily due to strong positive returns in the domestic and international equity markets that were reinvested in the asset class. This increase was partially offset by allocation reductions to the asset class during FY 2007 in accordance with PSERS' asset allocation plan. Real estate investments increased by $1.4 billion from $2.5 billion in FY 2006 to $3.9 billion in FY 2007 due to very strong returns and net allocation increases to new and existing real estate partnerships. Alternative investments increased by $600.0 million from $5.2 billion in FY 2006 to $5.8 billion in FY 2007 due to the addition of new investment partnerships, drawdowns of commitments to existing partnerships and market value appreciation.

Securities Lending

Securities lending collateral pool and obligations under securities lending decreased from $8.8 billion in FY 2007 to $4.8 billion in FY 2008 due to a decrease in the amount of securities on loan and a decrease in the use of cash as collateral for securities on loan. Use of non-cash collateral increased from FY 2007 to FY 2008. Non-cash collateral is not reflected in the Statement of Plan Net Assets.

Net Income from securities lending activities increased from $25.9 million in FY 2007 to $48.9 million in FY 2008 due to an increase in the demand for domestic equity securities during volatile markets in FY 2008, an increase in spreads on loans and improved loan efficiencies due to the increased use of automated lending systems by PSERS' lending agent.

Management's Discussion and Analysis (Continued)

Contributions and Investment Income

Employer pension contributions increased by $94.0 million from $659.5 million in FY 2007 to $753.5 million in FY 2008 due to the increase in the employer pension contribution rate from 5.67% in FY 2007 to 6.44% in FY 2008. Employer pension contributions increased from $456.9 million in FY 2006 to $659.5 million in FY 2007 due to the increase in the employer pension contribution rate from 4.00% in FY 2006 to 5.72% in FY 2007. Member pension contributions increased by $24.3 million from $855.3 million in FY 2007 to $879.6 million in FY 2008 as a result of the increase in the total active member payroll and the average member contribution rate increasing from 7.21% in FY 2007 to 7.25% in FY 2008. Member pension contributions increased by $27.7 million from $827.6 million in FY 2006 to $855.3 million in FY 2007 due to an increase in the total active member payroll and the average member contribution rate increase from 7.16% in FY 2006 to 7.21% in FY 2007. The employer contributions for health insurance premium assistance decreased by $5.5 million from $86.8 million in FY 2007 to $81.3 million in FY 2008 due to the decrease in the employer health insurance premium assistance contribution rate from 0.74% in FY 2007 to 0.69% in FY 2008. Contributions from the Centers for Medicare and Medicaid Services (CMS) increased from $27.8 million in FY 2007 to $28.4 million in FY 2008.

Net investment income (loss) decreased by $14.5 billion from $12.7 billion in FY 2007 to ($1.8) billion in FY 2008, which correlates to the decrease in the investment rate of return from 22.93% for FY 2007 to -2.82% for FY 2008. The annual investment returns for FY 2007 and FY 2006 were strong at 22.93% and 15.26%, respectively. Net investment income (loss) also includes investment expenses as a deduction. The "Total PSERS Benefits and Expenses" section that follows includes an analysis of investment expenses.

In the 2003 actuarial valuation, the employer contribution rate was projected to sharply increase to 27.73% of payroll for the 2012-2013 fiscal year. In the subsequent time period, PSERS has experienced a strong five-year performance in its investment returns. Despite the -2.82% return for FY 2008, PSERS return for the five years ended June 30, 2008 was 13.21%. Factoring in this strong investment performance over the past five years, the 2012-2013 employer contribution rate projection is expected to be below 17.00% of payroll upon completion of the 2008 actuarial valuation. The sub-17.00% of payroll rate represents a substantial improvement over the original projection of 27.73% of payroll.

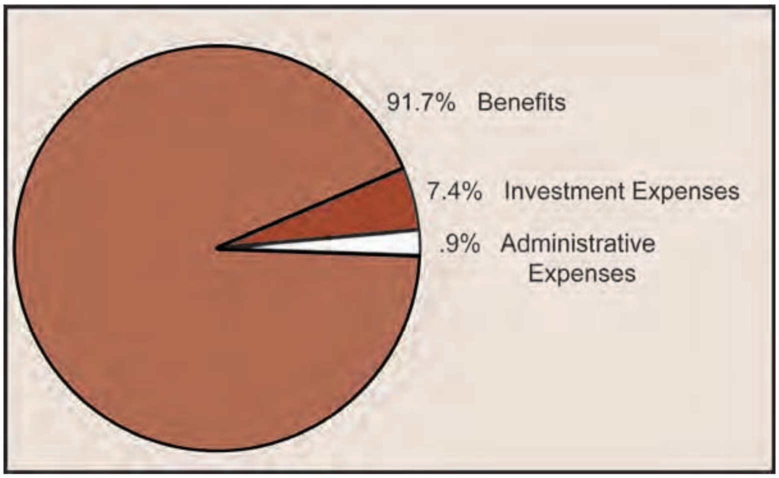
Total PSERS' Benefits and Expenses

The primary source of expense during FY 2008 was for the payment of benefits totaling $4.9 billion. This compares to benefit expense of $4.3 billion during FY 2007 and $4.1 billion for FY 2006. Benefits expense increased in FY 2008 and FY 2007 due to an increase in the number of annuitants each year and an increase in the average benefit payment per annuitant. Investment expenses increased by $85.3 million from $313.8 million in FY 2007 to $399.1 million in FY 2008 due primarily to an increase in management fees in private markets. The higher fees were almost entirely a result of new investments made in alternative investment and real estate partnerships during FY 2008. Investment expenses increased by $102.5 million from $211.3 million in FY 2006 to $313.8 in FY 2007 due primarily to increased manager fees in public and private markets. The higher fees were due to increases in the total Fund value as well as new investments in various

Management's Discussion and Analysis (Continued)

portable alpha strategies and private market partnerships, which have higher manager fees. Investment expenses are reported as a reduction in net investment income (loss) on the Statements of Changes in Plan Net Assets. Administrative expenses decreased by $1.2 million from $50.5 million during FY 2007 compared to $49.3 million during FY 2008. The decrease was due to lower administrative expenses for Premium Assistance and HOP. Administrative expenses for FY 2006 totaled $48.6 million.

Total PSERS' Benefits and Expenses
Fiscal Year Ended June 30, 2008



Statements of Plan Net Assets

June 30, 2008 and 2007

(Dollar Amounts in Thousands)

	2008			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 253,356	$ 1,076	$ 55	$ 254,487
Employers	269,581	26,878	-	296,459
Investment income	238,484	199	176	238,859
Investment proceeds	1,464,272	-	-	1,464,272
Miscellaneous	2,518	1,052	45	3,615
Total Receivables	2,228,211	29,205	276	2,257,692
Investments, at fair value:				
Short-term	6,840,770	67,400	114,341	7,022,511
Fixed income	15,176,893	-	-	15,176,893
Common and preferred stock	27,875,324	-	-	27,875,324
Real estate	4,951,840	-	-	4,951,840
Alternative investments	8,865,652	-	-	8,865,652
Total Investments	63,710,479	67,400	114,341	63,892,220
Securities lending collateral pool	4,846,999	-	-	4,846,999
Capital assets (net of accumulated depreciation of $10,789)	665	-	-	665
Total Assets	70,786,354	96,605	114,617	70,997,576
Liabilities:				
Accounts payable and accrued expenses	84,108	332	2,929	87,369
Benefits payable	490,692	488	8,190	499,370
Premium advances	-	-	14,085	14,085
Investment purchases and other liabilities	2,891,129	-	-	2,891,129
Obligations under securities lending	4,846,999	-	-	4,846,999
Total Liabilities	8,312,928	820	25,204	8,338,952
Net assets held in trust for pension and postemployment healthcare benefits (Schedules of funding progress are presented on Required Supplemental Schedule 1)	$62,473,426	$ 95,785	$ 89,413	$62,658,624

The accompanying notes are an integral part of the financial statements.

Statements of Plan Net Assets

June 30, 2008 and 2007

(Dollar Amounts in Thousands)

	2007			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 256,932	$ 545	$ 77	$ 257,554
Employers	234,947	28,152	-	263,099
Investment income	229,320	387	401	230,108
Investment proceeds	1,013,317	-	-	1,013,317
Miscellaneous	2,802	26	-	2,828
Total Receivables	1,737,318	29,110	478	1,766,906
Investments, at fair value:				
Short-term	3,983,285	68,869	111,856	4,164,010
Fixed income	15,919,998	-	-	15,919,998
Common and preferred stock	38,715,473	-	-	38,715,473
Real estate	3,887,986	-	-	3,887,986
Alternative investments	5,839,066	-	-	5,839,066
Total Investments	68,345,808	68,869	111,856	68,526,533
Securities lending collateral pool	8,806,979	-	-	8,806,979
Capital assets (net of accumulated depreciation of $10,656)	870	-	-	870
Total Assets	78,890,975	97,979	112,334	79,101,288
Liabilities:				
Accounts payable and accrued expenses	78,742	292	1,404	80,438
Benefits payable	201,916	395	11,913	214,224
Premium advances	-	-	14,602	14,602
Investment purchases and other liabilities	2,462,341	-	-	2,462,341
Obligations under securities lending	8,806,979	-	-	8,806,979
Total Liabilities	11,549,978	687	27,919	11,578,584
Net assets held in trust for pension and postemployment healthcare benefits (Schedules of funding progress are presented on Required Supplemental Schedule 1)	$67,340,997	$ 97,292	$ 84,415	$67,522,704

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2008 and 2007

(Dollar Amounts in Thousands)

	2008			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 879,598	$ -	$ 159,563	$ 1,039,161
Employers	753,532	81,317	-	834,849
Centers for Medicare & Medicaid Services	-	-	28,426	28,426
Total contributions	1,633,130	81,317	187,989	1,902,436
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	(3,763,649)	268	-	(3,763,381)
Short-term	204,577	2,525	4,288	211,390
Fixed income	758,142	-	-	758,142
Common and preferred stock	763,615	-	-	763,615
Real estate	437,880	-	-	437,880
Alternative investments	167,052	-	-	167,052
Total investment activity income (loss)	(1,432,383)	2,793	4,288	(1,425,302)
Investment expenses	(399,098)	(38)	-	(399,136)
Net income (loss) from investing activities	(1,831,481)	2,755	4,288	(1,824,438)
From securities lending activities:				
Securities lending income	319,107	-	-	319,107
Securities lending expense	(270,254)	-	-	(270,254)
Net income from securities lending activities	48,853	-	-	48,853
Total net investment income (loss)	(1,782,628)	2,755	4,288	(1,775,585)
Total Additions	(149,498)	84,072	192,277	126,851
Deductions:				
Benefits	4,636,340	84,335	175,136	4,895,811
Refunds of contributions	28,713	-	-	28,713
Net transfer to State Employees' Retirement System	17,157	-	-	17,157
Administrative expenses	35,863	1,244	12,143	49,250
Total Deductions	4,718,073	85,579	187,279	4,990,931
Net increase (decrease)	(4,867,571)	(1,507)	4,998	(4,864,080)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	67,340,997	97,292	84,415	67,522,704
Balance, end of year	$ 62,473,426	$ 95,785	$ 89,413	$ 62,658,624

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2008 and 2007

(Dollar Amounts in Thousands)

	2007			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 855,322	$ -	$ 144,185	$ 999,507
Employers	659,545	86,763	-	746,308
Centers for Medicare & Medicaid Services	-	-	27,789	27,789
Total contributions	1,514,867	86,763	171,974	1,773,604
Investment income:				
From investing activities:				
Net appreciation in fair value of investments	10,457,473	88	-	10,457,561
Short-term	181,462	2,517	5,821	189,800
Fixed income	713,257	-	-	713,257
Common and preferred stock	1,019,322	-	-	1,019,322
Real estate	334,264	-	-	334,264
Alternative investments	276,350	-	-	276,350
Total investment activity income	12,982,128	2,605	5,821	12,990,554
Investment expenses	(313,726)	(32)	-	(313,758)
Net income from investing activities	12,668,402	2,573	5,821	12,676,796
From securities lending activities:				
Securities lending income	419,762	-	-	419,762
Securities lending expense	(393,837)	-	-	(393,837)
Net income from securities lending activities	25,925	-	-	25,925
Total net investment income	12,694,327	2,573	5,821	12,702,721
Total Additions	14,209,194	89,336	177,795	14,476,325
Deductions:				
Benefits	4,044,435	82,031	169,784	4,296,250
Refunds of contributions	18,180	-	-	18,180
Net transfer to State Employees' Retirement System	6,010	-	-	6,010
Administrative expenses	35,239	2,790	12,453	50,482
Total Deductions	4,103,864	84,821	182,237	4,370,922
Net increase (decrease)	10,105,330	4,515	(4,442)	10,105,403
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	57,235,667	92,777	88,857	57,417,301
Balance, end of year	$ 67,340,997	$ 97,292	$ 84,415	$ 67,522,704

The accompanying notes are an integral part of the financial statements.

Notes To Financial Statements

June 30, 2008 and 2007

1. Organization and Description of the System

(A) Organization

The System was established on July 18, 1917, under the provisions of Pamphlet Law 1043, No. 343 as a governmental cost-sharing multiple-employer plan that provides retirement allowances and other benefits to its members. Membership in the System is mandatory for nearly all qualifying public school employees in the Commonwealth of Pennsylvania (Commonwealth). At June 30, 2008, there were 739 participating employers, generally school districts. Membership as of June 30, 2007, the most recent year for which actual amounts are available, consisted of:

Currently employed members:		
Vested	175,000	
Nonvested	89,000	
Total currently employed members		**264,000**
Retirees and beneficiaries currently receiving benefits	168,000	
Inactive members and vestees entitled to but not receiving benefits	109,000	
Total retirees and other members		**277,000**
Total number of members		**541,000**

All members are fully vested in their individual balance in the Members' Savings Account which is described in Note 3.

The System is established by state law as an independent administrative board of the Commonwealth, which is directed by the Public School Employees' Retirement Board (the Board) that exercises control and management of the System, including the investment of its assets. The System's board has fifteen members including the Commonwealth's Secretary of Education, the State Treasurer, the Executive Director of the Pennsylvania School Boards Association, two members appointed by the Governor, six elected members (three from among the System's certified members, one from among the System's noncertified members, one from among the System's annuitants, and one from among school board members in Pennsylvania), two members from the Senate, and two members from the House of Representatives.

The State Treasurer is the custodian of the System's fund. The retirement plan of the System is a contributory defined benefit plan for which the benefit payments to members and contribution provisions by employers and employees are specified in the Pennsylvania Public School Employees' Retirement Code (the Code). Changes in benefit and contribution provisions for the retirement plan must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the System's retirement plan are to be accompanied with an actuarial note prepared by an enrolled pension actuary providing an estimate of the cost and actuarial effect of the proposed change.

Based upon criterion of financial accountability as defined by governmental accounting standards, the System is considered a component unit of the Commonwealth of Pennsylvania financial reporting entity and is included in the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania.

Notes to Financial Statements (Continued)

(B) Pension Plan

i. Pension Benefits

Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service: (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age.

Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. In most cases after completion of five years of service, a member's right to the defined benefit is vested and early retirement benefits may be elected. Under certain features of the System, active members may purchase credit for various types of prior school and non-school service on a lump-sum, installment purchase basis, or through an actuarially calculated benefit reduction.

In addition to regular retirement benefits, the System also provides for disability retirement benefits and death benefits. Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits. Certain exceptions apply to normal disability retirements.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least five years of credited service. Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Members with credited service in the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) may elect to transfer service to the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service to SERS upon becoming a member of that system.

Upon termination of a member's employment in the public school sector, the member's accumulated contributions plus interest are refundable from the Members' Savings Account which is described in Note 3.

ii. Contributions

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth. The System's funding policy provides for periodic employer and Commonwealth contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay retirement benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This method determines the amount of contributions necessary to (1) fully fund all current costs, which represents the estimated amount necessary to

Notes to Financial Statements (Continued)

pay for the benefits earned by the employees during the current service year; and (2) liquidate the prior service cost for service earned prior to the current service year and subsequent benefit increases, which represents the amount necessary to fund accrued liabilities over the appropriate amortization periods.

Contribution rates for active members are set by law (redefined with the provisions of Act 9 of 2001) and are dependent upon members' class. In most cases, the contribution rates based on qualified member compensation are as follows:

Membership Class T-C	Active members hired before July 22, 1983	5.25%
Membership Class T-C	Active members hired on or after July 22, 1983	6.25%
Membership Class T-D	Active members hired before July 22, 1983	6.50%
Membership Class T-D	Active members hired on or after July 22, 1983	7.50%

Active members newly hired after July 1, 2001, the effective date of Act 9 of 2001, are automatically Class T-D. The contribution rates for all members in Membership Class T-D were effective January 1, 2002.

The total contribution rate for the employers and the Commonwealth was 7.13% and 6.46% of qualified compensation for the years ended June 30, 2008 and 2007, respectively. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. The Commonwealth remits employer contributions for employers other than school entities directly to the System. All contributions from employers and the Commonwealth are shown as employer contributions on the Statements of Changes in Plan Net Assets.

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of the health insurance premium assistance program. The premium assistance contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance payments for all participating eligible members for the subsequent fiscal year. The portion of the total contribution rate for employers and the Commonwealth used to fund premium assistance was 0.69% and 0.74% for the years ended June 30, 2008 and 2007, respectively.

iii. Funding Status and Annual Required Contributions (ARC)

As of June 30, 2007, the most recent actuarial valuation, the plan was 85.8% funded. The actuarial accrued liability for benefits was $66.5 billion, and the actuarial value of assets was $57.1 billion, resulting in an unfunded accrued liability of $9.4 billion. The covered payroll of active members was $11.4 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 82.7%

For fiscal year ended June 30, 2008, the ARC was $1.85 billion. The actual employer contributions for fiscal year ended June 30, 2008 was $753.5 million resulting in a 41% contributed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions included as Required Supplemental Information following the notes to the financial statements provide multiyear presentations of funding status and ARC to illustrate their trends over time.

Notes to Financial Statements (Continued)

iv. Actuarial Assumptions and Methods

(a) Funding Method

For purposes of determining pension contributions under the PSERS Code, the entry-age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. The outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, beginning July 1, 2002. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 were both recognized at June 30, 2002 and continue to be amortized over a 10-year period, with level dollar funding starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2001 and June 30, 2002, including the Act 9 benefit changes, are amortized over a 30-year period, with level dollar funding starting on July 1, 2002, and July 1, 2003, respectively. Post June 30, 2002 gains and losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 30-year period with level dollar funding. In addition Act 40 also provided a 4.00% floor on the employer pension rate.

For purposes of determining the annual required contributions under GASB 25, the same funding method is used as for pension funding, except that (i) the 4% pension floor is not taken into account and (ii) in fiscal years in which the amortization requirements of the PSERS Code result in an equivalent single amortization period that is longer than the maximum allowable period specified by GASB 25 (40 years for fiscal years ending on or before June 30, 2006; and 30 years for subsequent fiscal years), the GASB 25 amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period equal to the maximum allowable period specified by GASB 25. For the fiscal year ended June 30, 2007, a 30 year level dollar open amortization method was used.

(b) Asset Valuation Method

For actuarial purposes, assets are valued using a five-year moving market average value that will recognize the 8.5% actuarial expected investment return immediately and spread the difference between actual and expected investment return (beginning with fiscal year ending June 30, 2001) over a period of five years (adopted as of June 30, 2001). Previously, PSERS immediately recognized interest and dividends when earned, and recognized realized and unrealized gains and losses on the market value of assets over a three-year period.

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007, the date of the most recent actuarial valuation include:

Notes to Financial Statements (Continued)

- Investment return – 8.5%, includes inflation at 3.25%
- Salary increases – 6.00%, which reflects an allowance for inflation of 3.25%, national productivity of 1%, and merit or seniority increases of 1.75%
- Amortization method – level dollar funding
- Benefit payments – no postretirement benefit increases assumed in the future
- Multiple Decrement Tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

The System's actuarial values are calculated separately for retirees and beneficiaries and for active and inactive members. The actuarial present value of benefits to be paid to retirees and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The Reserve for Retirement Account with interest credited thereon at an annual rate of 5.50% is compared to the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries and any deficiency is then funded by a transfer from the State Accumulation Account. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry-age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Members' Savings Account, State Accumulation Account and the fair value adjustment are subtracted from this present value to arrive at the funded or unfunded actuarial accrued liability.

(C) Postemployment Healthcare Plans

i. Health Insurance Premium Assistance Program

(a) Health Insurance Premium Assistance Benefits

The System provides a Health Insurance Premium Assistance Program (premium assistance) for all eligible annuitants who qualify or elect to participate. Under this program, employer contribution rates for premium assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP).

Notes to Financial Statements (Continued)

(b) Funding Status and Annual Required Contributions (ARC)

As of June 30, 2007, the most recent actuarial valuation, the plan was 9.2% funded. The actuarial accrued liability for benefits was $1.1 billion, and the actuarial value of assets was $97.3 million, resulting in an unfunded accrued liability of $1.0 billion. The covered payroll of active members was $11.4 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.4%.

For fiscal year ended June 30, 2008, the ARC was $101.4 million. The actual employer contributions for fiscal year ended June 30, 2008 was $81.3 million resulting in a 80% contributed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions included as Required Supplemental Information following the notes to the financial statements provide multiyear presentations of funding status and ARC to illustrate their trends over time.

(c) Actuarial Assumptions and Methods

The health insurance liability and funding provisions of the PSERS Code differ from the GASB disclosure requirements. As a result, there are different determinations of actuarial liability and contribution requirements for GASB accounting purposes and for Commonwealth funding purposes. For purposes of funding, the actuarial liability equals the assets in the health insurance account, and the contribution required is the amount necessary to establish reserves sufficient to provide premium assistance payments to all participating eligible annuitants during the fiscal year that immediately follows the year the employer contribution is made. For GASB accounting purposes, the actuarial liability has been determined under the entry age actuarial cost method, and the ARC is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years. The entry age actuarial cost method was selected for this calculation because it meets the GASB parameters for determining actuarial liability and normal cost, and is the cost method specified by the PSERS Code for the PSERS pension plan.

ii. Health Insurance Program (HOP)

The HOP is a PSERS-sponsored voluntary health insurance program for the sole benefit of annuitants of PSERS, spouses of annuitants, survivor annuitants and their dependents. Benefits are provided by managed care providers or by PSERS self-funded fee for service plans. All retirees are eligible to participate in the Enhanced or Basic Options (indemnity plans) regardless of their residence. The managed care plans are available to retirees residing in the plan’s service area. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect. The hospital, medical/surgical and major medical benefits of the Enhanced and Basic Options are self-funded. PSERS uses a third-party administrator to process these claims. An independent actuarial consulting firm sets the rates for the self-funded benefits so that the combination of contributions and the claims fluctuation reserve equal 125% of expected annual incurred claims. The HOP maintains a reserve for claims that are incurred but not reported (IBNR).

Notes to Financial Statements (Continued)

At June 30, 2008 and 2007, PSERS recorded $11,143,000 and $10,665,000, respectively, in IBNR which is included in benefits payable.

Effective January 1, 2006, PSERS made significant changes to HOP, in response to the Medicare Modernization Act. PSERS entered into an Employer/Union Entity contract with the Centers for Medicare and Medicaid Services to operate a voluntary Medicare Prescription Drug Plan (PDP). Monthly contributions are received from CMS covering the 38,600 participants in the PDP. The PSERS pension fund assets are not available to fund or satisfy obligations of the HOP.

2. Summary of Significant Accounting Policies

(A) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period for which employees' salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions in plan net assets during the reporting period. Actual results could differ from those estimates.

(B) Investments

The System's investments are reported at fair value. Fair value is the amount that the System can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national security exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of the projected future net income stream. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2008 and 2007, $132,000,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 14, 2009. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 40 basis points and is collateralized by certain fixed income investments of the System.

Notes to Financial Statements (Continued)

For alternative investments which include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which the Securities and Exchange Commission has regulatory oversight.

Investment expenses consist of investment manager fees and those administrative expenses directly related to the System's investment operations. Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are included in investment purchases and other liabilities.

(C) Capital Assets

Capital assets, consisting primarily of data processing equipment and software, are recorded at historical cost. The System depreciates capital assets using the straight-line method over an estimated useful life of seven years.

(D) Benefits Payable

Benefits payable identifies the obligations of the System, on an accrual basis, for the estimated retirement and death benefits payable to PSERS' members or members' beneficiaries at the end of the fiscal year. It also includes the HOP $11,143,000 IBNR claims reserve as well as the offsetting prescription drug rebate in the amount of $5,700,000.

(E) Compensated Absences

The System uses the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employees of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 2008 and 2007, $3,013,000 and $2,762,000, respectively, was accrued for unused vacation and sick leave for the System's employees and included in "Accounts payable and accrued expenses" on the Statements of Plan Net Assets.

Notes to Financial Statements (Continued)

(F) Participant Premium Advances

Premium advances in 2008 are for HOP premiums related to health care coverage to be provided in 2008. Premium advances in 2007 are for HOP and CMS premiums related to health care coverage and prescription drug coverage provided in 2007.

(G) Federal Income Taxes

The Internal Revenue Service (IRS) issued a determination letter dated March 3, 1978 which stated that the plan and its underlying trust qualify under the provisions of Section 501(a) of the *Internal Revenue Code* (IRC) and therefore are exempt from federal income taxes. The plan has been amended since receiving that determination letter. Additionally, the IRS issued a 1982 ruling which concluded that the fund and the board are integral parts of the Commonwealth, and are therefore not subject to federal income tax. In the opinion of management, the System has operated within the terms of the plan and remains qualified under the applicable provisions of the IRC.

Federal tax legislation was enacted in 2001 that modified the rules for making rollovers to or from pension systems and also established maximum amounts of retirement benefits that can be paid from pension systems. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expanded the opportunity for members to roll over funds received from PSERS at retirement to a wider variety of plans including, but not limited to, 403(b) tax sheltered annuities and government sponsored 457 deferred compensation plans. The Act permits the rollover of after-tax contributions from PSERS. EGTRRA provided for periodic increases in the annual compensation limits for qualified retirement plans.

The annual compensation limits for 2007 and 2008 were $225,000 and $230,000, respectively. EGTRRA also provided for periodic increases in the annual benefit limits for qualified defined benefit plans. The maximum annual defined benefit limits at age 62 for 2007 and 2008 were $180,000 and $185,000, respectively.

(H) Risk Management

The System is exposed to various liabilities and risks of loss, including, without limitation, the ordinary risks of investment losses, risks related to theft or destruction of assets, liabilities resulting from injuries to employees, and liabilities resulting from court challenges to fiduciary decisions. As an administrative agency of the Commonwealth of Pennsylvania, the System is accorded sovereign immunity. For claims not shielded by sovereign immunity, the System participates in certain Commonwealth pooled insurance programs and requires asset managers to carry certain insurance coverage for the protection of the System. The System has implemented a self-insurance program for fiduciary and director and officer liability coverage. During the past three fiscal years, insurance settlements did not exceed insurance coverage.

(I) Reclassifications

Certain 2007 amounts have been reclassified in conformity with the 2008 presentation.

Notes to Financial Statements (Continued)

(J) Members Receivables

Member's receivables include an amount for members' obligations to the System for the purchase of service credit in the amount of $166,951,874. Members have a variety of options to remit purchase of service payments:

- Remit a lump sum payment.
- Request an installment plan from one to seven years where the member's employer establishes a payroll deduction process. The member's employer then forwards quarterly payments of the withheld amounts to PSERS.
- Accept an actuarial reduction debt through which the amount of the purchase plus accumulated interest will reduce the member's retirement or death benefit.
- Rollover funds from an eligible distribution.

Because members have control over the timing of their remittances to the System, many purchases of service receivables extend beyond one year. An estimated $152,000,000 of the $253,356,000 members pension receivables at June 30, 2008 are expected to be collected by the System subsequent to June 30, 2009.

(K) Adoption of New Accounting Standards

During the year ended June 30, 2007 the System adopted Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 43"). GASB 43 established reporting standards for the annual financial reports of postemployment benefit plans other than pension plans. These reporting requirements apply to the Health Insurance Premium Assistance Program. The adoption of GASB 43 required the System to include disclosures for premium assistance in the Required Supplemental Information's Schedule of Funding Progress and Schedule of Employer Contributions.

In June 2004 the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("GASB 45"). GASB 45 changed how Other Postemployment benefits (OPEB) costs are reported by employer governments, charging employer OPEB costs during the periods when employees render services. The System adopted this Statement during the year ended June 30, 2008.

During the year ended June 30, 2008 the System adopted Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures,* an amendment of GASB statements 25 and 27 ("GASB 50"). GASB 50 was issued by the Governmental Accounting Standards Board to amend financial statement note disclosures and required supplementary information for pension plans to be consistent with applicable standards under GASB 43 and GASB 45.

Notes to Financial Statements (Continued)

3. Description of Accounts

The Code requires the System to maintain the following accounts which represent reserves held for future and current benefit payments as follows:

(A) State Accumulation Account

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of the System (after crediting the Members' Savings Account with 4% interest and the reserve for retirement with 5.50% statutory interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement, disabilities, and death benefits, are transferred from the State Accumulation Account to the Reserve for Retirement Account increasing the reserve credit to the 8.5% valuation assumption rate determined by the actuary. All administrative expenses necessary for the operation of the System, except for premium assistance and HOP expenses, are paid from the State Accumulation Account.

(B) Members' Savings Account

The Members' Savings Account is credited with all contributions made by active members of the System. Interest is added to the member's individual account at an annual rate of 4%.

Upon death or retirement of a member, the accumulated contributions plus interest are transferred to the Reserve for Retirement Account for subsequent payment of benefits.

(C) Reserve for Retirement Account

The Reserve for Retirement Account represents the amounts transferred from the Members' Savings and State Accumulation Accounts, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities and cost-of-living increases. All death, disability, and retirement benefits are paid from this account. Annual interest of 5.50% is credited to the Reserve for Retirement Account.

(D) Health Insurance Account

The Health Insurance Account is credited with contributions of the Commonwealth and the employers for the health insurance premium assistance program. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. The Health Insurance Account pays all administrative expenses necessary to operate the health insurance premium assistance program.

(E) Health Insurance Program Account

The Health Insurance Program Account is credited with contributions from members of the HOP and from CMS. All benefits related to the HOP (premium payments to the insurance companies and self-funded benefits) are paid from this account. The Health Insurance Program Account pays all administrative expenses necessary to operate the HOP.

Notes to Financial Statements (Continued)

(F) Pension and Postemployment Healthcare Net Assets

Net assets held in trust for pension and postemployment healthcare benefits at June 30 follows:

	(Dollar Amounts in Thousands)	
	2008	2007
Pension:		
State accumulation account	**$ 16,392,728**	$ 25,839,716
Members' savings account	**10,532,683**	10,183,433
Reserve for retirement account	**35,548,015**	31,317,848
	$ 62,473,426	$ 67,340,997
Postemployment healthcare:		
Health insurance account	**$ 95,785**	$ 97,292
Health insurance program account	**89,413**	84,415
	$ 185,198	$ 181,707

4. Investments

(A) Summary of Investments

The Board has the responsibility to invest and reinvest available funds of the System in accordance with the guidelines and limitations set forth in the Code and other applicable state law. The Board accomplishes the daily management of the System's investments through investment advisors who act as agents for the System and through internal investment managers.

The Board invests the funds of the System using the Prudent Investor Standard, as articulated in the Code, which means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital". The Board has adopted its investment policy to formally document investment objectives and responsibilities. This policy, as well as applicable state law, establishes guidelines for permissible investments of the System.

Notes to Financial Statements (Continued)

A summary of the fair value of investments at June 30 follows:

	(Dollar Amounts in Thousands)	
	2008	2007
Pension investments:		
Short-term:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 2,405,509**	$ 3,148,246
Other domestic short-term	**3,955,811**	724,343
International short-term	**479,450**	110,696
	6,840,770	3,983,285
Fixed income:		
Domestic mortgage-backed securities	**5,389,010**	6,190,646
U.S. government and agency obligations	**1,785,467**	2,608,384
Domestic corporate and taxable municipal bonds	**3,277,625**	3,633,248
Miscellaneous domestic fixed income	**290,847**	150,039
Collective trust funds	**2,294,869**	1,202,848
International fixed income	**2,139,075**	2,134,833
	15,176,893	15,919,998
Common and preferred stock:		
Domestic common and preferred stock	**8,995,463**	15,185,715
Collective trust funds	**4,808,851**	4,564,836
International common and preferred stock	**14,071,010**	18,964,922
	27,875,324	38,715,473
Real estate:		
Equity real estate	**4,673,806**	3,566,959
Directly-owned real estate	**278,034**	321,027
	4,951,840	3,887,986
Alternative investments:		
Private equity	**5,752,298**	4,140,276
Private debt	**2,371,506**	1,093,256
Venture capital	**741,848**	605,534
	8,865,652	5,839,066
Pension investments at fair value	**$63,710,479**	$68,345,808
Postemployment Healthcare investments:		
Premium Assistance:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 19,627**	$ 21,363
Other domestic short-term	**47,773**	47,506
	67,400	68,869
Health Options Program:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**60,962**	66,538
Other domestic short-term	**53,379**	45,318
	114,341	111,856
Postemployment Healthcare investments at fair value	**$ 181,741**	$ 180,725

Notes to Financial Statements (Continued)

(B) Deposit and Investment Risk Disclosures

i. Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System would not be able to recover the value of the deposits. The State Treasury Department is the custodian of the System's fund. State Treasury Department deposits must be held in insured depositories approved by the Commonwealth's Board of Finance and Revenue and must be fully collateralized.

The System, through its third party administrator, maintains certain bank deposits for the operation of its voluntary health insurance program. These deposits are not required to be collateralized by statute or policy. These deposits totaled $53,379,000 and $45,318,000 at June 30, 2008 and 2007, respectively, and are under the custody of M&T Bank which has an A- Deposit/ Debt rating by Standard and Poor's (S&P) and an A2 rating by Moody's Investor Services (Moody's).

ii. Investment Risks

The System's investments may be subject to various risks. Among these risks are concentration of credit risk, custodial credit risk, credit risk, interest rate risk, and foreign currency risk. The policies addressing each one of these risks, discussed in more detail below, are contained within the Investment Policy Statement, Objectives, and Guidelines reviewed and approved annually by the Board. Due to the level of risk associated with certain investments, it is possible that changes in the values of investments may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Plan Net Assets.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2008 and 2007 the System has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with a contractual relationship between the Commonwealth's Treasury Department and its custodial agent, substantially all investments, where securities are used as evidence of the investment, are held by the custodian in book-entry form in the System's name. Those investments are defined as insured or registered investments for which the securities are held by the System or its agent and, therefore, have very minimal level of custodial credit risk. The remaining investments, which do not have securities that are used as evidence of the investment, are primarily in collective trust funds and limited partnerships, which include real estate and alternative investments.

Notes to Financial Statements (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating organizations (NRSRO) such as Fitch Investor Services (Fitch), Moody's, and S&P. Annually, the Board establishes an asset allocation plan. This plan manages the overall credit risk of the fixed income asset class through a clearly defined long-term asset allocation policy. This policy establishes a long-term target allocation of the fixed income asset class at 22% of the investment portfolio. The fixed income target allocation consists of:

- An allocation of 13.0% of the portfolio has been made to the domestic core plus and high yield segments of the fixed income asset class benchmarked to the Lehman Brothers U.S. Universal Index. The domestic core plus allocation is composed of primarily investment grade, relatively liquid, public domestic bonds with an overall weighted-average NRSRO credit rating of A or better while the high yield allocation focuses on less liquid public non-investment grade fixed income securities with an overall weighted-average NRSRO credit rating of BB+ or less;
- An allocation of 5% of the portfolio has been made to the Treasury Inflation-Protected Securities (TIPS) segment of the fixed income asset class benchmarked to the Lehman U.S. TIPS Index and composed of primarily government issued TIPS with an overall weighted-average NRSRO credit rating of AA or better;
- An allocation of 4.0% of the portfolio has been made to the global core plus fixed income asset class benchmarked to the Lehman Brothers Multiverse Index composed of primarily investment grade, relatively liquid U.S. and non-U.S. public bonds with an overall weighted-average NRSRO credit rating of A or better.

The following table discloses aggregate market value by credit quality rating category. Many securities have ratings from more than one NRSRO and sometimes those ratings differ from one NRSRO to another. The data listed below uses the rating (expressed as S&P equivalent); available from Fitch, Moody's and/or S&P that indicates the greatest degree of risk at June 30, 2008 and 2007.

	(Dollar Amounts in Thousands)	
Quality Rating	**2008 Fair Value**	2007 Fair Value
AAA	**$ 8,436,260**	$ 7,608,036
AA	**1,435,628**	907,907
A	**1,824,267**	1,254,699
BBB	**1,593,709**	1,291,445
BB and below	**904,053**	957,173
NR*	**5,748,497**	5,206,707
Total Exposed to Credit Risk	**19,942,414**	17,225,967
U.S. Government Guaranteed**	**2,256,990**	2,858,041
Total Fixed Income and Short-Term Investments	**$ 22,199,404**	$ 20,084,008

Notes to Financial Statements (Continued)

* Not Rated securities include $2,294,869 and $1,202,848 in collective trust funds at June 30, 2008 and 2007, respectively. Also included are $2,486,098 and $3,236,147 at June 30, 2008 and 2007, respectively, in the Pennsylvania (PA) Treasury Domestic Short-Term Investment Fund (STIF), a pooled investment fund for which ratings were unavailable. The STIF pool is comprised of short-term, high credit quality securities which are mainly U.S. Treasuries, agencies or repurchase agreements.

**Comprised of U.S. government and agency obligations explicity guaranteed by the U.S. government and not considered to have credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The System manages its interest rate risk by diversifying the fixed income portfolio and maintaining the fixed income portfolio at an effective duration range between 65 and 135 percent of the benchmark index.

Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. For example, a duration of 4.0 would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up approximately 4.0%. PSERS measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

At June 30, 2008 and 2007, the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

(Dollar Amounts in Thousands)

	2008		2007	
Investment Type	**Option-Adjusted Duration**	**Fair Value**	**Option-Adjusted Duration**	**Fair Value**
Domestic mortgage-backed securities	3.2	$ 5,389,010	3.3	$ 6,190,646
U.S. government and agency obligations	7.8	1,785,467	6.6	2,608,384
Domestic corporate and taxable municipal bonds	3.4	3,277,625	3.0	3,633,248
Miscellaneous domestic fixed income	0.7	290,847	1.0	150,039
Fixed income collective trust funds	3.3	2,294,869	4.2	1,202,848
International fixed income	5.5	2,139,075	5.2	2,134,833
PA Treasury Domestic Short-Term Investment Fund	0.2	2,486,098	0.1	3,236,147
Total fixed income & PA Treasury Domestic Short-Term Investment Fund	3.5*	17,662,991	3.4*	19,156,145
Total adjustment for futures contracts	0.1**	-	0.1**	-
Total fixed income & PA Treasury Domestic Short-Term Investment Fund	3.6**	$ 17,662,991	3.5**	$ 19,156,145

Notes to Financial Statements (Continued)

* The option-adjusted duration of 3.5 and 3.4 at June 30, 2008 and 2007, respectively, for the total fixed income & PA Treasury Domestic Short-Term Investment Fund portfolio is calculated by weighting the option-adjusted duration of each investment type by market value.

** Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole rather than any particular investment type within the portfolio. In total, the futures contracts have adjusted PSERS' total fixed income & PA Treasury Domestic Short-Term Investment Fund portfolio duration upward by 0.1 at June 30, 2008 and 2007.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program to manage risk and enhance returns, the System invests in non-U.S. markets. Investment managers in non-U.S. equity and global fixed income may hedge their non-U.S. foreign currency exposure back to U.S. dollars. The System also reduces the exposure to currency risk by hedging to a target of 30% of MSCI EAFE Index country currencies to the U.S. dollar. At June 30, 2008 and 2007 PSERS had the following non-U.S. currency exposure:

2008
(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments & Real Estate	Short-Term*	Currency Hedge	Total Fair Value
Euro	$ 2,911,313	$ 872,140	$ 1,245,999	$ 561,554	$ (2,281,603)	**$ 3,309,403**
British pound sterling	2,682,672	231,969	6,745	(60,345)	(1,256,994)	**1,604,047**
Japanese yen	2,425,174	179,157	-	(3,819)	(1,177,085)	**1,423,427**
Canadian dollar	943,768	131,162	18,768	(119,393)	-	**974,305**
Australian dollar	594,116	7,352	-	241,340	(248,944)	**593,864**
Hong Kong dollar	704,625	-	-	3,799	(116,211)	**592,213**
Swedish krona	157,499	112,328	-	142,750	-	**412,577**
South Korean won	266,245	-	-	26,443	-	**292,688**
Singapore dollar	271,740	18,010	-	(20,947)	-	**268,803**
Brazil real	151,327	3,127	-	80,306	-	**234,760**
Other non-US currencies	1,967,199	27,047	-	(6,613)	(416,793)	**1,570,840**
Total	$ 13,075,678	$ 1,582,292	$ 1,271,512	$ 845,075	$ (5,497,630)	**$ 11,276,927**

Notes to Financial Statements (Continued)

	2007 (Dollar Amounts in Thousands)					
Currency	**Equity**	**Fixed Income**	**Alternative Investments**	**Short-Term***	**Currency Hedge**	**Total Fair Value**
Euro	$ 4,543,147	$ 924,033	$ 720,273	$ (232,932)	$ (1,864,314)	**$ 4,090,207**
British pound sterling	3,330,681	242,722	67,078	596,752	(864,825)	**3,372,408**
Japanese yen	3,096,446	218,152	-	(177,619)	(1,056,235)	**2,080,744**
Australian dollar	779,589	7,225	-	244,290	-	**1,031,104**
Canadian dollar	845,365	127,283	15,675	(120,701)	-	**867,622**
Hong Kong dollar	856,048	-	-	6,503	(86,725)	**775,826**
South Korean won	529,302	12,076	-	38,661	-	**580,039**
Swedish krona	475,061	75,172	-	(64,834)	-	**485,399**
New Zealand dollar	13,059	14,251	-	316,422	-	**343,732**
Taiwan dollar	298,257	-	-	40,574	-	**338,831**
South African rand	305,065	-	-	10,776	-	**315,841**
Norwegian krone	169,799	3,156	-	129,486	-	**302,441**
Other non-US currencies	2,544,082	99,498	-	(697,691)	(363,529)	**1,582,360**
Total	$ 17,785,901	$ 1,723,568	$ 803,026	$ 89,687	$ (4,235,628)	**$ 16,166,554**

* Includes investment receivables and payables.

(C) Securities Lending

In accordance with a contract between the Commonwealth and its custodial agent, the System participates in a securities lending program. Under this program, the custodian, acting as the lending agent, loans securities (equities, fixed income issues and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102% of the fair value of any securities loaned except for non-U.S. corporations for which 105% of the fair value is required. For Euro fixed income debt issues, for which the Commonwealth receives Euros as collateral and international fixed income debt issues denominated in U.S. dollars, the collateral required to be exchanged is in an amount not less than 102% of the fair value of any securities loaned. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. In lieu of certain approved securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Commonwealth.

Notes to Financial Statements (Continued)

As of June 30, 2008 and 2007, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the same borrowers fail to return the underlying securities (and the collateral is inadequate to replace the loaned securities) or fail to pay income distributions on them. There were no losses during the fiscal years ended June 30, 2008 and 2007, resulting from a default of the borrowers or the lending agent.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loan is one day. There were no term loans as of June 30, 2008 and 2007.

Cash collateral is invested in the lending agent's short-term investment pool and is not subject to custodial credit risk. The System's income from securities lending represents its pro-rata share from participating in the program. The weighted-average maturity of the investments in the pool was 25 days and 36 days at June 30, 2008 and 2007, respectively. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a default, the lending agent may use the collateral to replace the loaned securities.

As of June 30, 2008, the fair value of loaned securities was $7,465,573,000, which includes $2,939,093,000 of loaned securities, which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Assets. The fair value of the associated collateral was $8,053,669,000 of which $4,846,999,000 was cash. As of June 30, 2007, the fair value of loaned securities was $9,843,769,000, which includes $1,345,657,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Assets. The fair value of the associated collateral was $10,209,493,000 of which $8,806,979,000 was cash.

5. Derivative and Other Similar Investments

The System enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury strips. The System is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The System is exposed to credit risk in the event of non-performance by counterparties to financial instruments. As the System generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

Notes to Financial Statements (Continued)

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types and uses of derivative financial instruments and do not measure the System's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2008 and 2007 (in thousands):

	2008	2007
Futures contracts – long	**$ 11,962,986**	$ 11,887,271
Futures contracts – short	**5,046,611**	4,528,407
Foreign exchange forward and spot contracts, gross	**20,668,439**	21,675,965
Options – calls purchased	**154,767**	1,622,129
Options – puts purchased	**322,841**	278,896
Options – calls sold	**159,300**	1,675,223
Options – puts sold	**501,896**	363,893
Swaps – total return	**2,570,616**	949,347
Swaps – interest rate	**826,124**	183,000

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the System has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2008 and 2007 represent a restriction on the amount of assets available as of year-end for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The System generally uses exchange listed currency, index, stock, and futures options. The System has authorized an investment manager to write covered call stock index option spreads up to a notional amount of $1,500,000,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The $20,668,439,000 of foreign currency contracts outstanding at June 30, 2008 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $8,391,990,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $12,276,449,000.

Notes to Financial Statements (Continued)

The $21,675,965,000 of foreign currency contracts outstanding at June 30, 2007 consist of "buy" contracts of $9,327,473,000 and "sell" contracts of $12,348,492,000. The unrealized gain (loss) on contracts of $(94,298,000) and $26,459,000 at June 30, 2008 and 2007, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The System has authorized an investment manager to manage a currency hedge portfolio consisting of foreign exchange spot and forward contracts, currency futures, and currency options to hedge up to a notional amount of $7,000,000,000 of the MSCI EAFE Index currencies to U.S. dollars.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying indexes or interest rates. During the year ended June 30, 2008 and 2007, the System entered into total return swaps and interest rate swaps. Under the total return swap arrangements, the System receives the net return of certain equity indexes in exchange for a short-term rate minus a spread. The payable on the total return swap contracts of $(184,438,000) and $(7,110,000) at June 30, 2008 and 2007, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from August 13, 2008 to April 15, 2010. Interest rate swap agreements involve the exchange by the System with another party of their respective commitments to pay or receive interest, e.g. an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The System uses interest rate swaps as the most cost-effective way to gain exposure to certain sectors of the fixed income market. The receivable on the interest rate swap contracts of $8,238,000 and $2,424,000 at June 30, 2008 and 2007, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from July 31, 2008 to December 10, 2008.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2008 and 2007 is $2,574,096,000 and $2,566,980,000, respectively.

The System invests in U.S. Treasury strips which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop in interest rates.

Through certain collective trust funds, the System also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs, to enhance the performance and reduce the volatility of their portfolios.

6. Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, death, and disability benefits to plan members and beneficiaries according to Commonwealth statute. SERS issues a publicly available financial report that can be obtained by writing to SERS, 30 N. Third Street, P. O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

Notes to Financial Statements (Continued)

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5% or 6.25% of their annual covered payroll depending upon service class. The System is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 3.28% at June 30, 2008, 3.23% at June 30, 2007 and 2.37% at June 30, 2006. The System's contributions to SERS for the years ended June 30, 2008, 2007 and 2006 were $602,000, $534,000 and $418,000, respectively, which were equal to the required contributions each year.

7. Postemployment Healthcare Plan for Employees of the System

The System participates in the Commonwealth's Retired Employees Health Program (REHP). The REHP is a single-employer plan and provides certain healthcare benefits to qualifying individuals meeting specified age and/or service requirements. The Commonwealth's Office of Administration (OA), in its sole discretion, determines available REHP benefits on an ongoing basis. REHP funding is arranged among OA, the Governor's Budget Office and the Pennsylvania Employees' Benefit Trust Fund (PEBTF). The PEBTF is a third-party administrator for the REHP under the provisions of an Administrative Agreement between OA and PEBTF.

A portion of OPEB costs for retiree healthcare benefits are charged as a component of payroll expenditures on a 'pay-as-you-go' basis. The 2007-2008 costs were charged at the rate of $240/employee/bi-weekly pay period. Plan members who retired after June 30, 2005 contribute to the plan based on a percentage of their final annual gross base salary at the time of retirement. Plan member contribution rates vary based on retirement date.

In May 2008 the Commonwealth released an Actuarial Valuation of its Post-Retirement Medical Plan as of February 2008 covering the fiscal year ended June 30, 2008. The Valuation indicated overall Annual Required Contributions of $590,460,000, with the System's allocated portion at $2,433,000. The Governor's Budget Office states that the Commonwealth's policy is to fully fund the $590 million ARC. Included in the Valuation is an estimate of the REHP's Schedule of Funding Progress for the Fiscal Year ended June 30, 2008. It reflects a funded ratio of .52% on an estimated covered payroll of $3,559,000,000. The actuarial valuation is available at the Office of the Budget's website at: http://www.budget.state.pa.us/budget/cwp/view.asp?A=3&Q=213853

8. Litigation and Contingencies

The System is subject to various threatened and pending lawsuits. These lawsuits include issues related to benefit calculations and eligibility. It is the opinion of management that the ultimate liability arising from such threatened and pending litigation will not have a material effect on the financial position of the System. The System is exposed to various other liabilities and risks related to fiduciary responsibilities of directors and officers.

Required Supplemental Schedule 1
Schedule of Funding Progress*

(Unaudited – See Accompanying Auditor's Report)

(Dollar amounts in millions)

Pension

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) – (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2007	$ 66,495.8	$ 57,057.8	$ 9,438.0	85.8%	$ 11,410.3	82.7%
2006	64,627.3	52,464.7	12,162.6	81.2%	11,419.0	106.5%
2005	61,129.4	51,122.1	10,007.3	83.6%	10,527.7	95.1%
2004	56,978.1	51,949.6	5,028.5	91.2%	10,030.7	50.1%
2003	54,313.3	52,770.0	1,543.3	97.2%	9,652.9	16.0%
2002	51,693.2	54,193.1	(2,499.9)	104.8%	9,378.9	(26.7)%

Premium Assistance

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) – (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2007	$ 1,058.1	$ 97.3	$ 960.8	9.2%	$ 11,410.3	8.4%
2006	1,056.2	92.8	963.4	8.8%	11,419.0	8.4%

* The amounts reported in the Schedule of Funding Progress do not include assets or liabilities for the HOP.

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. The laws governing PSERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. In this environment, employees pay in greater dollar amounts, resulting in a dollar increase in unfunded accrued liabilities. This occurs at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Required Supplemental Schedule 2
Schedule of Employer Contributions
(Unaudited – See Accompanying Auditor's Report)
(Dollar amounts in thousands)

Pension

Year ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2008	$ 1,852,238	$ 753,532	41%
2007	1,708,821	659,545	39%
2006	1,328,373	456,878	34%
2005	945,107	431,556	46%
2004	321,091	321,091	100%
2003	20,831	20,831	100%

Premium Assistance

Year ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2008	$ 101,352	$ 81,317	80%
2007	94,970	86,763	91%

The Board adopted all contribution rates as recommended by the Actuary pursuant to the prevailing provisions of the Retirement Code for each year.

Supplemental Schedule 1
Schedule of Operating Expenses
Year Ended June 30, 2008
(Dollar Amounts in Thousands)

	Administrative Expenses (1)	Investment Expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 14,077	$ 2,833	**$ 16,910**
Social security contributions	1,144	219	**1,363**
Retirement contributions	481	121	**602**
Employees' insurance contributions	4,282	496	**4,778**
Other employee benefits	625	956	**1,581**
Total personnel costs	20,609	4,625	**25,234**
Operating costs:			
Investment managers' fees	-	386,614	**386,614**
Custodian fees	-	495	**495**
Specialized services	17,638	2,342	**19,980**
Rental of real estate, electricity	1,708	142	**1,850**
Consultant and legal fees	740	3,189	**3,929**
Treasury and other Commonwealth services	1,968	143	**2,111**
Postage	1,388	-	**1,388**
Contracted maintenance and repair services	446	17	**463**
Office supplies	724	21	**745**
Rental of equipment and software	913	314	**1,227**
Printing	717	-	**717**
Travel and training	311	59	**370**
Telecommunications	573	10	**583**
Equipment (not capitalized)	1,069	14	**1,083**
Miscellaneous expenses	230	1,151	**1,381**
Total operating expenses	28,425	394,511	**422,936**
Fixed charges:			
Furniture and fixtures	25	-	**25**
Depreciation	191	-	**191**
Total fixed charges	216	-	**216**
Total operating expenses	$ 49,250	$ 399,136	**$ 448,386**

(1) Includes administrative expenses of $1,244 related to Postemployment Healthcare Premium Assistance and $12,143 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2008.

(2) Includes investment expenses of $38 related to Postemployment Healthcare Premium Assistance for fiscal year ended June 30, 2008 and does not include $27,270 in capitalized broker commissions for the fiscal year ended June 30, 2008.

Supplemental Schedule 2
Summary of Investment Expenses
Year Ended June 30, 2008
(Dollar Amounts in Thousands)

	Assets under management*	Fees
External management		
Domestic equity	$ 5,887,000	$ 68,780
International equity	10,776,000	55,379
Fixed income	10,002,000	33,886
Real estate	5,904,000	79,884
Private equity and debt	7,276,000	113,567
Venture capital	742,000	19,143
Commodities	3,175,000	15,975
Total external management	43,762,000	386,614
Total internal management	18,942,000	8,444
Total investment management	$ 62,704,000	$ 395,058
Custodian fees		495
Consultant and legal fees		3,189
Miscellaneous expenses		394
Total investment expenses		$ 399,136

* Net asset value of investments at June 30, 2008

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants
Year Ended June 30, 2008
(Payment amounts greater than $50,000)

Consultant		Fees	Services Provided
CoreSource, Inc.	$	9,155,102	Postemployment healthcare benefits administration and claims adjudication
The Segal Company		2,789,611	Actuarial services and consulting for HOP and prescription drug plan
Vitech Systems Group, Inc.		2,358,645	NPAS project development
Rx Solutions, Inc.		1,725,318	Administration of postemployment healthcare benefits and prescription drug plan
Independent Pharmaceutical Consultants, Inc.		551,192	Administration of postemployment healthcare benefits and prescription drug plan
Buck Consultants LLC		502,196	Pension benefit actuarial services
Gunther International LTD		322,968	Communication and mailing services
Clifton Gunderson LLP		117,000	Financial audit of pension system and postemployment healthcare programs

INVESTMENT

1994

The System celebrated it’s 75th anniversary. Net assets reached $24 Billion. Act 29 gave Board of Trustees increased authority to invest the Fund as “prudent persons”.

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

Investment Overview

Authority and Fiduciary Standard

The Board has the responsibility to invest funds of the System in accordance with guidelines and limitations set forth in the Code and other applicable state law. As fiduciaries, the members of the Board and Staff must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. In performance of their duties, the members of the Board and Staff delegated with investment authority shall be held to the Prudent Investor Standard.

The Prudent Investor Standard, as articulated in the Code, means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital."

The Prudent Investor Standard requires a trustee to act prudently and with caution, discretion, loyalty, and care but does not restrict the assets in which the Board can invest. Under the Prudent Investor Standard, which recognizes modern portfolio theory, the Board's investment and management decisions with respect to individual assets shall be considered in the context of the portfolio as a whole and as part of an overall investment strategy, and not in isolation. No specific investment or course of action, taken alone, shall be considered inherently prudent or imprudent. This Standard recognizes the trade-off between risk and return.

Policies and Objectives

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

- **Return Objectives** – the overall return objective is to realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis. Funding adequacy is achieved when the actuarial market value of assets is at least equal to the System's projected benefit obligations. The System has a return objective of meeting or exceeding the targeted actuarial rate of return (currently 8.5%) over the long-term. In addition, the Board has the following broad objectives:

    1. The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
    2. The System shall strive to achieve a return that exceeds the Policy Index (the Policy Index, which is based on the Board-established asset allocation structure, is a custom benchmark designed to generate a return that meets the actuarial rate of return assumption).

- **Risk Objectives**

    1. The assets of the System shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location. Failure to do so could impair the System's ability to achieve its funding and long-term investment goals and objectives; and,
    2. The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 12% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

To achieve these objectives, the Board meets at least once per year to review the overall asset allocation plan and investment policies for the System. Implementation of investment policies is accomplished through the use of external investment management firms who act as agents for the System and through internal investment managers. The Board also retains various investment consultants to assist with the formulation and implementation of investment policies.

Operations

The Board provides oversight of investment activities through the Finance Committee that makes recommendations to the Board. The Finance Committee generally conducts seven meetings per year and may meet more frequently as needed. Investment Office staff, as well as external investment advisors, internal investment managers, and Investment Accounting staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2008, Wilshire Associates Incorporated (Wilshire) served as the general investment consultant to assist the Board in formalizing investment objectives, establishing an asset allocation plan, conducting investment advisor searches, reviewing performance, and commenting on compliance with investment policies. In addition, the Board utilized Courtland Partners, Ltd. as a real estate consultant and Portfolio Advisors, LLC as an alternative investment consultant. Alternative investments generally consist of investments in private debt, private equity, and venture capital limited partnerships. Investment Office staff implement the investment decisions within the Investment Policy Statement, Objectives and Guidelines regarding asset allocation, security selection, and other objectives directed by the Board.

The Board employs both external investment management firms and internal investment managers to manage the investment portfolio of the System. At year end, 50 external investment management firms were managing $30.7 billion in assets of the System, $18.9 billion in assets were managed by the System's internal investment managers, and the remaining $14.3 billion in assets were managed by numerous emerging, alternative investment, and real estate managers. The performance of each external investment management firm and each internal manager is monitored quarterly against a pre-established benchmark as well as the performance of its peer group.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System at least annually, usually in the first quarter of the calendar year. The Board will consult with its actuary, consultants, Investment Office staff, and other sources of information it deems appropriate in formulating the asset allocation plan. The Board believes that the level of risk assumed by the System is largely determined by the Board's strategic asset allocation plan. The Board, in determining its long-term asset allocation, shall take the following factors into consideration:

- The System's investment time horizon;
- The demographics of the plan participants and beneficiaries;
- The cash flow requirements of the System;
- The actuarial assumptions approved by the Board;
- The funded status of the System;
- The Board's willingness and ability to take risk; and,
- The employers' (Commonwealth and school districts) financial strength.

In establishing the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations as prepared by its general investment consultant. The current long-term, top-down asset allocation targets of the Board are discussed in the following paragraphs.

The long-term target allocation as of June 30, 2008 included an equity target allocation of **50.0%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (22.5%) and international equity exposure (27.50%). Within the U.S. equity target, the portfolios are diversified between large, small and micro capitalization investment managers, and growth and value investment managers. The international equity exposure includes both developed and emerging markets portfolios as well as large and small capitalization investment managers.

The fixed income target allocation of **22.0%** consisted of U.S. core fixed income exposure (8.0%), Treasury Inflation-Protected Securities exposure (5.0%), high yield and opportunistic fixed income exposure (5.0%), and global fixed income exposure (4.0%). Within these categories, all sectors of the bond market are represented.

The real estate target allocation of **10.0%** consisted primarily of opportunistic limited partnerships and publicly traded real estate securities. During the fiscal year ended June 30, 2008, the Board increased the allocation to real estate from 8.0% by reducing the target equity allocation.

Alternative investments had a target of **13.0%**. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

The commodities target allocation of **5.0%** consists primarily of commodity futures and commodity and commodity-related publicly traded stocks. Commodities are included in the allocation to diversify the System's total portfolio risk.

Finally, unallocated cash of the System has an asset allocation target of **0.0%** since cash historically represents the lowest returning asset class over time.

Investment Results

As of June 30, 2008, the fair value of the investment portfolio was $63.9 billion, a decrease of $4.6 billion from last year's value. This decrease came primarily from net investment losses ($1.8 billion) and benefit payments in excess of member and employer contributions ($3.0 billion) which was partially offset by net changes in other investment assets and liabilities ($0.2 billion). The investment portfolio, as invested, was composed of 51.6% common and preferred stocks (equity), 20.8% fixed income investments, 12.8% alternative investments, 9.7% real estate, and 5.1% commodities at June 30, 2008. The table on page 77 illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percentage of the total investment portfolio.

The past fiscal year saw mixed investment market returns across the major asset classes. The market psychology became increasingly negative as the fiscal year progressed. Negative events started in the fiscal first quarter as the housing bubble started deflating, creating concerns about the ability of sub prime borrowers to repay their mortgages. Events began to accelerate after that as major financial institutions had a series of rising sub prime related write downs which continued throughout the remainder of the fiscal year. With home prices falling, the ability of consumers to borrow against the equity in their homes significantly decreased, leading to fears of a consumer driven recession. Real gross domestic product figures for the U.S. during the fiscal year declined to as low as -0.2% in the fourth quarter of 2007. In addition, the unemployment rate in the U.S. increased from 4.6% in June 2007 to 5.5% in June 2008. To address concerns about slowing economic growth and tightening credit conditions, the Federal Reserve lowered the Fed Funds target rate during the fiscal year from 5.25% to 2.00%. In addition, the increasing liquidity strains on the financial system required the Federal Reserve to step in and broker a takeover of Bear Stearns, a large financial institution, by JP Morgan via guarantees of $29 billion of debt.

Adding to the negative news, commodity prices soared during the past fiscal year. Oil prices almost doubled during the fiscal year ended June 30, 2008, increasing from $70.68 to $140.00 per barrel. Other commodity prices also increased substantially. The increases can be attributed to tight supplies as well as a weakening U.S. dollar. The U.S. Dollar Index (average of exchange rates between the U.S. dollar and six other major world currencies) declined by 11.5% during the fiscal year. This led to rising inflation as the Consumer Price Index, a measure of inflation, doubled from 2% at the end of last fiscal year to 4% at the end of the current fiscal year. The combination of rising inflation and falling growth in the U.S. has led to significant concerns about stagflation.

In this environment, most equity markets around the world had negative returns during the fiscal year. The Dow Jones Wilshire 5000 Index, a U.S. equity index, returned -12.53% during the fiscal year. The past fiscal year saw the worst quarterly loss since the third quarter of 2002 (-9.52% in the quarter ended March 31, 2008) and the worst monthly loss since September 2002 (-8.14% in June 2008). Foreign markets in local currency terms fared equally as bad as the Morgan Stanley Capital International (MSCI) All-Country World (ACW) ex. U.S. Index, an international equity index, returned -14.61% when hedged back to the U.S. dollar. However, the unhedged MSCI ACWI ex. U.S. index returned -6.20%, much better than the hedged index due to the weakness of the U.S. dollar. According to the FTSE EPRA/NAREIT Global Real Estate Index, a free-float index designed to track the performance of listed real estate companies and real estate investment trusts worldwide, global publicly traded real estate securities (PTRES) returned -19.72% during the past fiscal year. PTRES performance suffered due to the deterioration of credit markets, uncertain asset values, and the weakened outlook for the U.S. economy.

Markets that performed better in this environment were commodities and fixed income. The Dow Jones – AIG Commodity Index, an index of 19 highly liquid and diversified commodities, returned 41.53% during the fiscal year due to soaring commodity prices and the falling U.S. dollar. The Lehman U.S. Universal Index, a U.S. fixed income index, was up 6.24% and the Lehman Multiverse Index, a global fixed income index, was up 12.36%. Returns in both of these indexes were driven by the Fed reducing the Fed Funds rate while the Lehman Multiverse Index was also driven by the weakening dollar. The Lehman U.S. TIPS Index, an index of U.S. treasury inflation protection securities, returned 15.09% driven by falling interest rates and rising inflation.

As a result of the negative returns from domestic and international stock portfolios and real estate, the System generated a total return of -2.82% for the one-year period ended June 30, 2008. This return fell short of the total fund Policy Index return of -1.84% by 98 basis points. Annualized total returns for the three- and five-year periods ended June 30, 2008 were 11.25% and 13.21%, respectively. These returns exceeded the total fund Policy Index returns for the three- and five-year periods ended June 30, 2008 by 208 and 240 basis points, respectively.

Wilshire calculates the total investment return of the System as well as the performance of each external investment management firm and each internal investment manager employed by the Board to invest the System's assets. Performance is calculated using a time-weighted return methodology.

The following table provides the System's total investment return for each major asset class and the total portfolio, including, where applicable and available, respective benchmark indexes used by asset class and median performance by asset class:

	Annualized Total Returns (%) Net of Fees Ended June 30, 2008		
	1 Year	3 Years	5 Years
PSERS Total Portfolio	**-2.82**	**11.25**	**13.21**
Total Fund Policy Index	-1.84	9.17	10.81
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	-5.29	7.01	9.71
PSERS Domestic Stock Portfolios	**-13.98**	**4.33**	**8.47**
Dow Jones Wilshire 5000 Index	-12.53	5.02	8.73
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	-13.13	4.47	8.32
PSERS International Stock Portfolios	**-9.81**	**15.72**	**19.08**
MSCI All-Country World Index Ex. U.S. (1)	-8.76	14.71	18.52
Median Public DBP Fund Universe - International Equities (Wilshire Database)	-7.60	15.26	18.10
PSERS Domestic Fixed Income Portfolios	**7.81**	**4.52**	**5.10**
Domestic Fixed Income Policy Index (2)	6.24	3.81	3.69
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	5.32	4.02	4.22
PSERS Global Fixed Income Portfolios	**10.02**	**5.22**	**5.78**
Global Fixed Income Policy Index (3)	12.36	5.67	5.82
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	11.69	5.57	6.39
PSERS Commodity Portfolios	**34.72**	**N/A**	**N/A**
Dow Jones-AIG Commodity Index	41.53	N/A	N/A
PSERS Real Estate (4)	**-5.22**	**19.43**	**21.50**
Blended Real Estate Index (5)	5.41	14.63	15.14
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	2.04	12.22	15.26
PSERS Alternative Investments (4)	**19.14**	**25.65**	**24.48**
Venture Economics Median Return, Vintage Year Weighted	6.23	10.34	8.81
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	13.74	22.62	17.93

(1) 30% hedged to the U.S. dollar effective July 1, 2006; previously unhedged.
(2) Lehman Brothers U.S. Universal Index effective April 1, 2007; previously was the Lehman Brothers Aggregate Bond Index.
(3) Lehman Brothers Multiverse Index effective April 1, 2007; previously was the Lehman Brothers Global Aggregate Bond Index.
(4) Returns reported on a one-quarter lag, except for publicly traded real estate security investments.
(5) Returns presented are a blend of the FTSE EPRA/NAREIT Global Real Estate Index (22.9%) and the NCREIF Index (77.1%). The NCREIF Index is reported on a one-quarter lag. Prior to October 1, 2007, the Dow Jones Wilshire Real Estate Securities Index was used in place of the FTSE EPRA/NAREIT Global Real Estate Index.

The System also is involved in a securities lending program administered by The Bank of New York Mellon Corporation. This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated $48.9 million in additional net income during the year.

Accomplishments

While the System's returns during the fiscal year ended June 30, 2008 were negative given an asset allocation tilted towards equities, the System generated returns that put the System in the 2nd quartile of all public defined benefit pension funds in the country for the fiscal year ended June 30, 2008 as measured by Wilshire. For the three- and five- year periods ended June 30, 2008, the System continues to rank in the top 10% of all public defined benefit pension funds in the country as measured by Wilshire. The strong long-term track record can be attributed to the combined efforts of the Board, the System's Investment Office and Investment Accounting staff, and its external consultants and investment advisors. Without their efforts, these accomplishments would not be possible.

The System continued its efforts to diversify its market exposures during FY 2008 as the target allocation to commodities, an asset class used as a risk diversifier added in FY2007, was fully funded.

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 2008, the System continued preparation work to convert all of its real estate and alternative investment portfolios from an Excel-based accounting system to its internal accounting software provided by Financial Control Systems, Inc. and continued to develop various management reports using the internal accounting software.

Market Update

Subsequent to the close of FY 2008, the equity markets incurred significant losses due to a deepening credit crisis in the U.S., the government bailout of large financial institutions, and the bankruptcy of Lehman Brothers on September 15, 2008. For the quarter ended September 30, 2008, the Dow Jones Wilshire 5000 Index was down 8.67% while the MSCI ACW ex. U.S. Index was down 21.91%. In addition, slowing economic growth projections caused commodity returns to retrace significantly as indicated by the negative 27.70% return of the Dow Jones-AIG Commodity Index. The System's assets have declined by approximately $8 billion as of September 30, 2008 due to investment losses and the payment of benefits. The estimated return for the quarter was approximately -11.10%.

Summary

The System had a very challenging fiscal year ended June 30, 2008 as the System generated negative absolute returns. The deflating housing bubble, weakening economy, soaring commodity prices, weakening U.S. dollar, and rising inflation led to negative returns for U.S. and international equity markets and real estate. For the fiscal year ended June 30, 2008, the System continued to exceed its long-term actuarial investment rate of return assumption of 8.5% on a three- and five-year basis. We continue to believe that the System's asset allocation is structured to generate a long-term return that meets or exceeds the targeted actuarial rate of return assumption of the System for years to come.

Alan H. Van Noord, CFA
Chief Investment Officer

Portfolio Summary Statistics
Asset Allocation
As of June 30, 2008

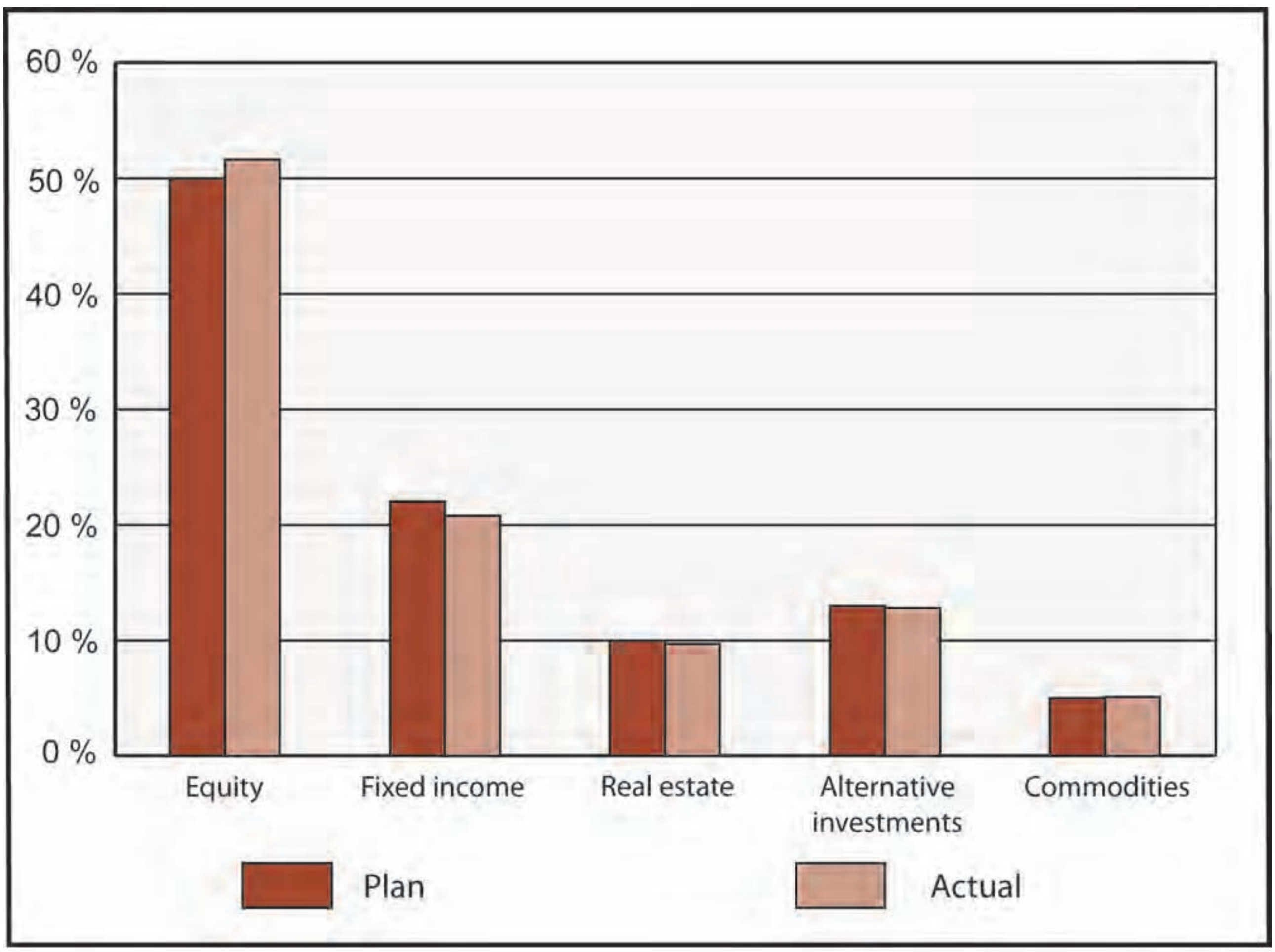
(Dollar Amounts in Thousands)

Pension investments	Fair Value ($)	% Fair Value
Common and preferred stock (Equity):		
Domestic common and preferred stock	$ 8,995,463	14.4%
Collective trust funds	4,808,851	7.7%
International common and preferred stock	14,071,010	22.5%
Subtotal per Statement of Plan Net Assets	27,875,324	44.6%
Net Asset Allocation Adjustment*	4,414,379	7.0%
Total Common and preferred stock - Asset Allocation Basis	**32,289,703**	**51.6%**
Fixed income:		
Domestic mortgage-backed securities	5,389,010	8.6%
U.S. government and agency obligations	1,785,467	2.9%
Domestic corporate and taxable municipal bonds	3,277,625	5.2%
Miscellaneous domestic fixed income	290,847	0.5%
Collective trust funds	2,294,869	3.7%
International fixed income	2,139,075	3.4%
Subtotal per Statement of Plan Net Assets	15,176,893	24.3%
Net Asset Allocation Adjustment*	(2,212,676)	-3.5%
Total Fixed income - Asset Allocation Basis	**12,964,217**	**20.8%**
Real estate:		
Equity real estate	4,673,806	7.5%
Directly-owned real estate	278,034	0.4%
Subtotal per Statement of Plan Net Assets	4,951,840	7.9%
Net Asset Allocation Adjustment*	1,108,978	1.8%
Total Real estate - Asset Allocation Basis	**6,060,818**	**9.7%**
Alternative investments:		
Private equity	5,752,298	9.1%
Private debt	2,371,506	3.8%
Venture capital	741,848	1.2%
Subtotal per Statement of Plan Net Assets	8,865,652	14.1%
Net Asset Allocation Adjustment*	(832,965)	-1.3%
Total Alternative investments - Asset Allocation Basis	**8,032,687**	**12.8%**
Commodities:		
Net Asset Allocation Adjustment*	3,174,681	5.1%
Total Commodities - Asset Allocation Basis	**3,174,681**	**5.1%**
Pension investments - Asset Allocation Basis	**$ 62,522,106**	**100.0%**
Net pension investment payable	1,188,373	
Pension investments per Statement of Plan Net Assets	**$ 63,710,479**	
Postemployment Healthcare investments	**$ 181,741**	**100.0%**

* - Includes Short-term investments which are allocated to the asset class of the investment manager which holds them, reclassifications of certain investments between asset classes and investment receivables\payables to adjust the Statement of Plan Net Assets' classification to the basis used to measure Asset Allocation. See the table and graph which follow.

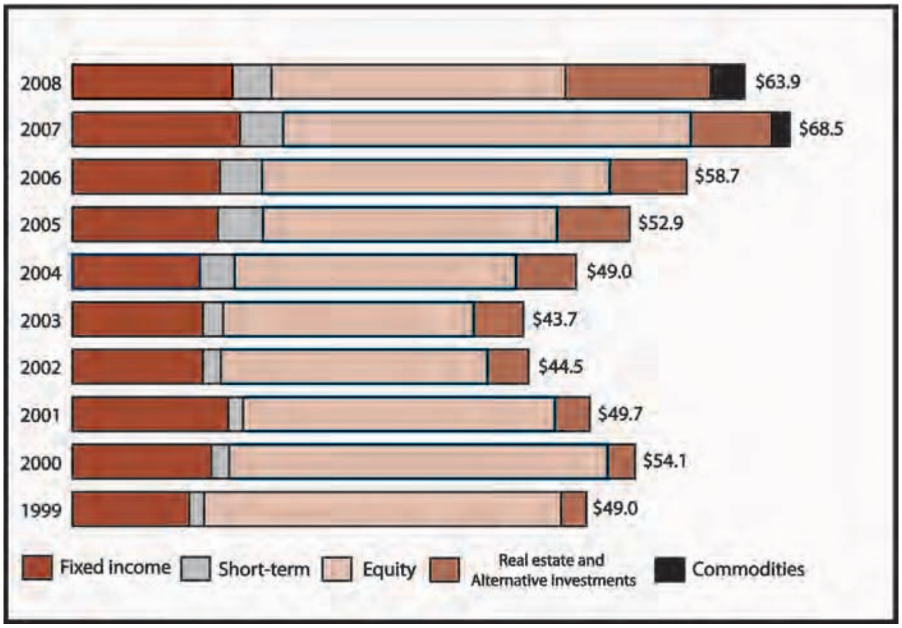
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2008

Asset Category	Plan	Actual
Common and preferred stock (Equity)	50.0%	51.6%
Fixed income	22.0%	20.8%
Real estate	10.0%	9.7%
Alternative investments	13.0%	12.8%
Commodities	5.0%	5.1%
Total	100.0%	100.0%



Portfolio Distribution 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value for the largest asset classes. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, Press Secretary, P. O. Box 125, Harrisburg, PA 17108.

Domestic Common and Preferred Stock

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2008

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Exxon Mobil Corporation	3,059	269,622
Security Capital Preferred Growth	11,854	197,094
General Electric Company	5,074	135,423
Chevron Corporation	1,303	129,153
Microsoft Corporation	4,112	113,108
AT&T Inc.	3,040	102,405
Procter & Gamble Company	1,549	94,186
Johnson & Johnson	1,430	92,035
ProLogis	1,603	87,118
Schlumberger Limited	792	85,083
Total of 10 Largest Holdings		**1,305,227**
Total System Holdings - Domestic Common and Preferred Stock		**8,995,463**

Collective Trust Funds - Common and Preferred Stock

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2008

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Bridgewater Pure Alpha Fund II Ltd.	673	976,406
Barclays Global Ascent Ltd.	500	649,747
First Quadrant Global Macro Fund Ltd.	5,498	633,113
AQR Offshore Multi-Strategy Fund Ltd.	8	609,342
Wellington Trust Company Commodities Portfolio	23,830	443,484
Barclays Global Investors Emerging Markets Strategic Insights Fund	9,802	422,507
Martin Currie Business Trust Global Emerging Markets Fund	23,231	200,946
Boston Company US Micro Cap Hedge Fund	149	200,825
Morgan Stanley Capital International Emerging Markets Free Index	4,822	197,067
Goldman Sachs Blended Currency Fund	16,229	129,295
Total of 10 Largest Holdings		**4,462,732**
Total System Holdings - Collective Trust Funds - Common and Preferred Stock		**4,808,851**

International Common and Preferred Stock

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2008

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Nestle SA	4,305	195,072
BP PLC	14,176	164,550
BHP Billiton PLC	3,964	151,464
Vodafone Group PLC	46,644	138,455
Rio Tinto PLC	1,139	136,204
E.ON AG	610	123,187
Gazprom	1,875	108,723
Novartis AG	1,909	105,421
Petroleo Brasileiro SA	1,487	105,358
Royal Dutch Shell Class A	2,519	103,500
Total of 10 Largest Holdings		**1,331,934**
Total System Holdings - International Common and Preferred Stock		**14,071,010**

Domestic and International Fixed Income

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2008
(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
U.S. Treasury - Inflation Index	01/15/25	2.375	220,288	231,027
U.S. Treasury - Inflation Index	01/15/26	2.000	180,923	179,381
U.S. Treasury - Inflation Index	01/15/15	1.625	151,412	156,368
Germany (Federal Republic)	09/12/08	3.500	91,124	143,289
U.S. Treasury - Inflation Index	07/15/13	1.875	122,639	129,653
U.S. Treasury - Inflation Index	01/15/11	3.500	98,712	107,457
U.S. Treasury - Inflation Index	01/15/14	2.000	99,646	105,788
Merrill Lynch & Company	02/13/09	4.815	75,000	100,735
U.S. Treasury - Inflation Index	01/15/16	2.000	94,536	99,573
U.S. Treasury - Inflation Index	01/15/27	2.375	88,313	92,584
Total of 10 Largest Holdings				**1,345,855**
Total System Holdings - Domestic and International Fixed Income				**15,176,893**

Postemployment Healthcare Investments

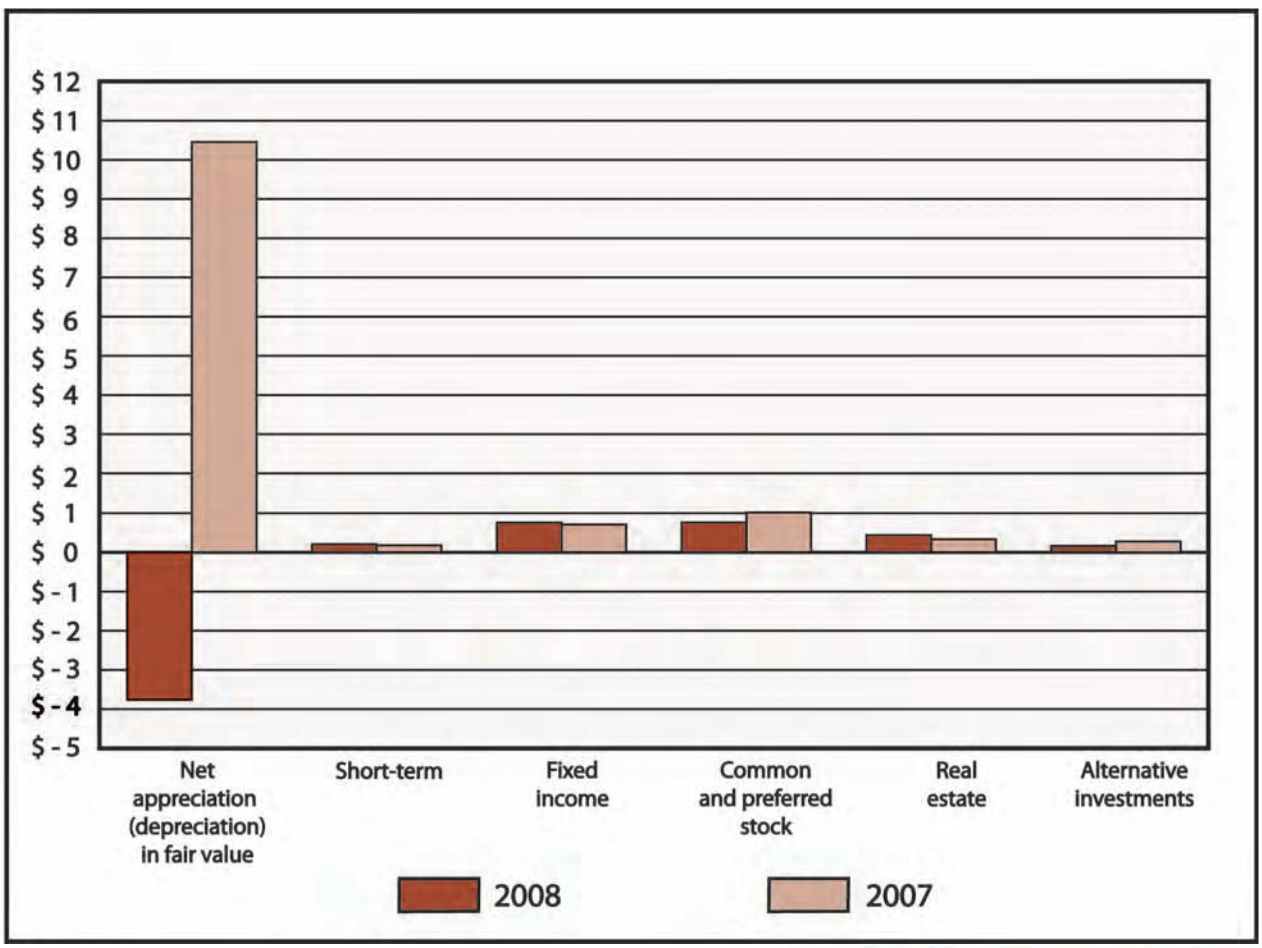
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2008
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PA Treasury Domestic Short-Term Investment Fund	Various	Various	80,589	80,589
M & T Bank Repurchase Agreement	07/01/08	1.250	26,114	26,114
M & T Bank Repurchase Agreement	07/01/08	1.925	14,870	14,870
FHLB Discount Note	07/11/08	1.954	4,988	4,988
FNMA Discount Note	07/25/08	2.004	4,988	4,988
FHLB Discount Note	08/11/08	2.034	4,987	4,987
FNMA REMIC Trust 2002-83 Class LD	12/25/27	5.500	3,039	3,049
FHLMC Multiclass 2492 Class PE	01/15/22	6.000	2,750	2,805
American Express Credit Trust 2006-A Class A	08/15/11	2.461	2,315	2,311
FHLMC Multiclass 2515 Class ED	03/15/17	5.000	2,151	2,173
Total of 10 Largest Holdings				**146,874**
Total System Holdings - Postemployment Healthcare Investments				**181,741**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2008 and 2007
(Dollar Amounts in Thousands)

Investing Activities	**2008**	2007
Net appreciation (depreciation) in fair value of investments	**$ (3,763,381)**	$ 10,457,561
Short-term	**211,390**	189,800
Fixed income	**758,142**	713,257
Common and preferred stock	**763,615**	1,019,322
Real estate	**437,880**	334,264
Alternative investments	**167,052**	276,350
Total investment activity income (loss)	**$ (1,425,302)**	$ 12,990,554

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2008 were $27.3 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2008, the System earned $1.1 million from a commissions recapture program. A list of the brokers receiving fees in excess of $100,000 during the fiscal year follows:

Summary Schedule of Brokers' Fees

(Cumulative Fiscal Year Amounts Exceeding $100,000)
Fiscal Year Ended June 30, 2008

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Merrill Lynch	1,860,754	Knight Securities	324,349
UBS Securities	1,789,474	Dresdner Kleinwort	282,931
JP Morgan	1,437,713	Jones & Associates	248,795
Citigroup/Salomon	1,422,156	Weeden & Company	221,863
Credit Suisse First Boston	1,388,333	Deutche Alex Brown	220,322
Goldman Sachs & Company	1,284,799	Jefferies & Company Incorporated	206,119
Deutsche Bank	1,243,427	BNY Brokerage	204,900
Bear Stearns	1,230,589	HSBC Securities Incorporated	198,000
Morgan Stanley & Company	1,191,276	Redburn Partners	174,537
Lehman Brothers	915,449	Sanford Bernstein & Company	155,542
DBK Securities	670,813	BNP Paribas	145,392
Macquaries Equities	632,962	Cazenove Incorporated	143,260
Credit Lyonnais Securities	609,375	Exane Securities	139,919
SG Securities	547,696	Westminster Brokerage, LLC	126,712
ITG Securities	453,623	ING Securities	125,077
Liquidnet Incorporated	449,178	Carnegie International Ltd	122,777
Nomura Securities International	442,262	Bank of America	118,788
Instinet Corporation	425,785	Banco Santander	113,854
ABN AMRO	370,988	Calyon Securities	110,085
Cantor, Fitzgerald & Company	340,542	Credit Agricole Cheuvreux	100,643

Professional Consultants
External Investment Advisors
As of June 30, 2008

Global Macro Managers

- AQR Capital Management
- Barclays Global Investors, NA
- Bridgewater Associates, Inc.
- First Quadrant, LP

Portable Alpha Managers

- Boston Company Asset Management, LLC (The)
- Pacific Investment Management Company

U.S. Enhanced Equity Index Manager

- Acorn Derivatives Management Corporation

U.S. Style-Oriented Small Cap Equity Managers

- Boston Company Asset Management, LLC (The)
- Emerald Advisors, Inc.
- First Pacific Advisors, Inc.
- NorthPointe Capital, LLC
- Wellington Management Company, LLP
- William Blair & Company, LLC

U.S. Enhanced Mid Cap Equity Manager

- Barclays Global Investors, NA

U.S. Micro Cap Equity Managers

- Donald Smith & Company, Inc.
- NorthPointe Capital, LLC
- Oberweis Asset Management, Inc.
- Thomson Horstmann & Bryant, Inc.
- Turner Investment Partners

Enhanced Commodity Index Managers

- Credit Suisse Asset Management
- Lehman Brothers Asset Management

Professional Consultants (Continued)

Full Discretion Commodity Program Managers

- Deutsche Asset Management
- Schroders Investment Management
- Wellington Management Company, LLP

Publicly-Traded Real Estate Securities Managers

- Cohen & Steers Capital Management, Inc.
- European Investors, Inc.
- LaSalle Investment Management
- Morgan Stanley Investment Management, Inc.
- Security Capital Research & Management, Inc.

Non-U.S. Emerging Market Equity Managers

- Batterymarch Financial Management, Inc.
- Boston Company Asset Management, LLC (The)
- Templeton Investment Counsel, Inc.
- Wellington Management Company, LLP
- William Blair & Company, LLC

Non-U.S. Large Cap Equity Managers

- AllianceBernstein Institutional Investment Management
- Baillie Gifford Overseas, Ltd.
- Barclays Global Investors, NA
- Marathon Asset Management Ltd.
- Martin Currie, Inc.
- Mercator Asset Management, LP

Non-U.S. Small Cap Equity Managers

- Acadian Asset Management
- AXA Rosenberg Investment Management
- Batterymarch Financial Management, Inc.
- GlobeFlex Capital, LP
- Munder Capital Management
- Oberweis Asset Management, Inc.
- Wasatch Advisors

Professional Consultants (Continued)

Active Currency Hedging Overlay Program Manager

- Pareto Investment Management, Ltd.

Active Currency Program Managers

- FX Concepts, Inc.
- Goldman Sachs Asset Management
- Mellon Capital Management

U.S. Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- Barclays Global Investors, NA
- Logan Circle Partners
- Pacific Investment Management Company
- Western Asset Management Company

U.S. High Yield Fixed Income Manager

- MacKay-Shields Financial Corporation

Credit Opportunities Managers

- BlackRock Mortgage (Offshore) Investors, LP
- Hyperion Brookfield Asset Management, Inc.
- Oaktree Capital Management, LP

Absolute Return Manager

- Brigade Capital Management

LIBOR-Plus Short Term Investment Manager

- BlackRock Financial Management, Inc.

Professional Consultants (Continued)

Treasury Inflation-Protected Securities Manager

- Bridgewater Associates, Inc.

Global Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- Fischer Francis Trees & Watts, Inc.
- Rogge Global Partners

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.
- Grandbridge Real Estate Capital, LLC
- Grosvenor Investment Management U.S., Inc.
- L&B Realty Advisors, LLP

Real Estate Partnerships

- Apollo European Real Estate Fund III, LP
- Apollo Real Estate Finance Corporation
- AREFIN Co-Invest Corporation
- AvalonBay Value Added Fund, LP
- Avenue Real Estate Fund Parallel, LP
- Beacon Capital Strategic Partners V, LP
- Berwind Investment Partnership IV, V & VI, LP
- Blackstone Real Estate Partners V & VI.TE.1, LP
- BPG Co-Investment Partnership, LP
- Broadway Partners Real Estate Fund P II & III, LP
- Carlyle Europe Real Estate Partners III, LP
- Carlyle Realty Partners III, IV & V, LP
- Centerline Diversified Risk CMBS Fund I & II, LLC
- Centerline High Yield CMBS Fund III, LLC
- Centerline RE Special Situations Mortgage Fund, LLC
- Cornerstone Patriot Fund, LP
- CS Strategic Partners IV RE, LP
- CSFB Strategic Partners II & III RE, LP
- DLJ Real Estate Capital Partners II, III & IV, LP
- DRA Growth and Income Fund VI, LP
- Fillmore West Fund, LP
- Five Arrows Realty Securities V, LP
- Fortress Investment Fund IV & V, LP
- Fortress PSERS Investment, LP
- Hines U.S. Office Value Added Fund, LP
- JPMCB Strategic Property Fund

Professional Consultants (Continued)

Real Estate Partnerships (continued)

- Legg Mason Real Estate Capital I & II, Inc.
- Lehman Brothers PSERS Real Estate, LP
- Lehman Brothers Real Estate Pension Partners II & III, LP
- LEM Real Estate Mezzanine Fund II, LP
- LF Strategic Realty Investors I & II, LP
- Lubert-Adler Real Estate Fund II, III, IV, & V, LP
- Madison Marquette Retail Enhancement Fund, LP
- MGPA Europe Fund III, LP
- Morgan Stanley Real Estate Fund II, LP
- Morgan Stanley Real Estate Fund IV Special Domestic, LP
- Morgan Stanley Real Estate Fund IV, V & VI, Special International, LP
- Morgan Stanley Real Estate Fund V, Special U.S., LP
- O'Connor North American Property Partners I & II, LP
- Peabody Global Real Estate Partners, LP
- Prime Property Fund, LLC
- PRISA
- ProLogis North American Industrial Fund, LP
- RCG Longview Equity Fund, LP
- RREEF America REIT II, Inc.
- Stockbridge Real Estate Fund I & II, LP
- Strategic Partners Value Enhancement Fund, LP
- UBS (US) Trumbull Property Fund, LP
- Westbrook Real Estate Fund, LP
- Whitehall Street Real Estate V & VI, LP
- Whitehall Street Real Estate VII & VIII, LP
- William E. Simon & Sons Realty Partners, LP

Farmland Advisor

- Prudential Agricultural Group

Private Equity/Venture Capital Partnerships

- ABS Capital Partners II, LP
- Actis Emerging Markets 3, LP
- Adams Capital Management, LP
- Aisling Capital II, LP
- Allegheny New Mountain Partners, LP
- Apax Europe VII, LP
- Baring Asia Private Equity Fund III & IV, LP
- Bear Stearns Merchant Banking Partners II & III, LP
- BG Media Investors, LP
- Blue Point Capital Partners (B) I & II, LP
- Bridgepoint Capital II Partnership, LP
- Bridgepoint Europe IA, IIA & IIIA, LP

Professional Consultants (Continued)

Private Equity/Venture Capital Partnerships (continued)

- Bruckmann, Rosser, Sherrill & Company, LP
- Capital International Private Equity Fund V, LP
- Catterton Growth Partners, LP
- Catterton Partners V & VI, LP
- Cinven Fund (Fourth), LP (The)
- Clarity Partners I & II, LP
- Co-Investment 2000 Fund, LP (The)
- Co-Investment Fund II, LP (The)
- Credit Suisse First Boston Equity Partners, LP
- Credit Suisse First Boston International Equity Partners, LP
- Crestview Capital Partners, LP
- Cross Atlantic Technology Fund I & II, LP
- CS Strategic Partners IV & IV VC, LP
- CSFB Strategic Partners II, III-B & III-VC, LP
- CVC Capital Partners Asia Pacific III, LP
- Deutsche European Partners IV, LP
- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Growth Capital Partners, LP
- Edgewater Private Equity Fund III, LP
- Edison Venture Fund III, LP
- Evergreen Pacific Partners, LP
- First Reserve Fund XI, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors II & III, LP
- Graham Partners Investments (B), LP
- Green Equity Investors II, LP
- Greenpark International Investors III, LP
- Greenwich Street Capital Partners II, LP
- GS Mezzanine Partners, LP
- Halifax Capital Partners, LP
- Heritage Fund I, LP
- HSBC Private Equity Fund 6, LP
- Jefferies Capital Partners IV, LP
- Jefferson Partners Fund IV (PA), LP
- KBL Partnership, LP
- KKR 2006 Fund, LP
- KRG Capital Fund I, II, III & IV, LP
- Landmark Equity Partners II, III, IV, V & XIII, LP
- Landmark Mezzanine Partners, LP
- Lehman Brothers Communications Investors, LP
- Lehman Brothers Merchant Banking Partners II & IV, LP
- Lehman Brothers Venture Partners 2003-P & V-P, LP
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP

Professional Consultants (Continued)

Private Equity/Venture Capital Partnerships (continued)

- LLR Equity Partners I, II & III, LP
- Milestone Partners II & III, LP
- Morgan Stanley Dean Witter Capital Partners IV, LP
- Navis Asia Fund V, LP
- NEPA Venture Fund II, LP
- New Mountain Partners I & III, LP
- New York Life Capital Partners, I, II, III-A & IV-A, LP
- Novitas Capital I & II, LP
- P/A Fund (The)
- PAI Europe III, IV & V, LP
- Palladium Equity Partners II-A, LP
- Permira IV, LP
- Perseus-Soros BioPharmaceutical Fund, LP
- Platinum Equity Capital Partners-A I & II, LP
- PNC Equity Partners I & II, LP
- Providence Equity Partners VI, LP
- Psilos Group Partners III, LP
- Quadrangle Capital Partners I & II, LP
- Quaker BioVentures I & II, LP
- SCP Private Equity Partners I & II, LP
- StarVest Partners I & II, LP
- Sterling Capital Partners, LP
- Sterling Venture Partners, LP
- TDH III, LP
- Technology Leaders, LP
- TL Ventures III, LP
- TPG Partners II, V & VI, LP
- U.S. Equity Partners I & II, LP
- Wicks Communications & Media Partners, LP
- Willis Stein & Partners, LP

Private Debt Partnerships

- Avenue Asia Special Situations Fund II, III & IV, LP
- Avenue Europe Special Situations Fund, LP
- Avenue Special Situations Fund II, III, IV & V, LP
- Cerberus Institutional Partners, LP (Series Two, Three and Four)
- Gleacher Mezzanine Fund I & II, LP
- Gold Hill Venture Lending 03-A, LP
- GSC Partners CDO Investors III & IV, LP
- GSC Recovery II & III, LP
- NYLIM Mezzanine Partners Parallel Fund I & II, LP
- OCM Opportunities Fund VII & VII-B, LP
- Versa Capital Fund I, LP
- Windjammer Senior Equity Fund III, LP

Professional Consultants (Continued)

Public Market Emerging Investment Program Managers

- Ativo Capital Management
- Biondo Group, LLC (The)
- Conestoga Capital Advisors
- Connors Investor Services, Inc.
- Denali Advisors, LLC
- Great Companies, Inc.
- Hanseatic Management Services, Inc.
- John Hsu Capital Group, Inc.
- Opus Capital Management
- Piedmont Investment Advisors
- Pugh Capital Management, Inc.
- Shah Capital Management, Inc.

Alternative Investment Consultant

- Portfolio Advisors, LLC

Custodian and Securities Lending Agent

- The Bank of New York Mellon Corporation

Investment Accounting Application Service Provider

- Financial Control Systems, Inc.

Investment Evaluator and General Investment Consultant

- Wilshire Associates Inc.

Proxy Voting Agent

- Glass, Lewis & Co., LLC

Real Estate Investment Consultant

- Courtland Partners, Ltd.

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The 100,000th annuitant was added to PSERS' monthly pension payroll.

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an ACS company

January 18, 2008

The Retirement Board
Public School Employees'
Retirement System of Pennsylvania
P.O. Box 125
Harrisburg, Pennsylvania 17108

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 2007.

The valuation takes into account all of the promised benefits to which members are entitled as of June 30, 2007, including pension and survivor benefits; and as required by the Retirement Code is the basis for the contribution rate for fiscal year 2008/2009.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8½% per annum compounded annually. The actuarial assumptions and methods for funding are unchanged from the prior valuation.

The actuarial assumptions and methods for financial reporting meet the parameters set forth in Governmental Accounting Standards Board (GASB) Statements No. 25 and 43, and are unchanged from the prior valuation. The actuarial assumptions and methods for GASB 25 disclosure are the same as for pension funding, except that in fiscal years in which the amortization requirements of the PSERS code result in an equivalent single amortization period that is longer than 30 years, the GASB 25 amortization payment will be determined based on 30-year level dollar funding. The Health Insurance funding provisions of the PSERS code differ from the GASB 43 disclosure retirements. For funding purposes the actuarial liability equals the assets in the health insurance account, and a contribution is determined that will assure the solvency of the account through the third fiscal year following the valuation date. For purposes of GASB 43 disclosure the Health Insurance actuarial liability and normal cost requirements have been determined under the entry age actuarial cost method, with 30-year level dollar funding. (The entry age actuarial cost method meets the GASB 43 parameters for determining actuarial liability and normal cost, and is the cost method specified by the PSERS code for the PSERS pension plan.)

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312.846.3000 • 312.846.3999 (fax)

Assets and Membership Data

The Retirement System reported the individual data for members of the System as of the valuation date to the actuary. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Retirement System.

Funding Adequacy

The valuation results determine that the employer contribution rate for fiscal year 2008/2009 is 4.76%. As of June 30, 2007, the total funded ratio of the plan (for Pensions and Health Insurance combined) is 85.8%, based on the accrued liability and actuarial value of assets calculated under the funding requirements of Section 8328 of the Retirement Code.

Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. The actuary prepared supporting schedules included in the Actuarial and Statistical Section of the PSERS Comprehensive Annual Financial Report (CAFR), and also prepared the trend data schedules included in the Financial Section of the CAFR.

Qualified actuaries completed the valuation in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Janet Cranna, FSA
Principal, Consulting Actuary

S. Lynn Hill
Director, Retirement Consulting

Dana Spangher, FSA
Director, Consulting Actuary
JC/SLH/DS:pl

Executive Summary

This report presents the actuarial valuation as of June 30, 2007 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2008/2009, which is 4.76%.
- The total funded ratio of the plan determined as of June 30, 2007 under the funding requirements of Section 8328 of the Retirement Code, which is 85.8% based on the accrued liability and the actuarial value of assets for Pensions and Health Insurance as of that date.
- The determination of the actuarial gain or loss as of June 30, 2007, which is a gain of $3.9 billion.
- Annual disclosures as of June 30, 2007 as required by Statements No. 25 and 43 of the Governmental Accounting Standards Board.

The valuation was completed based upon membership and financial data submitted by the Retirement System. Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are included in the valuation report. The actuary prepared supporting schedules included in the Actuarial and Statistical Section of the PSERS Comprehensive Annual Financial Report (CAFR), and also prepared the trend data schedules included in the Financial Section of the CAFR.

Changes Since Last Year

Legislative and Administrative Changes

There were no legislative or administrative changes since the prior valuation.

The benefit provisions and contribution provisions are summarized in Table 13.

Actuarial Assumptions and Methods

There were no significant changes to the actuarial assumptions or methods since the prior valuation.

The actuarial assumptions and methods are outlined in Table 12.

Contribution Rates

The results of the valuation as of June 30, 2007 determine the employer contribution rate for fiscal year 2008/2009. The calculated employer contribution rate for the 2008/2009 fiscal year is 4.76%, and the Board of Trustees certified this rate at their December 2007 meeting.

The average contribution rate payable by the members is 7.29%. Effective January 1, 2002, the employee contribution rate for members who elected to have prior school service and intervening military service converted to Class T-D service increased by 1.25%. However, anyone who enrolls (or re-enrolls) in PSERS on or after July 1, 2001 is *automatically* a member of Class T-D with regard to all subsequent school service and subsequent intervening military service, with a member rate equal to 7.5%. The average member contribution rate of 7.29% is a pay-weighted average of member rates that vary based on date of hire and based on Class T-D membership.

Reasons for Change in the Rate Calculated by the Actuary

The employer contribution rate calculated by the actuary decreased from 7.13% for fiscal year 2007/2008 to 4.76% for fiscal year 2008/2009. The decrease of 2.37% is due to the following sources:

• Change due to change in employer normal rate	0.00
• Decrease due to payroll growth	(0.01)
• Decrease due to actuarial gain on assets	(2.25)
• Decrease due to actuarial gain on liabilities	(0.87)
• Increase due to change in health insurance contribution rate	0.07
• Increase due to effect of 4% floor on FY 2007 pension contribution	0.69
• Total	(2.37)%

Summary of Principal Results

Summarized below are the principal financial results for the Public School Employees' Retirement System based upon the actuarial valuation as of June 30, 2007. Comparable results from the June 30, 2006 valuation are also shown.

Item	June 30, 2007	June 30, 2006
Demographics		
Active Members		
· Number	264,023	263,350
· Average Annual Pay	$ 43,217	$ 43,361
Annuitants		
· Number	168,026	161,813
· Average Annual Benefit Payment	$ 20,970	$ 20,236
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2008/2009)	(Fiscal Year 2007/2008)
Employer Contribution Rate:		
· Total Pension Contribution Rate	4.00%	6.44%
· Health Insurance Contribution Rate	0.76	0.69
· Total Contribution Rate Calculated by Actuary	4.76%	7.13%
· Total Contribution Rate Certified by Board	4.76%	7.13%
Member Average Contribution Rate	7.29	7.25
· Total Rate	12.05%	14.38%
Actuarial Funded Status*		
· Accrued Liability	$ 66,593.1 Mil	$ 64,720.1 Mil
· Actuarial Value of Assets	57,155.1	52,557.5
· Unfunded Accrued Liability	$ 9,438.0	$ 12,162.6
· Funded Ratio	85.8 %	81.2 %
* Pensions and Health Insurance combined		

Five-Year History of Principal Financial Results

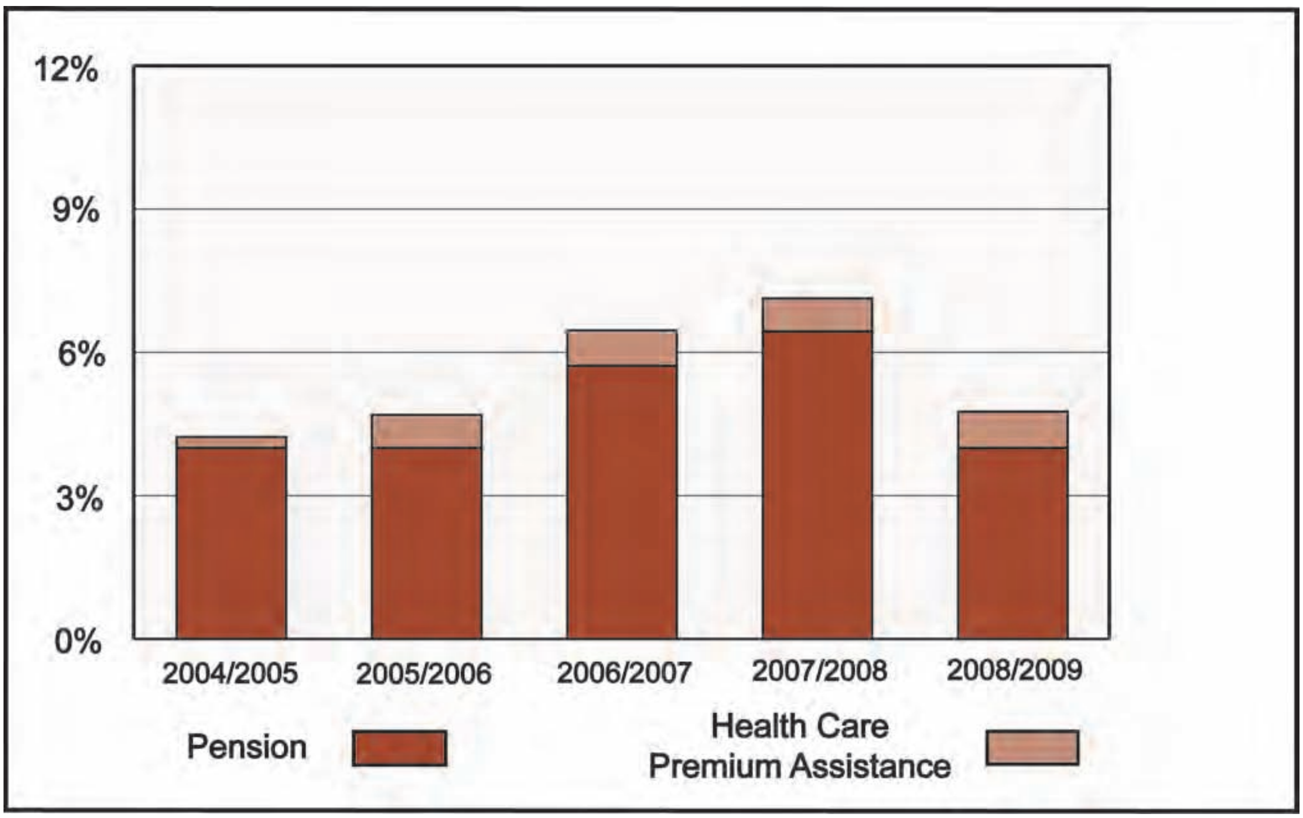
Five-Year History of Contribution Rates

(As a % of Payroll)

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total *
2008/2009	7.29%	6.68%	(3.37)%	0.76%	4.76%
2007/2008	7.25	6.68	(0.24)	0.69	7.13
2006/2007	7.21	6.62	(0.95)	0.74	6.46
2005/2006	7.16	7.61	(4.28)	0.69	4.69
2004/2005	7.12	7.48	(7.10)	0.23	4.23

* Certified by the Board.

The following chart shows a five-year history of employer contribution rates:



Funded Ratio

The financing objective of the System is to:

- Fully fund all current costs based on the normal contribution rate determined under the funding method; and
- Liquidate the unfunded accrued liability based on the amortization schedules as required by the retirement code, i.e., a schedule of 10 or 30 years for each change in the unfunded accrued liability according to Act 40.

The total contribution rate of 4.76% of payroll payable by employers, when taken together with the contributions payable by the members, current assets, and expected future asset returns, is sufficient to achieve the financing objective.

The System's total funded ratio on the funding basis is measured by comparing the actuarial value of assets (based on a 5-year moving average market value) with the accrued liability. The accrued liability for pensions is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees. The accrued liability for Health Insurance equals the assets in the Health Insurance account.

On this basis, the System's total funded ratio (for Pensions and Health Insurance combined) is 85.8% as of June 30, 2007. This funded ratio is based on an actuarial value of assets of $57.2 billion and an accrued liability of $66.6 billion. The funded ratio for Pensions alone is also 85.8% as of June 30, 2007, based on an actuarial value of assets of $57.1 billion, and an accrued liability of $66.5 billion.

Reasons for Change in the Total Funded Ratio

The total funded ratio increased from 81.2% as of June 30, 2006 to 85.8% as of June 30, 2007. This increase is primarily due to experience gains on the assets and liabilities that occurred during the year. These gains were partially offset by contributions that were less than normal cost plus one year's interest on the June 30, 2006 unfunded accrued liability.

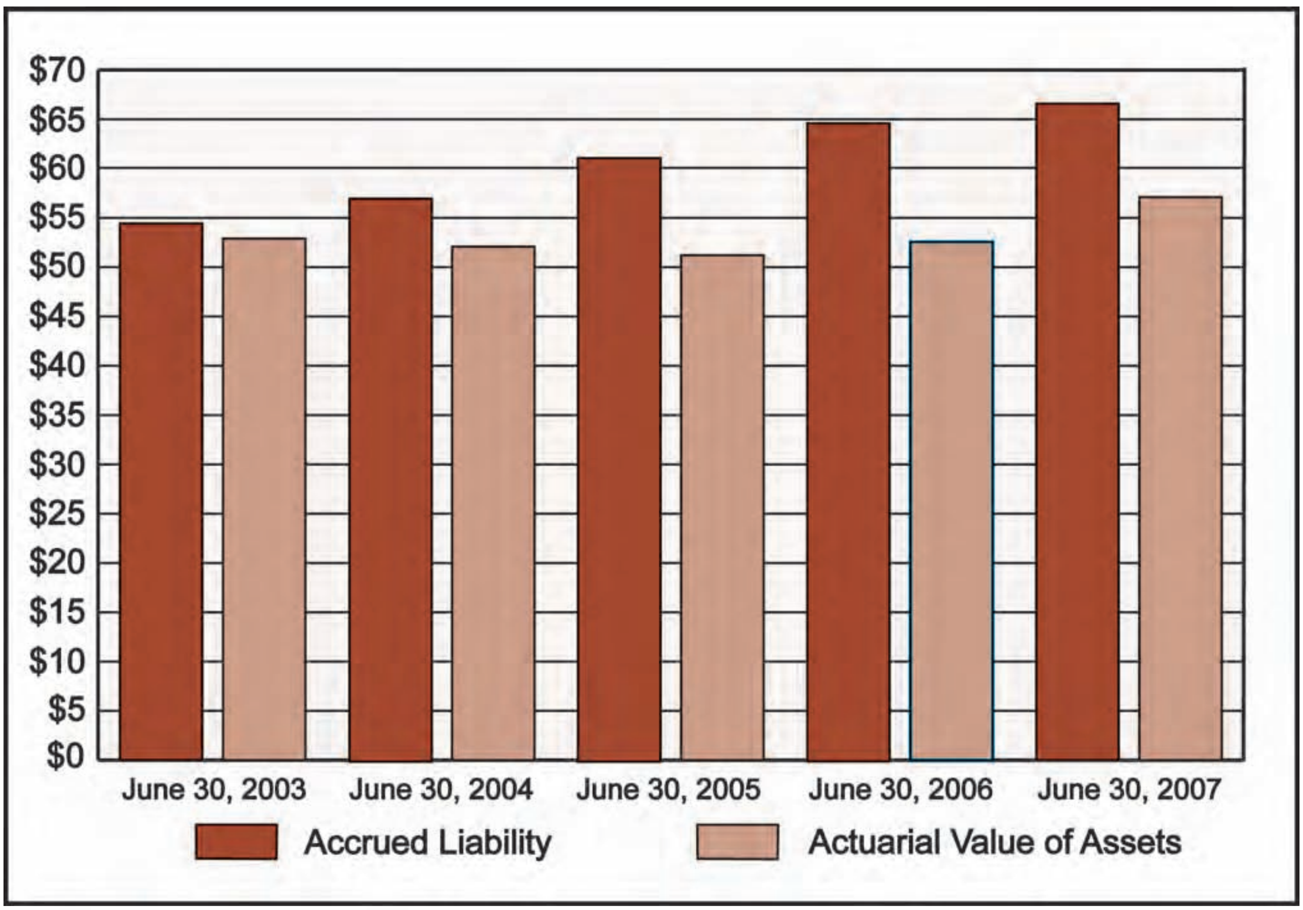
Five-Year History of Total Funded Ratio*
(Dollar Amounts in Millions)

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
2007	$ 66,593.1	$ 57,155.1	$ 9,438.0	85.8%
2006	64,720.1	52,557.5	12,162.6	81.2
2005	61,226.6	51,219.3	10,007.3	83.7
2004	57,123.0	52,094.5	5,028.5	91.2
2003	54,443.8	52,900.5	1,543.3	97.2

* For Pensions and Health Insurance (under the funding provisions of the PSERS code)

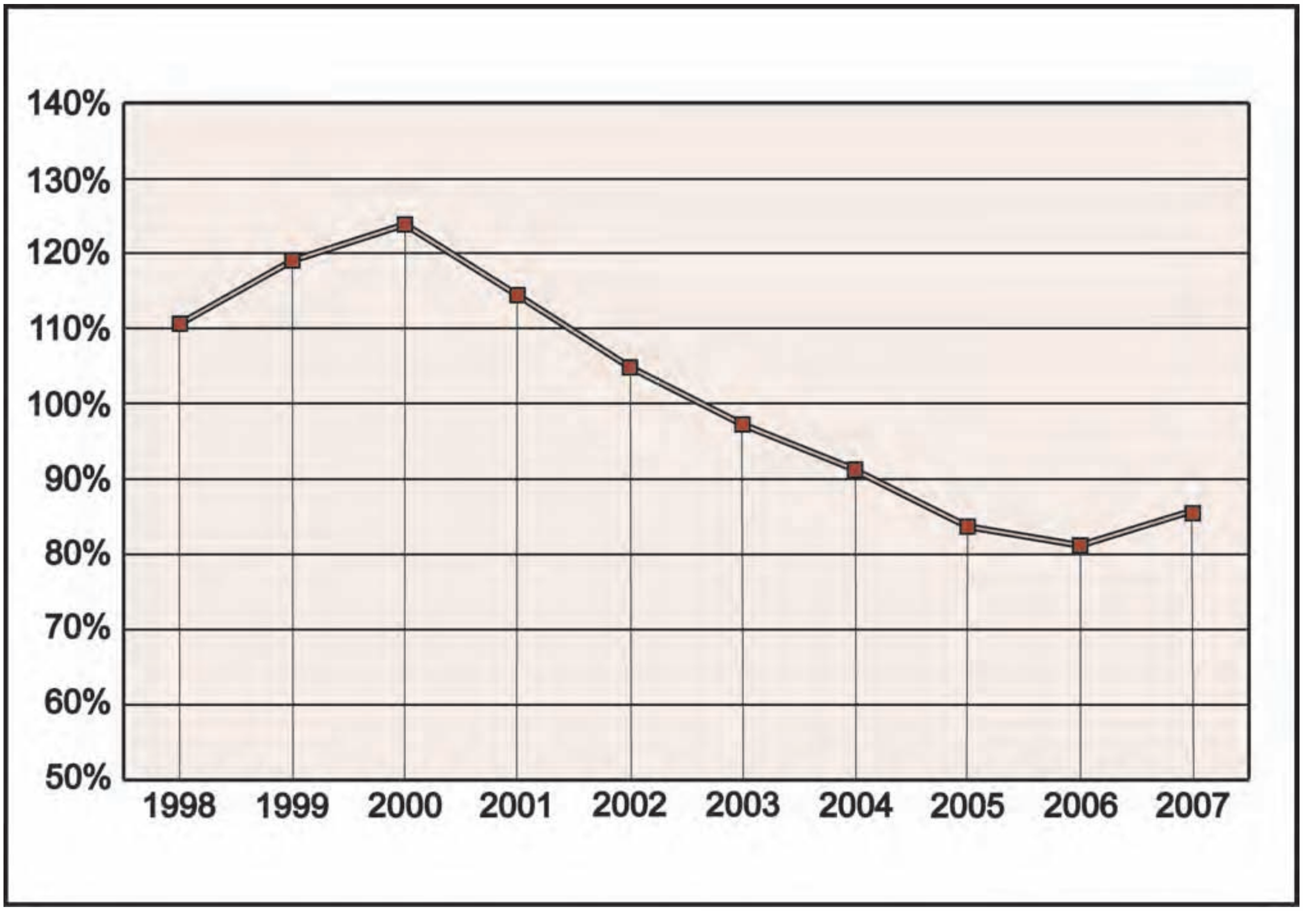
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

Five-Year History of Accrued Liability and Actuarial Value of Assets
(Dollar Amounts in Billions)



The following chart shows a ten-year history of the total funded ratio for Pensions and Health Insurance:

Ten-Year History of Funded Ratio
(1998 - 2007)



GASB No. 25 Disclosure

Statement No. 25 of the Governmental Accounting Standards Board (GASB) established reporting standards for the annual financial reports of defined benefit pension plans. The System complied with Statement No. 25 beginning with the June 30, 1996 valuation. The statement requires disclosure of the "schedule of funding progress" and the "schedule of employer contributions" in the System's financial statements.

The schedule of funding progress shows historical trend information about the System's actuarial value of pension assets, the actuarial accrued liability for pensions and the unfunded actuarial accrued liability for pensions. The actuarial funded ratio for pensions is measured by comparing the actuarial value of pension assets (based on a 5-year moving average market value) with the accrued liability for pensions. The accrued liability is the present value of pension benefits accumulated to date under the System's funding method and reflects future pay increases for active employees. On this basis, the System's funded ratio for pensions is 85.8% as of June 30, 2007. This funded ratio is based on an actuarial value of pension assets of $57.1 billion and an accrued liability for pensions of $66.5 billion. See Table 7 for more detail.

The schedule of employer contributions shows historical trend information about the GASB Annual Required Contribution (ARC) for pensions, and the percentage of the ARC contributed to the System. The pension contribution requirements of the PSERS code differ from the GASB disclosure requirements. As a result, there may be different determinations of contribution requirements for GASB accounting purposes and for State funding purposes. For GASB accounting purposes, the ARC equals the employer normal cost for pensions plus an amount that will amortize the unfunded actuarial accrued liability for pensions over a period no longer than 30 years. (For years ending on or before June 30, 2006, the maximum amortization period for the GASB ARC was 40 years.) Although the employer normal cost for GASB accounting equals the PSERS normal cost for funding, section 8328 of the PSERS code specifies different amortization periods for different portions of the unfunded accrued liability – each change in the unfunded accrued liability is amortized over either a 10 or 30-year period – as well as a 4% floor on the employer pension rate. Therefore, the resulting equivalent single amortization period may be any number of years. Table 8a presents the GASB 25 schedule of employer contributions.

GASB No. 43 Disclosure

GASB Statement No. 43 established reporting standards for the annual financial reports of postemployment benefit plans other than pension plans, and these reporting requirements apply to the PSERS health insurance premium assistance plan. The System complied with Statement No. 43 beginning with the June 30, 2006 valuation. The statement requires disclosure of the "schedule of funding progress" and the "schedule of employer contributions" in the System's financial statements.

The health insurance liability and funding provisions of the PSERS code differ from the GASB disclosure requirements. As a result, there are different determinations of actuarial liability and contribution requirements for GASB accounting purposes and for State funding purposes. For purposes of funding, the actuarial liability equals the assets in the health insurance account, and the contribution required is the amount necessary to establish reserves sufficient to provide premium assistance payments to all participating eligible annuitants during the fiscal year that immediately follows the year the employer contribution is made. For GASB accounting purposes, the actuarial liability has been determined under the entry age actuarial cost method, and the Annual Required Contribution (ARC) is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years. (The entry age actuarial cost method was selected for this calculation because it meets the GASB parameters for determining actuarial liability and normal cost, and is the cost method specified by the PSERS code for the PSERS pension plan.)

The GASB 43 schedule of funding progress, presented in Table 7, shows that as of June 30, 2007, the health insurance assets were $97,292,000, measured on a market value basis, while the GASB 43 health insurance liabilities were $1,058,092,000, resulting in a funded ratio of 9.2%.

The GASB 43 schedule of employer contributions first applies to fiscal year 2006/2007, and is presented in Table 8b.

Rate of Return

The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) for fiscal years 2002/2003 through 2006/2007 is shown in the table below. The return based on the actuarial value of assets used for determining annual contribution rates is also shown.

The rate of return on market value reflects the investment earnings on the market value of assets from the beginning of the fiscal year to the end of the fiscal year. The actuarial assets are the assets recognized for valuation purposes. Actuarial assets are based on a smoothed market value that spreads the difference between the actual and expected return over a period of five years. The rate of return on the actuarial value of assets is a measure of the increase in the actuarial value of assets from the beginning of the fiscal year to the end of the fiscal year.

Fiscal Year	Rate of Return Based on	
	Market Value *	Actuarial Value
2006/2007	22.9%	13.9%
2005/2006	15.3	7.9
2004/2005	12.9	3.2
2003/2004	19.7	2.6
2002/2003	2.7	1.4

* Market value rate of return provided by Wilshire Associates Incorporated, the PSERS investment consultant.

Table 1
Summary of Results of Actuarial Valuation
As of June 30, 2007
(Dollar Amounts in Thousands)

Item	June 30, 2007	June 30, 2006
Member Data		
1. Number of Members		
a) Active Members	264,023	263,350
b) Inactive Members and Vestees	109,186	94,071
c) Annuitants, Beneficiaries and Survivor Annuitants	168,026	161,813
d) Total	541,235	519,234
2. Annualized Salaries	$ 11,410,257	$ 11,419,049
3. Annual Annuities	$ 3,523,429	$ 3,274,451
Valuation Results		
4. Present Value of Future Pension Benefits		
a) Active Members	$ 49,167,907	$ 50,310,197
b) Inactive Members and Vestees	1,589,329	823,575
c) Annuitants, Beneficiaries and Survivor Annuitants	31,603,788	29,117,164
d) Total	$ 82,361,024	$ 80,250,936
5. Present Value of Future Pension Normal Cost		
a) Active Members	$ 8,430,801	$ 8,131,437
b) Employer	7,434,353	7,492,138
c) Total	$ 15,865,154	$ 15,623,575
6. Pension Accrued Liability		
a) Active Members (4a) - (5c)	$ 33,302,753	$ 34,686,622
b) Inactive Members and Vestees	1,589,329	823,575
c) Annuitants, Beneficiaries and Survivor Annuitants	31,603,788	29,117,164
d) Total	$ 66,495,870	$ 64,627,361
7. Health Insurance Assets for Premium Assistance	$ 97,292	$ 92,777
8. Total Accrued Liability for Funding (6) + (7)	$ 66,593,162	$ 64,720,138
9. Actuarial Value of Assets	$ 57,155,130	$ 52,557,503
10. Funded Status (9) / (8)	85.8 %	81.2 %
11. Unfunded Accrued Liability (8) - (9)	$ 9,438,032	$ 12,162,635
12. Total Normal Cost Rate	13.97 %	13.93 %
13. Member Contribution Rate	7.29 %	7.25 %
14. Employer Normal Cost Rate (12 - (13)	6.68 %	6.68 %
Employer Annual Funding Requirement for Fiscal 2007/2008	**Fiscal 2008/2009**	**Fiscal 2007/2008**
15. Employer Contribution Rate Calculated by Actuary		
a) Normal	6.68 %	6.68 %
b) Unfunded Accrued Liability	(3.37)	(0.24)
c) Preliminary Pension Rate	3.31 %	6.44 %
d) Preliminary Pension Rate with 4% Floor	4.00	6.44
e) Health Insurance	0.76	0.69
f) Total Rate	4.76 %	7.13 %

Table 2
Summary of Sources of Employer Contribution Rate
As of June 30, 2007
(Dollar Amounts in Thousands)

	Funding Period (Years)	Beginning July 1	Initial Liability	7/1/2007 Outstanding Balance	Annual Payment Amount	Percent *
1. Amortization of:						
a) 2001 Fresh Start Unfunded Base	10	2002	$ (9,137,130)	$ (5,954,063)	$ (1,510,937)	(12.09)%
b) 2001 Asset Method Change (Act 38)	10	2002	(4,638,306)	(3,022,477)	(767,001)	(6.14)%
c) Other 2001 Changes	30	2002	7,570,507	6,837,575	668,111	5.34 %
d) 2002 Changes	30	2003	3,014,171	2,962,314	286,101	2.30 %
e) 2002 COLA	10	2003	463,795	349,234	76,694	0.61 %
f) 2003 COLA	10	2004	754,524	692,921	135,375	1.08 %
g) 2003 Changes	30	2004	3,229,593	3,412,081	326,059	2.61 %
h) 2004 Changes	30	2005	2,903,093	3,096,984	293,096	2.35 %
i) 2005 Changes	30	2006	3,765,745	4,052,939	380,189	3.04 %
j) 2006 Changes	30	2007	812,226	881,265	82,002	0.66 %
k) 2007 Changes	30	2008	(3,870,741)	(3,870,741)	(390,789)	(3.13)%
Total Amortization Payments				$ 9,438,032	$ (421,100)	(3.37)%
2. Employer Normal Cost Rate						6.68 %
3. Preliminary Pension Rate (1) + (2)						3.31 %
4. Preliminary Pension Rate with 4% Floor -- Maximum of (3) and 4%						4.00 %
5. Health Insurance Rate						0.76 %
6. Final Total Employer Contribution Rate Calculated by Actuary (4) + (5)						4.76 %

* Based on Estimated Employer Payroll for Fiscal Year Ending 2009 of $12,500,000.

Table 3
Determination of Health Insurance Contribution Rate For Fiscal Year 2008/2009
(Dollar Amounts in Thousands)

Item			
1. June 30, 2007 Balance in Health Insurance Account			$ 97,292
2. Estimated Fiscal 2007/2008 Contribution			
(a) Contribution Rate Certified in 2006 Valuation			0.69%
(b) Estimated Fiscal 2007/2008 payroll			$ 11,977,344
(c) Estimated Contribution = (a) x (b)			$ 82,644
3. Estimated Number of Annuitants who:		Are Eligible	Elect Coverage
(a) Fiscal 2007/2008		110,000	72,600
(b) Fiscal 2008/2009		113,000	74,580
(c) Fiscal 2009/2010		115,900	76,494
4. Estimated Disbursements:	Administration	Assistance	Total
(a) Fiscal 2007/2008	$ 2,205	$ 87,120	$ 89,325
(b) Fiscal 2008/2009	1,963	89,496	91,459
(c) Fiscal 2009/2010	2,042	91,793	93,835
(d) Total	$ 6,210	$ 268,409	$ 274,619
5. Required Fiscal 2008/2009 Contribution (4d) - (1) - (2c)			$ 94,683
6. Required Health Insurance Contribution Rate			
(a) Estimated 2008/2009 Payroll			$ 12,500,000
(b) Required Health Insurance Contribution Rate (5) / (6a) (rounded up)			0.76%

Notes:

1. Current estimates of fiscal 2007/2008 membership payroll and administrative expenses, and of fiscal 2008/2009 administrative expenses, were provided by PSERS' staff.

2. 66% of eligible annuitants are assumed to elect coverage.

3. Premium Assistance payments equal $100 per month per eligible annuitant.

Table 4
Summary of Market Value of Plan Assets
As of June 30, 2007
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 2006	$ 57,328,444
2. Contributions During Fiscal Year 2006/2007	1,601,630
3. Disbursements During Fiscal Year 2006/2007	4,150,656
4. Investment Return During Fiscal Year 2006/2007	
a) Net Investment Return	$ 12,696,900
b) Administrative Expenses	38,029
c) Investment Return After Expenses (a) - (b)	$ 12,658,871
5. Market Value of Assets as of June 30, 2007	
(1) + (2) - (3) + (4c)	$ 67,438,289
6. Rate of Return (per Wilshire)	22.93%
Asset Allocation by Account	
1. Members' Savings Account	$ 10,183,433
2. Annuity Reserve Account	31,603,788
3. State Accumulation Account	25,553,776
4. Health Insurance Account	97,292
5. Total (1) + (2) + (3) + (4)	$ 67,438,289

Table 5
Derivation of Actuarial Value of Assets
As of June 30, 2007
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2007						$ 67,438,289
2. Determination of Deferred Gain (Loss)						
	Return on Assets					
	Year	Actual	Expected	Difference	% Deferred	Deferred Amount
	2006/2007	$ 12,658,871	$ 4,359,054	$ 8,299,817	80%	$ 6,639,854
	2005/2006	7,901,068	4,242,878	3,658,190	60%	2,194,914
	2004/2005	6,044,305	4,321,981	1,722,324	40%	688,929
	2003/2004	8,201,871	4,404,561	3,797,310	20%	759,462
						$ 10,283,159
3. Actuarial Value of Assets (1) - (2)						$ 57,155,130
4. Actuarial Rate of Return *						13.94%

* The actuarial rate of return is the investment return based on the change in the actuarial value of the assets from the June 30, 2006 valuation to the June 30, 2007 valuation.

Table 6
Analysis of Change in Unfunded Accrued Liability
As of June 30, 2007
(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2006	$ 12,162,635
2. Interest Credit at 8.50% to June 30, 2007	1,033,825
3. Contributions toward Unfunded Accrued Liability	(112,313)
4. Change due to Effect of 4% Floor on FY 2007 Pension Contribution	-
5. Expected Unfunded Accrued Liability at June 30, 2007 (1) + (2) - (3) + (4)	$ 13,308,773
6. Actual Unfunded Accrued Liability at June 30, 2007	$ 9,438,032
7. Increase (Decrease) from Expected (6) - (5)	$ (3,870,741)
8. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	$ (2,787,600)
(ii) Loss from New Entrants and Pickups	242,000
(iii) Gain from Salary Increases Less than Expected	(1,154,455)
(iv) Loss from Mortality Experience	113,484
(v) Gain from Vested Termination Experience (Retirement/Disability/Termination)	(342,086)
(vi) Gain from Non-vested Termination Experience	(93,416)
(vii) Loss from Data/Miscellaneous	151,332
Subtotal	$ (3,870,741)
(b) Changes in Assumptions and Funding Method	-
(c) Grand Total	$ (3,870,741)

Table 7
Schedule of Funding Progress For Pensions *
GASB Statement No. 25 Disclosure
(Dollar Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2007	$ 57,057,838	$ 66,495,870	$ 9,438,032	85.8 %	$ 11,410,257	82.7 %
2006	52,464,726	64,627,361	12,162,635	81.2	11,419,049	106.5
2005	51,122,156	61,129,444	10,007,288	83.6	10,527,668	95.1
2004	51,949,622	56,978,143	5,028,521	91.2	10,030,705	50.1
2003	52,770,018	54,313,328	1,543,310	97.2	9,652,881	16.0
2002	54,193,064	51,693,207	(2,499,857)	104.8	9,378,944	(26.7)

* The amounts reported above include assets and liabilities for Pensions.

Schedule of Funding Progress For Postemployment Benefits Other Than Pensions *
GASB Statement No. 43 Disclosure
(Dollar Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2007	$ 97,292	$ 1,058,092	$ 960,800	9.2 %	$ 11,410,257	8.4 %
2006	92,777	1,056,154	963,377	8.8	11,419,049	8.4

* The amounts reported above include assets and liabilities for Health Insurance Premium Assistance. The health insurance liabilities for GASB 43 disclosure have been calculated under the entry age normal cost method, which provides liabilities that differ from those determined under the funding requirements of the PSERS code.

Table 8a
Schedule of Employer Contributions for Pensions
GASB Statement No. 25 Disclosure
(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2007	$ 1,708,821	$ 659,545	39 %
2006	1,328,373	456,878	34
2005	945,107	431,556	46
2004	321,091	321,091	100
2003	20,831	20,831	100
2002	539	539	100

The Annual Required Contribution (ARC) presented above was determined as part of the actuarial valuation as of two years prior to the dates indicated (i.e. the ARC for the fiscal year ended June 30, 2007 was determined by the valuation completed as of June 30, 2005).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2007
Actuarial Cost Method:	Entry Age
Amortization Method:	Level dollar open
Remaining Amortization Period:	30 years
Asset Valuation Method:	5-year smoothed market
Actuarial Assumptions:	
- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.00%
* Includes Inflation at:	3.25%

Table 8b
Schedule of Employer Contributions for Postemployment Benefits Other than Pensions GASB Statement No. 43 Disclosure
(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2007	$ 94,970	$ 86,763	91 %

The Annual Required Contribution (ARC) presented above was determined as part of the actuarial valuation as of one year prior to the dates indicated (i.e., the ARC for the fiscal year ended June 30, 2007 was determined by the valuation completed as of June 30, 2006).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2007
Actuarial Cost Method:	Entry Age
Amortization Method:	Level dollar open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market
Actuarial Assumptions:	
- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.00%
* Includes Inflation at:	3.25%

Table 9
Solvency Test
Comparative Summary of Accrued Liability and Actuarial Value of Assets*
(Dollar Amounts in Thousands)

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (1)	(2)	(3)
2007	$10,183,433	$ 31,701,080	$ 24,708,649	$ 57,155,130	100%	100%	62%
2006	9,571,668	29,209,941	25,938,529	52,557,503	100	100	53
2005	9,116,347	27,051,245	25,058,989	51,219,293	100	100	60
2004	8,755,109	24,482,234	23,885,657	52,094,479	100	100	79
2003	8,282,753	22,094,109	24,066,913	52,900,465	100	100	94
2002	7,780,370	19,978,567	24,037,574	54,296,368	100	100	100

* The amounts reported include assets and liabilities for both Pensions and Health Insurance.

Table 10
History and Projection of Contribution Rates and Funded Ratios[1]

		Contribution Rates[2]							
Fiscal Year	Employer Payroll	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Preliminary Employer Pension Rate	Final Employer Pension	Health Insurance Rate	Total Employer Rate	Funded Ratio
1999/2000	$ 8,939,598	5.72%	6.40%	(2.04)%	4.36%	4.36%	0.25%	4.61%	123.8%
2000/2001	9,414,884	5.77	6.29	(4.65)	1.64	1.64	0.30	1.94	114.4
2001/2002[3]	9,378,944	6.43	5.63	(6.05)	(0.42)	0.00	1.09	1.09	104.8
2002/2003[4]	9,652,881	7.10	7.20	(10.03)	1.00	0.18	0.97	1.15	97.2
2003/2004	10,030,705	7.08	7.25	(4.27)	2.98	2.98	0.79	3.77	91.2
2004/2005[5]	11,062,589	7.12	7.48	(7.10)	0.38	4.00	0.23	4.23	83.7
2005/2006	11,505,093	7.16	7.61	(4.28)	3.33	4.00	0.69	4.69	81.2
2006/2007[6]	11,821,951	7.21	6.62	(0.95)	5.67	5.72	0.74	6.46	85.8
2007/2008	12,881,244	7.25	6.68	(0.24)	6.44	6.44	0.69	7.13	90.5
2008/2009	**12,500,000**	**7.29**	**6.68**	**(3.37)**	**3.31**	**4.00**	**0.76**	**4.76**	**93.8**
2009/2010	12,866,029	7.31	6.64	(6.15)	0.49	4.00	0.75	4.75	96.8
2010/2011	13,226,878	7.33	6.62	(8.37)	(1.75)	4.00	0.74	4.74	99.0
2011/2012	13,603,456	7.35	6.59	(10.55)	(3.96)	4.00	0.74	4.74	99.1
2012/2013	14,001,264	7.37	6.57	3.93	10.50	10.50	0.73	11.23	100.1
2013/2014	14,420,497	7.39	6.54	2.18	8.72	8.72	0.72	9.44	100.6
2014/2015	14,859,650	7.41	6.52	1.01	7.53	7.53	0.72	8.25	100.9
2015/2016	15,333,694	7.42	6.50	0.88	7.38	7.38	0.70	8.08	101.1
2016/2017	15,848,584	7.44	6.48	0.80	7.28	7.28	0.68	7.96	101.3
2017/2018	16,409,583	7.45	6.46	0.75	7.21	7.21	0.67	7.88	101.5
2018/2019	17,015,045	7.46	6.44	0.72	7.16	7.16	0.64	7.80	101.7

1. The projection of contribution rates is based on the assumption that there are no changes in demographic or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets.

2. In general, the Preliminary Employer Pension Rate equals the sum of the rates for the Employer Normal Cost and the Unfunded Liability; the Final Employer Pension Rate is the greater of the Preliminary Pension Rate and any Pension Rate Floor stated in the PSERS Code (the Code). The Total Employer Rate is the sum of the Final Employer Pension Rate and the Employer Health Insurance Rate.

3. For fiscal year ending on or before June 30, 2002, there was no floor specified in the Code, but the Final Employer Pension Rate could not be less than 0%, since money can only be removed from the trust for purposes allowed by the Code.

4. Act 2002-38 amended the Code to place a permanent 1% floor on the Employer Pension Rate, but also provided that the Total Employer Rate for the year ending June 30, 2003 could not exceed 1.15%, resulting in a 0.18% Final Employer Pension Rate (the Total Employer Rate of 1.15% minus the 0.97% Employer Health Insurance Rate).

5. Act 2003-40 amended the Code to increase the Employer Pension Rate Floor from 1% to 4%.

6. Revised actuarial assumptions based on a five-year experience review ending June 30, 2005 were used to determine the contributions for the fiscal year ending June 30, 2007. Since the benefit changes under Act 2001-9 had not been in effect throughout the entire period covered by the study the Board decided, at its December 2005 meeting, to delay making any changes to the retirement rate assumptions until further data became available. The 5.72% Final Employer Pension Rate equals the 6.46% Total Employer Rate certified by the Board at that meeting, minus the 0.74% Employer Health Insurance Rate. The 5.67% Preliminary Employer Pension Rate equals the sum of the Employer Normal Cost and Unfunded Liability rates. The Normal Cost and Unfunded Liability rates were calculated by the actuary in January 2006, based on the package of assumptions adopted at the December 2005 meeting.

Table 11
History and Projection of Annuitants, Beneficiaries, Survivor Annuitants and Active Members

Valuation as of June 30	New Annuitants During the Year	Annuitant Deaths During the Year	Annuitants at End of Year	Beneficiaries and Survivor Annuitants at End of Year	Total Annuitants, Beneficiaries and Survivor Annuitants	Active Members
1998			120,665	6,149	126,814	220,703
1999			126,448	6,421	132,869	223,495
2000			127,404	6,654	134,058	234,210
2001			125,880	6,836	132,716	243,311
2002			134,300	7,114	141,414	242,616
2003			138,383	7,310	145,693	246,700
2004			143,997	7,555	151,552	247,901
2005			148,727	7,792	156,519	255,465
2006			153,757	8,056	161,813	263,350
2007			**159,760**	**8,266**	**168,026**	**264,023**
2008	15,018	4,351	170,427	8,735	179,162	264,023
2009	11,839	4,522	177,744	9,173	186,917	264,023
2010	12,188	4,704	185,228	9,574	194,802	264,023
2011	12,199	4,903	192,524	9,953	202,477	264,023
2012	12,170	5,088	199,606	10,307	209,913	264,023
2013	11,802	5,264	206,144	10,643	216,787	264,023
2014	11,671	5,458	212,357	10,971	223,328	264,023
2015	11,583	5,645	218,295	11,298	229,593	264,023
2016	11,405	5,822	223,878	11,618	235,496	264,023
2017	11,280	6,011	229,147	11,938	241,085	264,023

* The number for the first year of the projection reflects the assumption that all Active members age 74 and above, and that all vested members who have reached superannuation age retire immediately.

Table 12
Description of Actuarial Assumptions and Methods

ASSUMPTIONS

Interest Rate: 8.5% per annum, compounded annually (adopted as of June 30, 1990). The components are 3.25% for inflation and 5.25% for the real rate of return (both adopted as of June 30, 2005). Actuarial equivalent benefits are determined based on 4% (since 1960).

Separation from Service: Illustrative rates of assumed separation from service are shown in the following table. (Rates of non-vested withdrawal, of death, and of disability were adopted as of June 30, 2005; other rates were adopted as of June 30, 2000):

	Annual Rate of:						
		Vested Withdrawal*					
Age	Non-Vested Withdrawal	Less than 10 Years of Service	10 or More Years of Service	Death	Disability	Early Retirement**	Superannuation Retirement
				Males			
25	12.40 %	5.50 %	1.40 %	.042 %	.024 %		
30	10.00	3.00	1.40	.057	.024		
35	11.00	3.00	1.10	.062	.100		
40	11.00	3.00	.80	.072	.180		
45	11.00	3.00	.50	.100	.180		
50	11.00	3.00	1.78	.152	.280		24.00 %
55	10.50	3.00	3.50	.252	.430	10.00 %	24.00
60	10.00	2.40	4.50	.467	.580	10.00	28.00
65				.870	.100		20.00
69				1.335	.100		20.00
				Females			
25	14.10 %	9.50 %	4.00 %	.019 %	.040 %		
30	14.10	7.50	4.00	.023	.040		
35	14.10	5.50	2.00	.031	.080		
40	10.90	3.50	1.00	.043	.130		
45	10.90	3.00	.55	.061	.180		
50	10.90	3.00	1.50	.085	.250		10.00 %
55	10.90	3.00	3.00	.146	.480	10.00 %	10.00
60	10.90	3.50	5.90	.284	.480	15.00	25.00
65				.561	.160		28.00
69				.866	.160		20.00

* Vested Withdrawal - At least 5 years service but not eligible for Early or Superannuation retirement.
** Early Retirement - Age 55 with 25 years service, but not eligible for Superannuation retirement.

Description of Actuarial Assumptions and Methods (Continued)

Death after Retirement: The Uninsured Pensioners 1994 Mortality Table (UP94) with mortality improvements projected 10 years, and with age set back one year for males and females, adopted in 2005, are used to project mortality for healthy annuitants and for dependent beneficiaries. Special mortality tables based on PSERS' experience are used for disability retirements. (The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to determine actuarial equivalent benefits.)

Salary Increase: Effective average of 6% per annum, compounded annually (adopted as of June 30, 2005). The components are 3.25% for inflation, 1% for real wage growth and 1.75% for merit or seniority increases. Representative values are as follows:

Age	Annual Rate of Salary Increase
20	12.00 %
30	9.00
40	7.00
50	4.75
55	4.50
60	4.25
65	4.25
70	4.25

MISCELLANEOUS

Option 4 Elections: 100% of members are assumed to elect a refund of contributions and a reduced annuity.

Withdrawal Annuity: 90% of members are assumed to commence payment immediately and 10% are assumed to defer payment to superannuation age.

Health Insurance

Elections: 65% of eligible retirees are assumed to elect premium assistance.

Administrative Expenses: Assumed equal to 2% of contributions made during the year.

METHODS

Calculations: The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system, and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Description of Actuarial Assumptions and Methods (Continued)

Asset Valuation Method: A five-year moving market average value of assets that recognizes the 8½% actuarial expected investment return immediately and spreads the difference between the actual return on the market value of assets and the expected return on the actuarial value of assets over a period of five years (adopted as of June 30, 2001).

Actuarial Cost Method for Pension Funding: Entry Age Normal Cost Method (modified slightly as of June 30, 2005 to use a pay-weighted average normal contribution rate). The results of each June 30 valuation normally determine the employer contribution rate for the second succeeding fiscal year. The outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, beginning July 1, 2002. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 were both recognized at June 30, 2002 and continue to be amortized over a 10-year period, with level dollar funding starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2001 and June 30, 2002 – including the Act 9 benefit changes – are amortized over a 30-year period, with level dollar funding starting on July 1, 2002, and July 1, 2003, respectively. Post June 30, 2002 benefit changes for active members and retirees are amortized over a 10-year period with level dollar funding. Post June 30, 2002 gains and losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 30-year period with level dollar funding. Act 40 also provided a 4.00% floor on the employer pension rate.

Actuarial Cost Method for GASB 25 Accounting for Pensions: Same as for pension funding, except that in fiscal years in which the amortization requirements of the PSERS code result in an equivalent single amortization period that is longer than the maximum allowable period specified by GASB 25 (40 years for fiscal years ending on or before June 30, 2006; and 30 years for subsequent fiscal years), the GASB 25 amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period equal to the maximum allowable period specified by GASB 25.

Actuarial Cost Method for Health Insurance Funding: The actuarial liability equals the assets in the health insurance account, and the results of the June 30 valuation determine the contribution rate for the second succeeding fiscal year. The rate so determined is the rate necessary to establish reserves sufficient to cover administrative expenses and provide premium assistance payments for all participating eligible annuitants during the third fiscal year that follows the valuation date.

Actuarial Cost Method for GASB 43 Accounting for Health Insurance: The actuarial liability is determined under the entry age actuarial cost method, and the Annual Required Contribution (ARC) for the fiscal year that follows the valuation date is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years.

DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2007 and does not take into account future members. All census data was supplied by the System and was subject to reasonable consistency checks. The actuary adjusts the data to account for service and pay earned by members on or before the valuation that is not reported by the System until after the actuarial valuation is performed. Asset data was supplied by the System.

Table 13
Summary of Benefit and Contribution Provisions

MEMBERSHIP

For valuation purposes, all employees are considered to be full coverage. All employees who become members on and after January 1, 1966 are members of the dual coverage group. Dual coverage members contribute to both PSERS and to Social Security.

BENEFITS

Superannuation Annuity

Eligibility	Age 62, or age 60 with 30 years of service, or 35 years of service regardless of age.
Amount	2.5% of final average salary times years of school service and intervening military service. 2% of final average salary for non-school service and for members who do not elect Class T D coverage. Minimum of $100 per year of service. "Final average salary" means the highest average annual salary for any 3 years of service.
	Annual salary is subject to a limit of $200,000, as adjusted under Section 401(a)(17). As of June 30, 2007, the adjusted limit is $225,000.
	For members who elect coverage under Class T-D, the maximum benefit is equal to the limit established by Section 415 of the Internal Revenue Code.

Early Retirement Annuity

Eligibility	Age 55 with 25 years of service.
Amount	Accrued benefit as of date of retirement, reduced 1/4% for each month by which commencement of payments precedes Superannuation Age.
	For members who elect coverage under Class T-D, the maximum benefit is equal to the limit established by Section 415 of the Internal Revenue Code.

Withdrawal Annuity

Eligibility	5 years of service.
Amount	Accrued benefit deferred to superannuation retirement age or an actuarially reduced benefit payable immediately. Actuarially equivalent benefits are based on 4% interest and the 1995 George B. Buck mortality tables, rated forward one year for males and unadjusted for females.

Summary of Benefit and Contribution Provisions (Continued)

Disability Annuity

Eligibility	5 years of service.
Amount	The standard single life annuity if the total number of credited service is greater than 16.667, otherwise the standard single life annuity multiplied by the lesser of the following ratios: (Y*/Y) or (16.667/Y) where Y is the number of years of credited service and Y* is the total years of credited service if the member were to continue as a school employee until superannuation retirement age (or at current age, if later). Minimum of $100 per year of service.

Return of Contributions

Eligibility	Death or separation from service and member does not qualify for other benefits.
Amount	Refund of accumulated deductions includes interest (less annuity payments received prior to death in the case of a retired member).

Death Benefit

Eligibility	Death of an active member or vestee who was eligible to receive an annuity.
Amount	The present value of the annuity which would have been effective if the member retired on the day before death. Option 1 (see below) assumed payable if no other option elected.

Normal and Optional Forms of Benefits

Normal Form:	Life annuity with a guaranteed payment equal to member contributions with interest.
Option 1:	Reduced benefit with refund of balance of present value of annuity at retirement over payments received. If balance is less than $5,000, benefit is paid in lump sum; otherwise, beneficiary may elect annuity and/or lump sum.
Option 2:	Joint and 100% survivorship annuity.
Option 3:	Joint and 50% survivorship annuity.
Option 4:	Benefit of equivalent actuarial value, including lump sum payment of member contributions.

Summary of Benefit and Contribution Provisions (Continued)

Health Care Premium Assistance

Eligibility	Retired members who: (a) have 24½ or more years of service, or (b) are disability annuitants, or (c) have 15 or more years of service and who both terminated school service and retired after attaining superannuation age and (d) participate in the PSERS Health Options Program or in an employer-sponsored health insurance program.
Amount	Participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of \$100 per month or the actual monthly premium. All administrative expenses necessary to operate the health insurance premium assistance program are to be funded by the Health Insurance Account. The Health Insurance Account is credited with contributions of the Commonwealth and the employers.

CONTRIBUTIONS

By Members	Members who elected coverage under Class T-D and who were most recently enrolled prior to July 22, 1983 contribute at a rate of 6½% of compensation, while members who elected coverage under Class T-D and who were most recently enrolled on or after July 22, 1983 contribute at a rate of 7½% of compensation. Members who did not elect coverage under Class T-D and who were most recently enrolled prior to July 22, 1983 contribute at a rate of 5¼% of compensation, while members who did not elect coverage under Class T-D and who were most recently enrolled on or after July 22, 1983 and prior to July 1, 2001 contribute at a rate of 6¼% of compensation. Anyone who enrolls or re-enrolls on or after July 1, 2001 automatically has coverage under class T-D for subsequent school service and subsequent intervening military service, and must contribute at a rate of 7½% of compensation. Reduction in rate for a joint coverage member: 40% of Social Security tax, exclusive of disability and medical coverage portion.
By Commonwealth and School Districts	Balance of required contribution determined as normal contribution, accrued liability contribution, supplemental annuity contribution, experience adjustment factor and premium assistance contribution, is funded by the Commonwealth and the School Districts.

Table 14
Summary of Membership Data
As of June 30, 2007
(Dollar Amounts in Thousands)

Active Members *

Item	Male	Female	Total
Number of Members	72,195	191,828	264,023
Annual Salaries **	$ 3,553,463	$ 7,856,794	$ 11,410,257
Average Age***	44.5	44.7	44.6
Average Service***	11.7	10.5	10.8

* Excludes 109,186 inactive members and vestees.

** The salaries shown in the table above represent an annual rate of pay for for the year ended June 30, 2007 for members who were in active service on June 30, 2007.

*** Average complete years of age and service.

Annuitants and Beneficiaries

Item	Number	Annual Annuities #	Average Annuities	Average Age
Annuitants (Normal, Early and Withdrawal)	152,361	$ 3,327,020	$ 21,836	69.7
Survivors and Beneficiaries	8,266	76,055	9,201	75.7
Disabled Annuitants	7,399	120,354	16,266	62.6
Total	168,026	$ 3,523,429	$ 20,970	69.7

The annuities shown in the table above represent the annual amount payable as of July 1, 2007 for participants who were in payment on June 30, 2007.

Exhibit I

Active Membership Data as of June 30, 2007
Number and Average Annual Salary

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 25	9,003	56								9,059
	$29,360	$26,889								$29,345
25 - 29	20,474	5,886	46							26,406
	$36,666	$45,601	$35,033							$38,655
30 - 34	9,697	13,078	2,962	32						25,769
	$34,466	$49,371	$55,846	$41,510						$44,497
35 - 39	9,840	8,710	9,342	2,112	56					30,060
	$27,009	$45,838	$58,494	$61,905	$42,436					$44,730
40 - 44	11,230	7,486	5,015	5,399	2,035	82				31,247
	$23,277	$35,818	$52,668	$63,420	$62,958	$43,322				$40,572
45 - 49	10,939	9,431	5,714	4,276	4,712	2,289	137			37,498
	$22,998	$31,581	$42,688	$56,654	$65,676	$64,275	$43,807			$39,953
50 - 54	7,775	8,323	6,879	5,616	4,341	6,968	5,220	71		45,193
	$23,510	$32,381	$40,916	$51,088	$61,303	$70,428	$71,531	$48,462		$47,670
55 - 59	5,074	4,837	4,645	5,246	4,515	3,673	7,648	1,943	24	37,605
	$24,046	$32,616	$40,185	$48,404	$56,264	$66,307	$75,110	$76,949	$46,653	$51,669
60 - 64	2,807	2,220	1,940	2,225	2,027	1,608	945	821	165	14,758
	$20,590	$29,522	$34,935	$42,714	$48,766	$52,980	$61,517	$77,817	$77,937	$40,999
Over 64	1,966	1,193	818	737	583	482	326	172	151	6,428
	$14,567	$19,700	$25,428	$29,726	$33,933	$36,145	$39,048	$49,160	$72,101	$25,533
Total	88,805	61,220	37,361	25,643	18,269	15,102	14,276	3,007	340	264,023
	$28,368	$39,156	$47,596	$53,602	$59,047	$65,394	$71,777	$74,924	$73,137	$43,217

Exhibit II

The Number and Average Annual Annuity
As of June 30, 2007

Retired on Account of Superannuation, Early Retirement and Those in Receipt of Withdrawal Annuities

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	1	1,991	1,280	399	115	22	1			3,809
	$64	$776	$1,727	$4,234	$8,105	$12,617	$23,910			$1,753
50-54		502	1,089	503	264	259	151	13		2,781
		$1,355	$1,645	$4,431	$9,861	$21,460	$31,332	$33,623		$6,483
55-59		415	2,252	1,201	753	1,401	7,479	3,059	2	16,562
		$2,188	$1,935	$5,695	$11,649	$26,498	$43,330	$53,410	$39,672	$32,938
60-64	115	627	2,965	2,193	1,796	2,879	11,230	7,986	204	29,995
	$999	$3,035	$2,939	$7,750	$14,856	$27,212	$38,037	$52,479	$59,070	$33,041
65-69	533	937	2,782	2,902	2,849	3,553	7,739	5,022	731	27,048
	$917	$2,889	$3,876	$8,183	$13,848	$22,376	$32,626	$42,877	$56,107	$24,605
70-74	575	938	2,714	2,646	2,988	3,189	4,136	3,596	1,316	22,098
	$633	$2,235	$3,544	$6,708	$11,174	$18,107	$27,038	$35,882	$43,496	$18,964
75-79	594	1,102	2,645	2,665	2,977	3,109	3,378	2,156	1,529	20,155
	$551	$1,822	$3,395	$6,048	$10,722	$16,503	$24,108	$32,020	$41,329	$16,092
80-84	508	1,000	2,310	2,471	2,457	2,297	1,853	1,621	751	15,268
	$490	$1,595	$3,304	$6,094	$10,426	$15,517	$20,707	$26,701	$37,552	$12,814
85-89	311	689	1,622	1,580	1,355	1,225	872	962	354	8,970
	$555	$1,581	$3,346	$5,928	$9,426	$13,648	$18,499	$22,774	$30,469	$10,521
Over 89	175	474	895	888	750	730	583	685	495	5,675
	$688	$2,059	$3,943	$6,712	$10,367	$13,772	$18,150	$22,030	$25,701	$11,772
Total	2,812	8,675	20,554	17,448	16,304	18,664	37,422	25,100	5,382	152,361
	$653	$1,788	$3,067	$6,634	$11,648	$19,946	$33,852	$42,892	$41,859	$21,836

Exhibit III

The Number and Average Annual Annuity
As of June 30, 2007

Beneficiaries and Survivor Annuitants

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	2	20	50	46	47	36	36	22	16	275
	$488	$1,715	$2,043	$3,559	$5,643	$7,551	$12,698	$13,836	$11,518	$6,487
50 - 54	2	13	22	25	37	30	32	29	11	201
	$365	$1,400	$2,423	$3,113	$6,224	$10,286	$16,027	$13,647	12,722	8,644
55 - 59	2	10	42	31	43	60	97	93	15	393
	$291	$2,023	$3,150	$4,285	$6,299	$13,171	$16,489	$19,677	$13,354	$12,663
60 - 64	3	16	53	55	56	69	191	150	34	627
	$331	$2,281	$2,815	$4,771	$7,176	$12,012	$16,605	$20,565	$12,473	$13,333
65 - 69	9	21	84	87	75	87	175	183	52	773
	$631	$1,757	$3,259	$5,476	$7,234	$12,598	$16,911	$20,356	$18,214	$13,018
70 - 74	8	42	124	100	113	104	213	180	106	990
	$605	$1,695	$2,869	$4,488	$7,202	$10,075	$13,068	$17,205	$21,985	$11,064
75 - 79	25	54	155	179	168	170	219	223	128	1,321
	$551	$1,433	$2,979	$4,196	$6,659	$8,446	$12,597	$13,949	$18,065	$9,114
80 - 84	29	97	216	191	177	205	222	295	117	1,549
	$639	$1,434	$2,539	$3,980	$6,391	$8,565	$10,116	$11,494	$15,627	$7,629
85 - 89	11	96	175	140	152	145	168	266	140	1,293
	$531	$1,187	$2,235	$3,324	$5,537	$7,028	$9,191	$10,814	$12,194	$6,933
Over 89	3	61	104	76	68	74	100	187	171	844
	$505	$1,112	$2,082	$3,679	$4,937	$6,417	$7,066	$8,829	$9,500	$6,348
Total	94	430	1,025	930	936	980	1,453	1,628	790	8,266
	$569	$1,432	$2,619	$4,106	$6,359	$9,213	$12,897	$14,414	$14,808	$9,201

Exhibit IV

The Number and Average Annual Annuity
As of June 30, 2007

Retired on Account of Disability

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50		239	167	111	46	13	2			578
		$10,349	$13,505	$18,032	$22,420	$24,180	$24,371			$14,057
50 - 54		196	190	156	150	134	26			852
		$9,290	$11,383	$16,768	$23,923	$36,819	$43,048			$19,062
55 - 59		251	285	241	271	381	214	2		1,645
		$8,144	$11,421	$15,383	$23,390	$35,010	$47,413	$50,776		$23,667
60 - 64		236	311	281	317	297	118	4		1,564
		$6,930	$9,295	$12,317	$20,056	$28,640	$40,574	$46,850		$17,792
65 - 69		181	269	235	202	139	19			1,045
		$5,317	$8,063	$10,322	$15,896	$25,862	$31,337			$12,400
70 - 74		132	185	147	122	81	15	3		685
		$4,787	$6,848	$8,657	$13,837	$21,060	$27,409	$43,058		$10,374
75 - 79		93	158	103	104	44	5		1	508
		$3,238	$5,630	$8,803	$12,919	$19,578	$22,130		$54,601	$8,795
80 - 84		71	66	50	57	40	11	2		297
		$3,660	$6,183	$8,263	$11,539	$16,362	$21,261	$26,943		$9,027
85 - 89		30	35	25	29	21	12			152
		$3,613	$5,719	$7,680	$10,469	$15,205	$23,408			$9,239
Over 89		8	23	21	9	4	8			73
		$2,753	$5,001	$8,217	$10,349	$15,562	$18,641			$8,413
Total		1,437	1,689	1,370	1,307	1,154	430	11	1	7,399
		$7,140	$9,243	$12,532	$18,832	$29,715	$41,589	$42,910	$54,601	$16,266

Exhibit V

Annuitant and Beneficiary Membership Data
As of June 30, 2007

Number and Average Annual Benefit
Excludes Partial Lump Sum Payments

Age Last Birthday	Number	Annual Benefit (Thousands)	Average Annual Benefit
Annuitants			
(Normal, Early and Withdrawal)			
Under 60	23,152	$ 570,235	$ 24,630
60 - 64	29,995	991,054	33,041
65 - 69	27,048	665,516	24,605
70 - 74	22,098	419,059	18,964
75 - 79	20,155	324,327	16,092
Over 79	29,913	356,829	11,929
Total	152,361	$ 3,327,020	$ 21,836
Survivors and Beneficiaries			
Under 60	869	$ 8,498	$ 9,779
60 - 64	627	8,360	13,333
65 - 69	773	10,063	13,018
70 - 74	990	10,953	11,064
75 - 79	1,321	12,040	9,114
Over 79	3,686	26,141	7,092
Total	8,266	$ 76,055	$ 9,201
Disabled Annuitants			
Under 60	3,075	$ 63,297	$ 20,584
60 - 64	1,564	27,826	17,792
65 - 69	1,045	12,958	12,400
70 - 74	685	7,106	10,374
75 - 79	508	4,468	8,795
Over 79	522	4,699	9,002
Total	7,399	$ 120,354	$ 16,266
Grand Total Average Annual Benefit	168,026	$ 3,523,429	$ 20,970

Exhibit VI

10 Year History of Membership Data

Active Members

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Dollars in Thousands)	Percentage Change in Payroll
2007	264,023	0.26%	$ 11,410,257	(0.08)%
2006	263,350	3.09%	11,419,049	8.47%
2005	255,465	3.05%	10,527,668	4.95%
2004	247,901	0.49%	10,030,705	3.91%
2003	246,700	1.68%	9,652,881	2.92%
2002	242,616	(0.29)%	9,378,944	(0.38)%
2001	243,311	3.89%	9,414,884	5.32%
2000	234,210	4.79%	8,939,598	8.39%
1999	223,495	1.27%	8,247,602	1.93%
1998	220,703	2.62%	8,091,481	4.47%

Exhibit VI

10 Year History of Membership Data

The Number and Annual Annuities of Annuitant and Survivor Annuitant Members

Year Ended June 30	Number on roll	Annual Annuities (Dollars in Millions)	Average Annual Annuities	Additions *	Annual Annuities * (Dollars in Millions)	Deletions *	Annual Annuities * (Dollars in Millions)	Percentage Change in Membership	Percentage Change in Annuities
2007	168,026	$ 3,523.4	$ 20,970	10,612	$ 307.5	4,399	$ 56.0	3.84%	7.60%
2006	161,813	3,274.5	20,236	10,637		5,343		3.38%	8.16%
2005	156,519	3,027.6	19,343	10,050		5,083		3.28%	8.20%
2004	151,552	2,798.2	18,464	10,526		4,667		4.02%	9.94%
2003	145,693	2,545.1	17,469	9,079		4,800		3.03%	13.20%
2002	141,414	2,248.3	15,899	13,003		4,305		6.55%	20.10%
2001	132,716	1,872.0	14,105	3,140		4,482		(1.00)%	0.00%
2000	134,058	1,880.6	14,028	5,923		4,734		0.89%	2.73%
1999	132,869	1,830.6	13,777	10,609		4,554		4.77%	10.77%
1998	126,814	1,652.6	13,032	7,132		4,442		2.17%	14.21%

* The annual annuities added and deleted are for the annuitants and survivor annuitants who were added and deleted. Changes in annuitites for continuing payees may also occur due to finalization of benefit calculations and due to the commencement of supplemental annuity payments.

STATISTICAL

1919

The Pennsylvania Public School Employes' Retirement Act passed in 1917 went into full effect with the merger of 13 school district retirement systems into the new Commonwealth-wide System. Membership was 37,503.

Statistical Section
Narrative

To assist readers in the assessment of the System's economic condition, the Statistical Section of this Comprehensive Annual Financial Report presents information to add historical perspective, context, and detail to the financial statements, notes to financial statements, and required supplementary information presented in the preceding sections. To provide historical perspective and a sense of trend, the exhibits in this Section are presented in multiple-year formats. The information is categorized into four topical groups: *Financial Trends, Revenue Capacity, Demographic and Economic Information, and Operating Information*.

Financial Trends

The ***Schedule of Trend Data*** provides key financial, actuarial, and demographic information for a ten-year period ended June 30, 2008.

The ***Schedule of Total Changes in Plan Net Assets*** shows the historical combined effects of the additions and deductions of plan net assets over the ten-year period ended June 30, 2008.

The schedule of ***Additions to Plan Net Assets*** provides tabular and visual details of the additions to the System's plan net assets over the ten-year period ended June 30, 2008.

The schedule of ***Deductions from Plan Net Assets*** provides tabular and visual details of the deductions from the System's plan net assets over the ten-year period ended June 30, 2008.

Revenue Capacity

The ***Schedule of Investment Income*** provides a ten-year perspective on the System's largest source of revenue, Net Investment Income, over the ten-year period ended June 30, 2008.

Demographic and Economic Information

The ***Schedule of Summary Membership Data*** provides general populations and statistics relating to the System's active membership over the ten-year period ended June 30, 2007.

The ***Schedule of Summary Annuity Data*** provides general populations and statistics relating to the System's annuitants over the ten-year period ended June 30, 2007.

The schedule of ***Components of Total Contribution Rate*** provides a long-term historical perspective of the actuarially required contribution rates to the System's members and employers.

The ***Schedule of Retired Members by Type of Benefit*** provides summary statistics relating to the PSERS annuitants' receipt of annuities over the ten-year period ended June 30, 2007.

Operating Information

The list of ***Ten Largest Employers*** shows the System's ten largest employers in terms of reported members. Due to the stable comparable populations of school employees in PSERS' employers over the years, a single presentation provides perspective for a ten-year period.

The ***Schedule of Employers*** provides the full list of PSERS' employers.

Schedule of Trend Data*

For years ending June 30,	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Contribution Rates:										
Total Pension %	6.44	5.72	4.00	4.00	2.98	.18	0.00	1.64	4.36	5.89
Health Care Insurance Premium Assistance %	.69	.74	.69	.23	.79	.97	1.09	.30	.25	.15
Total Employer %	7.13	6.46	4.69	4.23	3.77	1.15	1.09	1.94	4.61	6.04
Average Member %	7.25	7.21	7.16	7.12	7.08	7.10	6.43	5.77	5.72	5.69
Contributions:										
Employer & CMS $	863,275	774,097	544,884	457,808	406,722	116,456	109,450	185,716	412,783	526,960
Member $	1,039,161	999,507	982,846	955,509	944,422	897,307	805,567	721,725	680,040	646,507
Average Annual Member Compensation $	#	43,217	43,361	41,210	40,463	39,128	38,658	38,695	38,169	36,903
Market Value of Assets $	#	67,438,000	57,328,000	52,033,534	48,484,506	42,446,826	43,576,553	48,143,327	53,412,950	48,971,751
Actuarial Value of Assets $	#	57,155,000	52,558,000	51,219,300	52,094,500	52,900,500	54,296,400	54,830,300	49,293,047	44,606,526
Accrued Actuarial Liability $	#	66,593,000	64,720,000	61,129,444	56,978,143	54,313,328	51,693,207	47,870,922	39,771,604	37,499,115
Funded Ratio %	#	85.8	81.2	83.7	91.2	97.2	104.8	114.4	123.8	119.0
Total Benefits & Refunds $	4,941,681	4,320,440	4,115,865	3,877,842	3,497,365	3,102,684	2,913,163	2,297,332	2,382,277	2,456,383
Average Pension $	21,653	20,970	20,236	19,343	18,464	17,469	15,899	14,105	14,029	13,777
Annuitants & Beneficiaries	175,803	168,026	161,813	156,519	151,552	145,693	141,414	132,716	134,058	132,869
Active Members	279,278	264,023	263,350	255,465	247,901	246,700	242,616	243,311	234,210	223,495

* All dollar amounts are in thousands, except Average Annual Member Compensation and Average Pension.
# Data for these categories relate to the actuarial valuation for fiscal year ended June 30, 2008. Results for this valuation are not available at publication date.

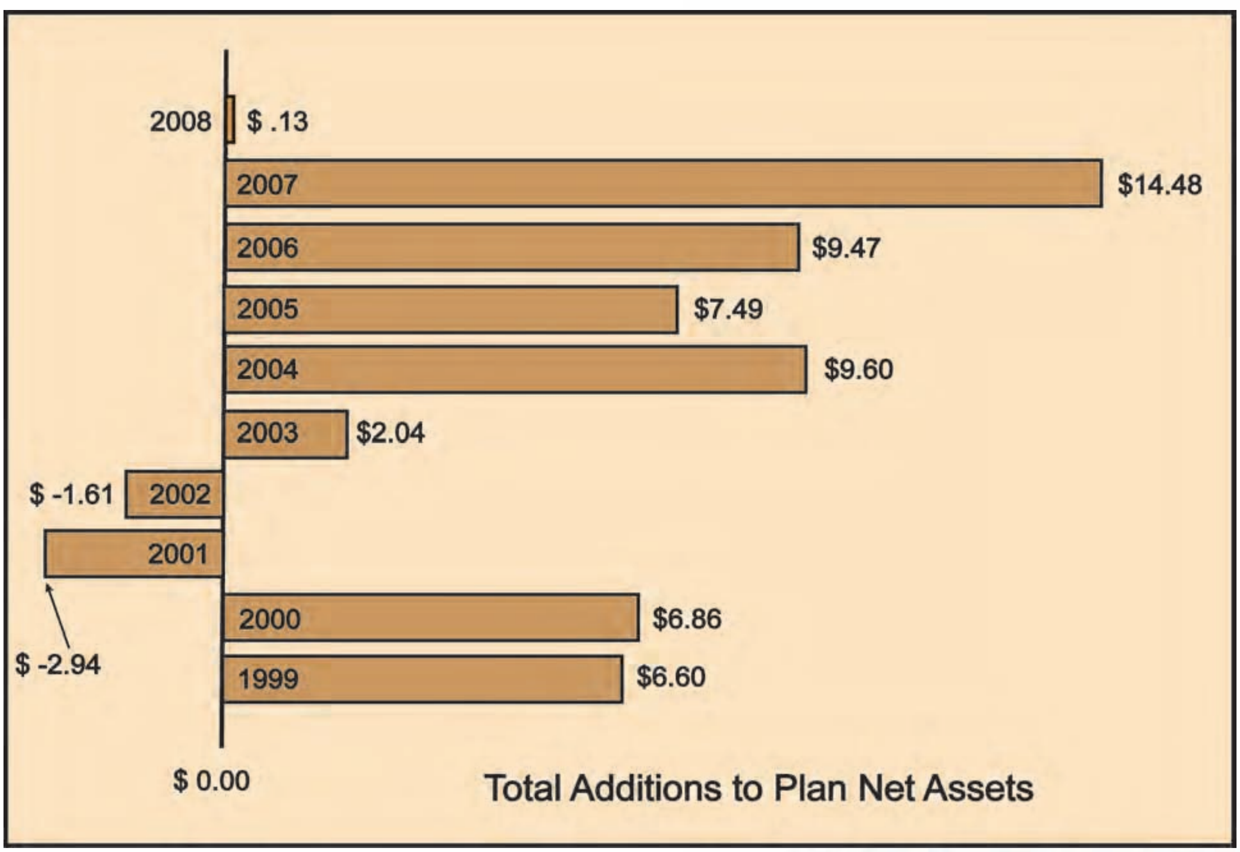
Schedule of Total Changes in Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

	Additions to Plan Net Assets				Deductions from Plan Net Assets						
Year Ending June 30,	Member Contributions	Employer and CMS Contributions	Net Investment Income	Total Additions	Benefits	Lump-Sum and Installment	Refunds of Contributions	Administrative	Net Transfers	Total Deductions	Net Increase / (Decrease)
2008	$ 1,039,161	$ 863,275	$ (1,775,585)	$ 126,851	$ 3,632,461	$ 1,263,350	$ 28,713	$ 49,250	$ 17,157	$ 4,990,931	$ (4,864,080)
2007	999,507	774,097	12,702,721	14,476,325	3,440,819	855,431	18,180	50,482	6,010	4,370,922	10,105,403
2006	982,846	544,884	7,942,639	9,470,369	3,260,712	830,361	16,330	48,629	8,462	4,164,494	5,305,875
2005	955,509	457,808	6,081,497	7,494,814	3,158,661	692,089	16,233	42,645	10,859	3,920,487	3,574,327
2004	944,422	406,722	8,244,604	9,595,748	2,906,344	559,939	14,767	49,202	16,315	3,546,567	6,049,181
2003	897,307	116,456	1,022,467	2,036,230	2,591,130	485,495	13,943	42,278	12,116	3,144,962	(1,108,732)
2002	805,567	109,450	(2,523,025)	(1,608,008)	2,293,687	595,184	14,858	35,373	9,434	2,948,536	(4,556,544)
2001	721,725	185,716	(3,843,713)	(2,936,272)	2,087,868	176,228	22,369	34,854	10,867	2,332,186	(5,268,458)
2000	680,040	412,783	5,765,133	6,857,956	2,048,792	306,329	22,446	29,333	4,710	2,411,610	4,446,346
1999	646,507	526,960	5,428,659	6,602,126	1,834,494	591,532	20,110	27,786	10,247	2,484,169	4,117,957

Additions to Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

		Employers & CMS Contributions			
Fiscal Year	Members Contributions	Dollar Amount	Percentage of Covered Payroll	Net Investment Income / (Loss)	Total Additions
2008	$ 1,039,161	$ 863,275	7.13 %	$ (1,775,585)	$ 126,851
2007	999,507	774,097	6.46	12,702,721	14,476,325
2006	982,846	544,884	4.69	7,942,639	9,470,369
2005	955,509	457,808	4.23	6,081,497	7,494,814
2004	944,422	406,722	3.77	8,244,604	9,595,748
2003	897,307	116,456	1.15	1,022,467	2,036,230
2002	805,567	109,450	1.09	(2,523,025)	(1,608,008)
2001	721,725	185,716	1.94	(3,843,713)	(2,936,272)
2000	680,040	412,783	4.61	5,765,133	6,857,956
1999	646,507	526,960	6.04	5,428,659	6,602,126

(Dollar Amounts in Billions)

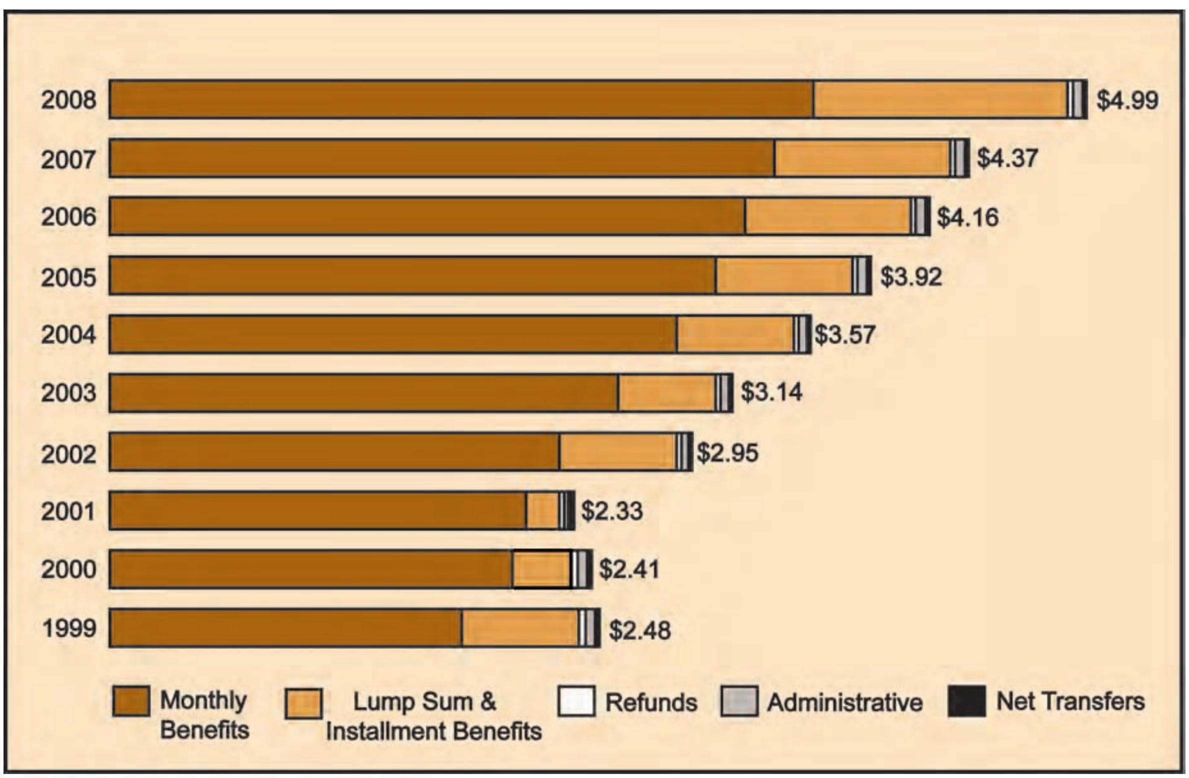


Deductions from Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Fiscal Year	Benefits: Monthly Benefits	Benefits: Lump-Sum and Installment	Refunds	Administrative	Net Transfers*	Total Deductions
2008	$ 3,632,461	$ 1,263,350	$ 28,713	$ 49,250	$ 17,157	$ 4,990,931
2007	3,440,819	855,431	18,180	50,482	6,010	4,370,922
2006	3,260,712	830,361	16,330	48,629	8,462	4,164,494
2005	3,158,661	692,089	16,233	42,645	10,859	3,920,487
2004	2,906,344	559,939	14,767	49,202	16,315	3,546,567
2003	2,591,130	485,495	13,943	42,278	12,116	3,144,962
2002	2,293,687	595,184	14,858	35,373	9,434	2,948,536
2001	2,087,868	176,228	22,369	34,854	10,867	2,332,186
2000	2,048,792	306,329	22,446	29,333	4,710	2,411,610
1999	1,834,494	591,532	20,110	27,786	10,247	2,484,169

* Net transfers to the Commonwealth of Pennsylvania, State Employees' Retirement System.

(Dollar Amounts in Billions)



Schedule of Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ending June 30,	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Investment income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ (3,763,381)	$ 10,457,561	$ 5,968,866	$ 4,462,384	$ 6,871,417	$ (172,506)	$ (3,826,705)	$ (5,137,619)	$ 4,129,236	$ 4,068,463
Investment income	2,338,079	2,532,993	2,162,096	1,795,687	1,549,791	1,358,997	1,450,203	1,413,964	1,739,049	1,431,399
Total investment activity income (loss)	(1,425,302)	12,990,554	8,130,962	6,258,071	8,421,208	1,186,491	(2,376,502)	(3,723,655)	5,868,285	5,499,862
Investment expenses	(399,136)	(313,758)	(211,279)	(192,677)	(191,300)	(179,056)	(162,777)	(143,685)	(124,576)	(88,929)
Net income (loss) from investing activities	**(1,824,438)**	**12,676,796**	**7,919,683**	**6,065,394**	**8,229,908**	**1,007,435**	**(2,539,279)**	**(3,867,340)**	**5,743,709**	**5,410,933**
From securities lending activities:										
Securities lending income	319,107	419,762	270,447	125,882	46,075	43,870	57,391	147,852	161,416	163,445
Securities lending expense	(270,254)	(393,837)	(247,491)	(109,779)	(31,379)	(28,838)	(41,137)	(124,225)	(139,992)	(145,719)
Net income from securities lending activities	**48,853**	**25,925**	**22,956**	**16,103**	**14,696**	**15,032**	**16,254**	**23,627**	**21,424**	**17,726**
Total net investment income (loss)	(1,775,585)	12,702,721	7,942,639	6,081,497	8,244,604	1,022,467	(2,523,025)	(3,843,713)	5,765,133	5,428,659

Schedule of Summary Membership Data
10 Year Trend *
(Dollar Amounts in Thousands)

For year ended June 30,	Male Average Age	Male Average Service	Male Average Annual Salaries	Female Average Age	Female Average Service	Female Average Annual Salaries	Total Number of Active Members
2007	44.5	11.7	$ 49,220	44.7	10.5	$ 40,958	264,023
2006	44.6	12.0	49,153	44.7	10.7	41,155	263,350
2005	44.9	12.6	47,416	45.0	11.0	38,832	255,465
2004	45.1	13.0	47,103	45.1	11.1	37,901	247,901
2003	45.1	13.5	45,947	45.0	11.2	36,465	246,700
2002	45.2	14.0	45,182	44.9	11.3	36,073	242,616
2001	45.5	14.6	45,686	44.9	11.6	35,852	243,311
2000	45.2	14.4	45,049	44.6	11.3	35,331	234,210
1999	45.2	14.6	43,498	44.7	11.5	34,132	223,495
1998	45.4	15.2	43,239	44.7	11.7	33,799	220,703

* Actuarial Valuation for year ended June 30, 2007 is most current valuation completed at publication date.

Schedule of Summary Annuity Data
10 Year Trend *

For year ended June 30,	Number of Annuitants & Beneficiaries	Total Annual Annuities **	Average Annual Annuity
2007	168,026	$ 3,523,000	$ 20,970
2006	161,813	3,274,000	20,236
2005	156,519	3,027,550	19,343
2004	151,552	2,798,211	18,464
2003	145,693	2,545,135	17,469
2002	141,414	2,248,291	15,899
2001	132,716	1,871,995	14,105
2000	134,058	1,880,644	14,028
1999	132,869	1,830,582	13,777
1998	126,814	1,652,645	13,032

* Actuarial Valuation for year ended June 30, 2007 is most current valuation completed at publication date.

** Total Annual Annuities dollar amounts expressed in millions.

Components of Total Contribution Rate

(In Percentages)

Employer Year	Employer Payroll	Member Contribution (Average)	Employer Contribution: Normal Requirement (A)	Employer Contribution: (Funded) / Unfunded Accrued Liability (B)	Employer Contribution: Employer Pension Rate	Employer Contribution: Heath Insurance Premium Assistance Contribution (C)	Employer Contribution: Total Employer Rate	Grand Total Contribution Rate
2007-2008	$ 12,881,244	7.25%	6.68%	(0.24)%	6.44%	.69%	7.13%	14.38%
2006-2007	11,821,951	7.21	6.62	(0.95)	5.72	.74	6.46	13.67
2005-2006	11,505,093	7.16	7.61	(4.28)	4.00	.69	4.69	11.85
2004-2005	11,062,589	7.12	7.48	(7.10)	4.00	.23	4.23	11.35
2003-2004	10,030,705	7.08	7.25	(4.27)	2.98	.79	3.77	10.85
2002-2003	9,652,881	7.10	7.20	(10.03)	0.18	.97	1.15	8.25
2001-2002	9,378,944	6.43	5.63	(6.05)	0.00	1.09	1.09	7.52
2000-2001	9,414,884	5.77	6.29	(4.65)	1.64	.30	1.94	7.71
1999-2000	8,939,598	5.72	6.40	(2.04)	4.36	.25	4.61	10.33
1998-1999	8,247,602	5.69	6.33	(0.44)	5.89	.15	6.04	11.73
1997-1998	8,091,481	5.65	6.44	2.17	8.61	.15	8.76	14.41
1996-1997	7,745,001	5.62	6.44	3.56	10.00	.60	10.60	16.22
1995-1996	7,616,585	5.59	6.43	4.67	11.10	.62	11.72	17.31
1994-1995	7,378,342	5.55	6.43	4.18	10.61	.45	11.06	16.61
1993-1994	6,885,337	5.51	7.34	5.58	12.92	.25	13.17	18.68
1992-1993	6,348,565	5.48	7.90	5.84	13.74	.50	14.24	19.72
1991-1992	6,098,222	5.46	8.00	6.40	14.40	.50	14.90	20.36
1990-1991	5,744,798	5.69	8.28	10.90	19.18		19.18	24.87
1989-1990	5,363,535	5.53	8.44	11.24	19.68		19.68	25.21

The total contribution rate is the total of the employer and member rates actuarially required for the funding of PSERS' pension and postemployment health insurance premium assistance benefits.

The total employer rate is comprised of a normal requirement, an accrued liability requirement and a postemployment healthcare insurance premium assistance requirement.

(A) The normal requirement portion is the percentage of compensation necessary to fund any prospective pension benefits payable to the member.

(B) The total funded / unfunded accrued liability portion is the percentage of compensation necessary to fund past pension benefit enhancements, cost-of-living adjustments and other acturial gains and losses.

(C) The postemployment healthcare insurance premium assistance portion is the percentage of compensation necessary to fund the postemployment health insurance premium assistance program established under the provisions of Act 23 - 1991.

Employer Payroll is the estimated or actual aggregate employer salaries used in the actuarial valuation that determined the employer contributon rates for the employer years.

Schedule of Retired Members by Type of Benefit ***

Year	Retirement Type**	Option M* Number of Retirees	Option M* Average Mo. Benefit	Option 1* Number of Retirees	Option 1* Average Mo. Benefit	Option 2, 3* Number of Retirees	Option 2, 3* Average Mo. Benefit
2007	S	49,971	$1,868	11,727	$1,576	19,926	$2,144
	W	44,620	1,695	12,218	1,338	12,622	1,967
	D	5,689	1,271	6	743	1,691	1,606
	R	0	0	0	0	0	0
	B	513	955	0	0	7,036	753
		100,793		**23,951**		**41,275**	
2006	S	49,831	$1,813	11,081	$1,514	19,085	$2,067
	W	43,328	1,656	10,948	1,269	11,477	1,872
	D	5,544	1,244	8	629	1,569	1,571
	R	1	5	0	0	0	0
	B	473	951	1	1,675	6,785	728
		99,177		**22,038**		**38,916**	
2005	S	49,508	$1,737	10,385	$1,420	18,206	$1,965
	W	42,096	1,611	9,754	1,187	10,492	1,778
	D	5,455	1,198	9	656	1,450	1,539
	R	1	5	0	0	0	0
	B	405	908	1	1,072	6,646	690
		97,465		**20,149**		**36,794**	
2004	S	49,424	$1,648	9,706	$1,312	17,321	$1,842
	W	40,944	1,556	8,582	1,073	9,551	1,669
	D	5,327	1,154	9	656	1,304	1,508
	R	1	5	0	0	0	0
	B	324	899	2	1,072	6,502	648
		96,020		**18,299**		**34,678**	
2003	S	49,231	$1,560	8,999	$1,186	16,408	$1,725
	W	39,707	1,494	7,541	964	8,696	1,569
	D	5,170	1,105	9	656	1,156	1,459
	R	1	5	0	0	0	0
	B	258	881	11	542	6,348	614
		94,367		**16,560**		**32,608**	
2002	S	49,368	$1,431	8,422	$1,064	15,695	$1,572
	W	38,679	1,389	6,696	820	7,948	1,415
	D	5,049	1,017	11	700	1,015	1,305
	R	1	5	0	0	0	0
	B	232	814	11	557	6,206	586
		93,329		**15,140**		**30,864**	
2001	S	47,982	$1,241	7,681	$857	14,453	$1,334
	W	36,628	1,287	5,656	653	7,051	1,275
	D	4,864	909	13	567	895	1,167
	R	1	4	0	0	0	0
	B	175	790	7	426	6,029	562
		89,650		**13,357**		**28,428**	
2000	S	49,367	$1,225	7,923	$860	14,768	$1,326
	W	36,620	1,288	5,623	660	7,063	1,281
	D	4,740	886	14	545	847	1,141
	R	1	4	0	0	0	0
	B	144	762	3	435	5,879	544
		90,872		**13,563**		**28,557**	
1999	S	49,255	$1,183	8,046	$ 855	14,641	$1,309
	W	36,002	1,281	5,514	670	6,958	1,278
	D	4,587	854	14	545	782	1,105
	R	1	4	0	0	0	0
	B	120	754	1	1,160	5,655	519
		89,965		**13,575**		**28,036**	
1998	S	49,081	$1,151	8,134	$ 858	14,558	$1,293
	W	31,568	1,131	5,253	636	6,300	1,209
	D	4,439	828	15	541	724	1,074
	R	1	4	0	0	0	0
	B	84	792	1	1,160	5,421	493
		85,173		**13,403**		**27,003**	

*** OPTIONS:**

M - Maximum Option - Highest monthly allowance with guarantee of accumulated deductions only
1 - Option 1 - Maximum allowance reduced for Death Benefit protection
2, 3 - Option 2 & 3 - Joint and survivor annuities
SO - Special Option - Plan approved by actuary
BO - Beneficiary Options - Life, 5 and 10 year certain annuity plans

*** Actuarial Valuation for year ended June 30, 2007 is most current valuation completed at publication date.

Schedule of Retired Members by Type of Benefit *** (Continued)

Year	Retirement Type**	Option SO* Number of Retirees	Option SO* Average Mo. Benefit	Option BO* Number of Retirees	Option BO* Average Mo. Benefit	Total Retirees	% Increase of Retirees
2007	S	848	$3,490	0	$ 0	82,472	2.0%
	W	437	2,912	0	0	69,897	5.6%
	D	11	1,848	0	0	7,397	3.7%
	R	0	0	0	0	0	0.0%
	B	175	3,281	536	713	8,260	3.8%
		1,471		**536**		**168,026**	**3.7%**
2006	S	849	$3,324	0	$ 0	80,846	4.8%
	W	418	2,761	0	0	66,171	11.4%
	D	12	1,785	0	0	7,133	7.3%
	R	0	0	0	0	1	0.0%
	B	162	865	534	688	7,955	6.3%
		1,441		**534**		**162,106**	**7.6%**
2005	S	740	$3,306	0	$ 0	78,839	2.2%
	W	355	2,710	0	0	62,697	5.6%
	D	8	1,513	0	0	6,922	4.1%
	R	0	0	0	0	1	0.0%
	B	157	804	526	657	7,735	3.3%
		1,260		**526**		**156,194**	**3.7%**
2004	S	675	$3,135	0	$ 0	77,126	2.5%
	W	313	2,622	0	0	59,390	5.7%
	D	7	1,482	0	0	6,647	4.9%
	R	0	0	0	0	1	0.0%
	B	144	694	514	622	7,486	3.2%
		1,139		**514**		**150,650**	**3.9%**
2003	S	613	$2,984	0	$ 0	75,261	1.6%
	W	266	2,494	1	336	56,210	5.0%
	D	3	2,211	0	0	6,338	4.3%
	R	0	0	0	0	1	0.0%
	B	146	637	489	517	7,252	2.6%
		1,028		**490**		**145,062**	**6.0%**
2002	S	562	$2,727	0	$ 0	74,047	4.9%
	W	235	2,312	0	0	53,558	8.1%
	D	3	2,099	0	0	6,078	5.3%
	R	0	0	0	0	1	0.0%
	B	148	559	475	553	7,072	3.5%
		948		**475**		**140,756**	**6.0%**
2001	S	473	$2,412	0	$ 0	70,589	-2.7%
	W	202	2,186	1	336	49,538	0.1%
	D	2	2,151	0	0	5,774	3.1%
	R	0	0	0	0	1	0.0%
	B	149	513	476	517	6,836	2.6%
		826		**477**		**132,738**	**-1.2%**
2000	S	480	$2,389	0	$ 0	72,538	0.2%
	W	207	2,180	1	336	49,514	1.7%
	D	2	2,151	0	0	5,603	4.1%
	R	0	0	0	0	1	0.0%
	B	146	481	488	500	6,660	3.8%
		835		**489**		**134,316**	**1.1%**
1999	S	444	$2,379	0	$ 0	72,386	0.3%
	W	207	2,167	0	0	48,681	12.5%
	D	1	1,109	0	0	5,384	4.0%
	R	0	0	0	0	1	0.0%
	B	142	427	496	475	6,414	4.5%
		794		**496**		**132,866**	**4.8%**
1998	S	433	$2,365	0	$ 0	72,206	0.5%
	W	163	2,063	0	0	43,284	4.9%
	D	0	0	0	0	5,178	2.7%
	R	0	0	0	0	1	0.0%
	B	146	392	487	426	6,139	2.7%
		742		**487**		**126,808**	**2.2%**

** **RETIREMENT TYPE:**
S - Superannuation or Normal Retirement
W - Withdrawal or Early Retirement
D - Disability Benefit
R - Refund Annuity
B - Beneficiaries Receiving Annuities

*** Actuarial Valuation for year ended June 30, 2007 is most current valuation completed at publication date.

Ten Largest Employers

(Based on count of reported members)

		Percentage of Total Active Members
1.	City of Philadelphia School District	10.5 %
2.	Pittsburgh School District	2.2
3.	Central Bucks School District	.9
4.	Reading School District	.8
5.	Allentown City School District	.8
6.	North Penn School District	.7
7.	Bethlehem Area School District	.7
8.	Pocono Mountain School District	.6
9.	Erie City School District	.6
10.	Pennsbury School District	.6

The top ten employers in PSERS through the years has not varied significantly. Philadelphia School District and Pittsburgh School District each year represent the largest portion of reported members from the employer population. After these two employers, the remainder of the more than 700 employers of the System each comprise less than 1% of the total active membership in PSERS.

Schedule of Employers
School Districts

A

Abington
Abington Heights
Albert Gallatin
Aliquippa
Allegheny-Clarion Valley
Allegheny Valley
Allentown City
Altoona Area
Ambridge Area
Annville-Cleona
Antietam
Apollo-Ridge
Armstrong
Athens Area
Austin Area
Avella Area
Avon Grove
Avonworth

B

Bald Eagle Area
Baldwin-Whitehall
Bangor Area
Beaver Area
Bedford Area
Belle Vernon Area
Bellefonte Area
Bellwood-Antis
Bensalem Township
Benton Area
Bentworth
Berlin Brothers Valley
Bermudian Springs
Berwick Area
Bethel Park
Bethlehem Area
Bethlehem-Center
Big Beaver Falls Area
Big Spring
Blackhawk
Blacklick Valley
Blairsville-Saltsburg
Bloomsburg Area
Blue Mountain
Blue Ridge
Boyertown Area
Bradford Area
Brandywine Heights Area
Brentwood Boro
Bristol Boro
Bristol Township
Brockway Area
Brookville Area
Brownsville Area
Burgettstown Area
Burrell
Butler Area

C

California Area
Cambria Heights
Cameron County
Camp Hill
Cannon-McMillan
Canton Area
Carbondale Area
Carlisle Area
Carlynton
Carmichaels Area
Catasaqua
Centennial
Center Area
Central Bucks
Central Cambria
Central Columbia
Central Dauphin
Central Fulton
Central Greene
Central York
Chambersburg Area
Charleroi Area
Chartiers-Houston
Chartiers Valley
Cheltenham Township
Chester-Upland
Chestnut Ridge
Chichester
Clairton
Clarion Area
Clarion-Limestone Area
Claysburg-Kimmel
Clearfield Area
Coatesville Area
Cocalico
Colonial
Columbia Boro
Commodore Perry
Conemaugh Township Area
Conemaugh Valley
Conestoga Valley
Conewago Valley
Conneaut
Connellsville Area
Conrad Weiser Area
Cornell
Cornwall-Lebanon
Corry Area
Coudersport Area
Council Rock
Cranberry Area
Crawford Central
Crestwood
Cumberland Valley
Curwensville Area

D

Dallas
Dallastown Area
Daniel Boone Area
Danville Area
Deer Lakes
Delaware Valley
Derry Area
Derry Township
Donegal
Dover Area
Downingtown Area
DuBois Area
Dunmore
Duquesne City

E

East Allegheny
East Lycoming
East Penn
East Pennsboro Area
East Stroudsburg
Eastern Lancaster County
Eastern Lebanon County
Eastern York
Easton Area
Elizabeth Forward
Elizabethtown Area
Elk Lake
Ellwood City Area
Ephrata Area
Erie City
Everett Area
Exeter Township

F

Fairfield Area
Fairview
Fannett-Metal
Farrell Area
Ferndale Area
Fleetwood Area
Forbes Road
Forest Area
Forest City Regional
Forest Hills
Fort Cherry
Fort Le Boeuf
Fox Chapel Area
Franklin Area
Franklin Regional
Frazier
Freedom Area
Freeport Area

Schedule of Employers (Continued)

G

Galeton Area
Garnet Valley
Gateway
General McLane
Gettysburg Area
Girard
Glendale
Governor Mifflin
Great Valley
Greater Johnstown
Greater Latrobe
Greater Nanticoke Area
Greencastle-Antrim
Greensburg Salem
Greenville Area
Greenwood
Grove City Area

H

Halifax Area
Hamburg Area
Hampton Township
Hanover Area
Hanover Public
Harbor Creek
Harmony
Harrisburg City
Hatboro-Horsham
Haverford Township
Hazleton Area
Hempfield
Hempfield Area
Hermitage
Highlands
Hollidaysburg Area
Homer Center
Hopewell Area
Huntingdon Area

I

Indiana Area
Interboro
Iroquois

J

Jamestown Area
Jeannette City
Jefferson-Morgan
Jenkintown
Jersey Shore Area
Jim Thorpe Area
Johnsonburg Area
Juniata County
Juniata Valley

K

Kane Area
Karns City Area
Kennett Consolidated
Keystone
Keystone Central
Keystone Oaks
Kiski Area
Kutztown Area

L

Lackawanna Trail
Lake Lehman
Lakeland
Lakeview
Lampeter-Strasburg
Lancaster City
Laurel
Laurel Highlands
Lebanon
Leechburg Area
Lehighton Area
Lewisburg Area
Ligonier Valley
Line Mountain
Littlestown
Lower Dauphin
Lower Merion
Lower Moreland
Loyalsock Township

M

Mahanoy Area
Manheim Central
Manheim Township
Marion Center Area
Marple Newtown
Mars Area
McGuffey
McKeesport Area
Mechanicsburg Area
Mercer Area
Methacton
Meyersdale Area
Mid Valley
Midd-West
Middletown Area
Midland Boro
Mifflin County
Mifflinburg Area
Millcreek Township
Millersburg Area
Millville Area
Milton Area
Minersville Area
Mohawk Area
Monaca
Monessen
Moniteau
Montgomery Area
Montour
Montoursville Area
Montrose Area
Moon Area
Morrisville Boro
Moshannon Valley
Mount Carmel Area
Mount Lebanon
Mount Pleasant Area
Mount Union Area
Mountain View
Muhlenberg
Muncy

N

Nazareth Area
Neshaminy
Neshannock Township
New Brighton Area
New Castle Area
New Hope-Solebury
New Kensington-Arnold
Newport
Norristown Area
North Allegheny
North Clarion County
North East
North Hills
North Penn
North Pocono
North Schuylkill
North Star
Northampton Area
Northeast Bradford
Northeastern York County
Northern Bedford County
Northern Cambria
Northern Lebanon
Northern Lehigh
Northern Potter
Northern Tioga
Northern York County
Northgate
Northwest Area
Northwestern
Northwestern Lehigh
Norwin

O

Octorara Area
Oil City Area
Old Forge
Oley Valley
Oswayo Valley
Otto Eldred
Owen J. Roberts
Oxford Area

Schedule of Employers (Continued)

P

Palisades
Palmerton Area
Palmyra Area
Panther Valley
Parkland
Pen Argyl Area
Penn Cambria
Penn Crest
Penn Delco
Penn Hills
Penn Manor
Penn Trafford
Pennridge
Penns Manor
Penns Valley Area
Pennsbury
Pequea Valley
Perkiomen Valley
Peters Township
Philadelphia
Philipsburg-Osceola
Phoenixville Area
Pine Grove Area
Pine-Richland
Pittsburgh
Pittston Area
Pleasant Valley
Plum Boro
Pocono Mountain
Port Allegany
Portage Area
Pottsgrove
Pottstown
Pottsville Area
Punxsutawney Area
Purchase Line

Q

Quaker Valley
Quakertown Community

R

Radnor Township
Reading
Red Lion Area
Redbank Valley
Reynolds
Richland
Ridgway Area
Ridley
Ringgold
Riverside
Riverside Beaver County
Riverview
Rochester Area
Rockwood Area
Rose Tree Media

S

Saint Clair Area
Saint Marys Area
Salisbury-Elk Lick
Salisbury Township
Saucon Valley
Sayre Area
Schuylkill Haven Area
Schuylkill Valley
Scranton City
Selinsgrove Area
Seneca Valley
Shade-Central City
Shaler Area
Shamokin Area
Shanksville-Stonycreek
Sharon City
Sharpsville Area
Shenandoah Valley
Shenango Area
Shikellamy
Shippensburg Area
Slippery Rock Area
Smethport Area
Solanco
Somerset Area
Souderton Area
South Allegheny
South Butler County
South Eastern
South Fayette Township
South Middleton
South Park
South Side Area
South Western
South Williamsport Area
Southeast Delco
Southeastern Greene
Southern Columbia Area
Southern Fulton
Southern Huntingdon
Southern Lehigh
Southern Tioga
Southern York County
Southmoreland
Spring Cove
Spring-Ford Area
Spring Grove Area
Springfield
Springfield Township
State College Area
Steel Valley
Steelton-Highspire
Sto-Rox
Stroudsburg Area
Sullivan County
Susquehanna Community
Susquehanna Township
Susquenita

T

Tamaqua Area
Titusville Area
Towanda Area
Tredyffrin-Easttown
Tri-Valley
Trinity Area
Troy Area
Tulpehocken Area
Tunkhannock Area
Turkeyfoot Valley
Tuscarora
Tussey Mountain
Twin Valley
Tyrone Area

U

Union
Union Area
Union City Area
Uniontown Area
Unionville-Chadds Ford
United
Upper Adams
Upper Darby
Upper Dauphin Area
Upper Dublin
Upper Merion Area
Upper Moreland
Upper Perkiomen
Upper Saint Clair

V

Valley Grove
Valley View

W

Wallenpaupack Area
Wallingford Swarthmore
Warren County
Warrior Run
Warwick
Washington
Wattsburg Area
Wayne Highlands
Waynesboro Area
Weatherly Area
Wellsboro Area
West Allegheny
West Brank Area
West Chester Area
West Greene
West Jefferson Hills
West Middlesex Area
West Miffin Area
West Perry
West Shore

Schedule of Employers (Continued)

West York Area
Western Beaver County
Western Wayne
Westmon Hilltop
Whitehall-Coplay
Wilkes-Barre Area
Wilkinsburg
William Penn
Williams Valley
Williamsburg Community
Williamsport Area
Wilmington Area
Wilson
Wilson Area
Windber Area
Wissahickon
Woodland Hills
Wyalusing Area
Wyoming Area
Wyoming Valley West
Wyomissing Area

Y

York
York Suburban
Yough

Area Vocational Technical Schools

A. W. Beattie Career Center
Admiral Peary AVTS
Beaver County AVTS
Bedford County Technical Center
Berks Career and Technical Center
Bethlehem AVTS
Bucks County AVTS
Butler County AVTS
Carbon County AVTS
Career Institute of Technology
Central Montgomery County CTS
Central Westmoreland CTC
Central PA Institute for Science and Technology
Clarion County Career Center
Clearfield County CTC
Columbia-Montour AVTS
Crawford County AVTS
CTC of Lackawanna County
Cumberland-Perry AVTS
Dauphin County Technical School
Delaware County AVTS
Eastern Center for Arts and Technology
Eastern Westmoreland CTC
Erie County Technical School
Fayette County AVTS
Forbes Road Career and Technology Center
Franklin County CTC
Fulton County AVTS
Greater Altoona CTC
Greater Johnstown AVTS
Greene County AVTS
Huntingdon County CTC
Indiana County Technology Center
Jefferson County-DuBois AVTS
Juniata - Mifflin County AVTS
Lancaster County CTC
Lawrence County AVTS
Lebanon County AVTS
Lehigh Career and Technical Institute
LENAPE AVTS
Lycoming County Career Consortium
Mercer County AVTS
Middle Bucks Institute of Technology
Mon Valley CTC
Monroe County AVTS
Northern Tier Career Center
North Fayette County AVTS
North Montco Technical Career Center
North Westmoreland County AVTS
Northumberland County AVTS
Parkway West AVTS
Reading-Muhlenberg AVTS
Schuylkill County AVTS
Somerset County Technology Center
Steel Center AVTS
SUN Area CTC
Susquehanna County CTC
Upper Bucks County AVTS
Venango Technology Center
West Side AVTS
Western Area CTC
Western Center for Technical Studies
Wilkes-Barre AVTS
York County AVTS

Schedule of Employers (Continued)

Intermediate Units

Allegheny #3
Appalachia #8
Arin #28
Beaver Valley #27
Berks County #14
Blast #17
Bucks County #22
Capital Area #15
Carbon Lehigh #21
Central #10
Central Susquehanna #16
Chester County #24
Colonial Northampton #20
Delaware County #25
Intermediate Unit #1
Lancaster Lebanon #13
Lincoln #12
Luzerne #18
Midwestern #4
Montgomery County #23
Northeastern Education #19
Northwest Tri County #5
Pittsburgh Mt. Oliver #2
Riverview #6
Schuylkill #29
Seneca Highlands #9
Tuscarora #11
Westmoreland #7

Colleges / Universities

State System of Higher Education
- Bloomsburg University
- California University
- Cheyney University
- Clarion University
- East Stroudsburg University
- Education Resource
- Edinboro University
- Indiana University
- Kutztown University
- Lock Haven University
- Mansfield University
- Millersville University
- Shippensburg University
- Slippery Rock University
- West Chester University

Bucks County Community College
Butler County Community College
Community College of Allegheny County
Community College of Beaver County
Community College of Delaware County
Community College of Philadelphia
Harrisburg Area Community College
Lehigh Carbon Community College
Luzerne County Community College
Montgomery County Community College
Northampton County Area Community College
Pennsylvania College of Technology
Pennsylvania State University
Reading Area Community College
Westmoreland County Community College

Other

Berks County Earned Income Tax Bureau
Department of Corrections - Commonwealth of Pennsylvania
Department of Education - Commonwealth of Pennsylvania
Lancaster County Academy
Overbrook School for the Blind
Pennsylvania School Boards Association
Pennsylvania School for the Deaf
Scotland School for Veterans Children
Thaddeus Stevens School of Technology
Western Pennsylvania School for the Blind
Western Pennsylvania School for the Deaf
York County High

Schedule of Employers (Continued)

Charter Schools (C.S.)

21st Century Cyber C.S.
Achievement House C.S.
Ad Prima C.S.
Agora Cyber C.S.
Alliance for Progress C.S.
Architecture & Design C.S.
Avon Grove C.S.
Bear Creek Community C.S.
Beaver Area Academic C.S.
Belmont C.S.
Boys Latin of Philadelphia C.S.
Bucks County Montessori C.S.
Career Connections C.S.
Center for Student Learning C.S. at Pennsbury
Central PA Digital Learning Foundation C.S.
Centre Learning Community C.S.
Chester County Family Academy C.S.
Christopher Columbus C.S.
City Charter High School
Collegium C.S.
Commonwealth Connections Academy C.S.
Crispus Attucks Youthbuild C.S.
Delaware Valley C.S.
Discovery C. S.
Dr. Robert Ketterer C.S.
Erin Dudley Forbes C.S.
Eugenio Maria de Hostos Community Bilingual C.S.
Evergreen Community C.S.
Family C.S.
Fell C.S.
First Philadelphia C.S. for Literacy
Folk Arts - Cultural Treasures C.S.
Franklin Towne C.S.
Freire C.S.
Germantown Settlement C.S.
Global Leadership Academy C.S.
Graystone Academy C.S.
Green Woods C.S.
Hope C.S.
Imani Education Circle C.S.
IMHOTEP Institute C.S.
Independence C.S.
Infinity C.S.
Keystone Education Center C.S.
Khepera C.S.
KIPP Academy C.S.
La Academia: The Partnership C.S.
Laboratory C.S.
Lehigh Valley Academy Regional C.S.
Lehigh Valley C.S. for the Performing Arts
Lincoln C.S.
Lincoln Park Performing Arts C. S.
Manchester Academic C.S.
Mariana Bracetti Academy C.S.
Maritime Academy C.S.
Mastery Charter High School
Mastery Charter High School - Pickett Campus
Mastery Charter High School - Shoemaker Campus
Mastery Charter High School - Thomas Campus
MaST Community C.S.
Math, Civics & Sciences C.S.
Montessori Regional C.S.
Multi-Cultural Academy
New Foundations C.S.
New Hope Academy
New Media Technology C.S.
Nittany Valley C.S.
Northside Urban Pathways C.S.
Northwood Academy C.S.
Nueva Esperanza Academy C.S.
PA Distance Learning C.S.
PA Learners Online Regional Cyber C.S.
Pennsylvania Cyber C.S.
Pennsylvania Leadership C.S.
Pennsylvania Virtual C.S.
People for People C.S.
Perseus House C.S. of Excellence
Philadelphia Academy C.S.
Philadelphia Community Academy of PA C.S.
Philadelphia Electrical & Technology Charter High School
Philadelphia Harambee Institute of Science and Technology C.S.
Philadelphia Montessori C.S.
Philadelphia Performing Arts C.S.
Planet Abacus Charter School
Pocono Mountain C.S.
Preparatory Charter of Mathematics, Science, Technology and Careers School
Propel C.S. - East
Propel C.S. - Homestead
Propel C.S. - McKeesport
Renaissance C.S.
Renaissance Advantage C.S.
Renaissance Academy - Edison C.S.
Richard Allen Preparatory C.S.
Robert Benjamin Wiley Community C.S.
Roberto Clemente C.S.
Russell Byers C.S.
Sankofa Academy C.S.
School Lane C.S.
Souderton C.S. Collaborative
Spectrum C.S.
Sugar Valley C.S.
SUSQ-CYBER C.S.
Sylvan Heights Science C.S.
Tidioute Community C.S.
Truebright Science Academy C.S.
Tuscarora Blended Learning C.S.
Universal Institute C.S.
Urban League of Pittsburgh C.S.
Village C.S. of Chester-Upland
Wakisha C.S.
Walter D. Palmer Leadership Learning Partnership C.S.
West Oak Lane C.S.
West Philadelphia Achievement Charter Elementary School
Wissahickon C.S.
Wonderland C.S.
World Communications C.S.
Young Scholars C.S.
Young Scholars of Central PA C.S.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