

Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

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Comprehensive Annual Financial Report

for the

Fiscal Years Ended June 30, 2018 and 2017

Melva S. Vogler

Chairman

Board of Trustees

Nathan G. Mains

Vice Chairman

Board of Trustees

Glen R. Grell

Executive Director

*Report prepared by the Public School Employees' Retirement System
Office of Financial Management Staff*

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5 North 5th Street
Harrisburg PA 17101-1905

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

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Local - 717-787-8540
Web Address: www.psers.pa.gov*

November 7, 2018

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

Dear Governor Wolf, Legislators, Members, Employers' Board members, and PSERS Board of Trustees:

We are pleased to present the ninety-ninth edition of the Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal years ended June 30, 2018 (FY 2018) and 2017 (FY 2017). This report is intended to provide financial, investment, actuarial, and statistical information in a single publication in accordance with the Government Finance Officers Association standards.

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

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania (PA). The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the 775 reporting entities in Pennsylvania. As of June 30, 2018, the System had over 256,000 active members with an estimated annual active payroll of \$13.5 billion.

The annuitant membership at June 30, 2018 was comprised of over 233,000 retirees and beneficiaries who receive over \$497 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$25,405. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report. See the Distribution of Annual Pension Amounts chart in the Introductory Section of this report.

In addition to retirement benefits, PSERS administers the Premium Assistance Program that provides a health insurance premium subsidy of up to \$100 per month for those retirees who qualify. At June 30, 2018, there are over 93,000 retirees who receive this benefit. PSERS also manages a health insurance program, PSERS Health Options Program, that is entirely funded through participating member premiums and provides Medicare Supplemental, Medicare Advantage, Prescription Drug, and Dental plans to over 98,000 retirees and their dependents.

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. In FY 2018, PSERS distributed \$6.0 billion, or nearly 91%, in pension benefits to retired members who reside in Pennsylvania. These pension disbursements are a significant economic driver that benefit the economy of the Commonwealth. See the Pension Benefit Disbursement by County map in the Introductory Section of this report.

The System is a governmental cost-sharing, multiple-employer defined benefit pension plan, to which all members and 775 reporting units contribute. PSERS is administered by a staff of 327. The System is headquartered in Harrisburg, Pennsylvania, and has seven field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

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

Economic Summary

Economically, the past fiscal year can be characterized as a risk-on period where taking concentrated equity risk, specifically U.S. equity risk, paid off as opposed to holding a diversified portfolio of assets. Improving economic fundamentals, improving global growth, low but rising inflation, U.S. tax reform, and improving corporate profitability were all contributors to strong equity performance. The MSCI USA Investible Market Index (IMI), a U.S. equity index, rose by 14.9% during this period. Threats of trade sanctions imposed by the U.S. on imports and rising political uncertainty in Europe weighed on Non-U.S. equity performance vs. U.S. equity performance. Central banks globally remained generally very accommodative with the European Central Bank (ECB) and the Bank of Japan keeping short-term interest rates in negative territory and the Federal Reserve Bank in the U.S. increasing interest rates at a measured pace.

The U.S. economy showed improvement this past year, aided by favorable monetary conditions and optimism from individual and corporate tax cuts signed into law in December 2017. While interest rates rose moderately, they provided a historically low cost of borrowing which resulted in the improvement of broad economic conditions. The U.S. real Gross Domestic Product (GDP) increased year-over-year an average of 2.9% per quarter during the past fiscal year with a range of 2.2% to 4.1%. Concurrently, U.S. consumer confidence, as measured by the Conference Board's Consumer Confidence Index, increased from 117.3 at June 30, 2017 to 127.1 at June 30, 2018.

The Euro Area economy experienced modest growth this fiscal year. The unemployment rate continues to normalize and improved to 8.3% as of June 2018 from 9.2% a year earlier. The economy is still expanding as evidenced by the Markit Eurozone Manufacturing PMI (Purchasing Managers Index) measurement of 55.1 for the past fiscal year. The ECB has continued its policy of very accommodative overnight interest rates (negative 0.4%) but has slightly restricted economic conditions by reducing monthly purchases of euro-denominated sovereign and corporate debt from \$68 billion last year to \$35 billion as of fiscal year end. In addition, the ECB has only committed to quantitative easing through September 2018 which, if ended, would result in a further tightening of monetary conditions.

Japan's economy has moderately retreated over the past year. As of the second quarter 2018, Japan's real GDP increased by a year-over-year rate of 1.0% versus 1.6% as of June 2017. Japanese policy makers have aggressively attempted to stimulate their economy through a combination of low interest rates (the Bank of Japan policy rate is negative 0.1%), the purchase of higher risk assets by the Bank of Japan, coordinated diversification into higher risk assets by large public investors, and fiscal spending policies to encourage liquidity to move into riskier assets. China maintained robust economic growth compared to the other developed regions of the world. China's real GDP increased by 6.7% over the past year, only slightly slower than the 6.9% pace for the year ended June 2017. The Chinese government is continuing to target economic growth of between 6.5% and 7.0% over the foreseeable future.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the actuarial soundness of the Fund. The annualized time-weighted rate of return for the twenty-five year period ended June 30, 2018 was 7.88% and exceeded the Fund's long-term investment rate of return assumption. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

Status of Pension Funding Initiatives

Act 120 of 2010 significantly reduced benefits and increased employer contributions to PSERS in stepped increments to slowly raise employer contributions to the actuarially required amount. For the second consecutive year PSERS received full actuarial funding from school employers and the Commonwealth after 15 previous years of underfunding the actuarially required amount. This is an essential step to bring PSERS back to fully funded status.

Full actuarial funding from employers, along with members contributions and investment income, are all necessary sources of funds that will pay down the unfunded liability of the System.

The dramatic funding progress under Act 120 of 2010 also helped PSERS funded ratio, on a market value basis, which improved for the second year in row from 51.84% at June 30, 2017 to 54.00% at June 30, 2018. Additionally, on a market value basis, PSERS' unfunded liability declined by \$1.4 billion in FY 2018 as PSERS' total net position grew faster than its total pension liability.

The number of new members under the reduced Act 120 benefit plan continues to grow. As of June 30, 2018, approximately 77,000 or over 30% of PSERS' active membership is under the reduced benefit structure of Act 120. The cumulative savings from the reduced benefit structure also grew in FY 2018 and exceeded \$553 million.

Pension Legislation

On June 12, 2017 Governor Tom Wolf signed Act 5 of 2017 into law. This pension legislation represents a substantial change to our operations and made significant changes to PSERS benefit structure. School employees who become new members of PSERS on or after July 1, 2019 will have one of three new retirement plan options for their retirement benefits. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution (DC) components and a stand-alone defined contribution plan. The current defined benefit plan will no longer be available to new members after June 30, 2019.

PSERS has begun a major effort to implement the new plan designs by the implementation date of July 1, 2019. Voya Institutional Plan Services (VIPS) was selected as the Third Party Administrator for the DC plan. Additionally, after extensive research and analysis by PSERS Investment staff and pension consultant Charles W. Cammack Associates, PSERS Board selected T. Rowe Price Retirement Blend Target Date Funds as the default investment option for the DC plan.

PSERS also completed and submitted the draft Plan Document for the new DC plan for approval to the Internal Revenue Service (IRS) on behalf of the PSERS Board of Trustees. It is anticipated that PSERS will have the Plan Document, as approved by the IRS, ready for final review and ratification by early 2019.

PSERS staff are dedicated to maintaining the high quality and excellence standards of PSERS current defined benefit plan while implementing new DC features. Much work remains to implement the new benefit plan, but PSERS staff, together with these two vendors, will successfully meet this challenge.

Major Initiatives

Pension Administration System Upgrade Completed

The multi-year effort to upgrade the pension administration system was successfully completed in March 2018. This mission critical system is used by PSERS' staff members and employers to execute PSERS' primary pension administration functions for its members. This upgrade allows members and employers to conduct transactions for themselves which would have previously required staff intervention. Members can now view correspondence from PSERS such as letters, newsletters, Statement of Accounts and 1099Rs securely online.

Since April 2018, more than 100,000 members have created a Member Self-Service (MSS) account and have conducted more than 50,000 transactions for themselves. The most common action taken was to update their nomination of beneficiaries. This new system also enables members to select their preference for how they would like PSERS to communicate with them. To date, 98% of all MSS accounts have opted to go paperless and receive information from PSERS electronically.

Investment Management Fees

PSERS is one of the most transparent among large public pension funds in the nation for the disclosure of management fees. For example, certain pension funds report very little or no management fees for alternative investments because they are considered part of the cost of the investment and are netted against performance rather than shown separately. PSERS, however, gathers management fee information from each of its limited partnerships and collective trust fund investments, even if it is not specifically disclosed in the fund's standard reports or specifically identified in capital call requests. Such management fee information includes both base and performance fees obtained from either the fund's administrator statement, capital account statement or financial statements. This information is then utilized to report all relevant management fees in the System's financial statements. While the national debate over what constitutes a "fee" continues, PSERS will endeavor to remain transparent and report fees in accordance with current GASB standards and prevailing public pension industry practice to keep PSERS' financial statements both meaningful and comparative to its peers. In addition, PSERS reports all other investment expenses, including staff compensation and overhead, consultant, legal, and bank expenses incurred.

Investment expenses decreased by \$6.8 million from \$474.5 million in FY 2017 to \$467.7 million in FY 2018 mainly due to a decrease in management fees in absolute return and alternative investments of \$18 million. The decrease in absolute return is mainly attributable to a renegotiation of fee terms and lower performance fees earned in FY 2018. The decrease in the alternative investment class is attributable to changes in fee structure brought on by partnerships maturing. The decreases are partially offset by increases in management fees in international equity, fixed income, and commodities asset classes of \$11 million.

As a percentage of total benefits and expenses, investment expense decreased from 6.3% in FY 2017 to 6.1% in FY 2018. Similarly, investment expense has decreased from a high of 8.2% in FY 2013 to 6.1% in FY 2018 due to a decrease in investment expenses from \$558 million in FY 2013 to \$468 million in FY 2018. During this same period net assets increased \$8 billion from \$48.7 billion at June 30, 2012 to \$56.7 billion at June 30, 2018.

Budgetary and Financial Governance

PSERS manages multiple budgets/appropriations which support its ongoing operations. These include the Administrative Budget; Defined Contribution Budget; Investment Related Expenses Budget; Health Insurance Premium Assistance Program Budget; Health Options Program Budget, and the Directed Commissions Recapture Program Budget. Each October, the agency submits its budget requests to the Governor's Office of the Budget. PSERS' Administrative, Defined Contribution and Directed Commissions Recapture Program Budgets each require legislative approval. None of PSERS' budgets, with the exception of the Defined Contribution Budget, are funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself. Historically, PSERS has underspent its approved budgets, keeping more funds available to invest for PSERS' members.

PSERS continues to be prudent in its use of funds and managing its annual budget. In FY 2018, PSERS completed the upgrade of its pension administration system from the "classic" to the "browser-based" version. Due to this change, a significant number of PSERS' active and retired members have elected to receive newsletters, statement of accounts, 1099Rs and other documents electronically, thereby saving the agency thousands of dollars in postage, printing and paper costs annually for years to come. Other savings include a decline in contracted maintenance and repair services, a decrease in consultant and legal fees, and a reduction in equipment purchases, all part of PSERS' ongoing efforts to control costs and improve operational efficiency. PSERS began using an obituary service as an additional means of identifying deceased members and also survivors receiving a benefit. This service, along with improved processes, has enabled PSERS to ensure that payments are provided accurately and timely and reduced the volume of payments distributed to deceased members which will lower the number of uncollectible accounts in the future.

PSERS participates in an independent, international benchmarking survey evaluating its costs and service performance in comparison to other similar public pension funds. Based on the most recent survey, PSERS had a 16% lower pension administration cost per member than the average cost for its peer group. By running a lean and efficient operation, PSERS saves the Commonwealth and school employers approximately \$8.2 million annually in administrative expenses compared to its peers.

Introductory Section

In addition, during FY 2018, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received \$4.9 million in settlements from these cases in FY 2018.

Financial Highlights

The fair value of the System's fiduciary net position grew \$3.2 billion during FY 2018 to \$56.7 billion as of June 30, 2018 and the unfunded liability, on a market value basis, declined by \$1.4 billion. The System is the 15th largest state-sponsored public defined benefit pension fund in the nation and the 31st largest among public and corporate pension funds in the nation. More specific information on the System's net position is detailed in the Statements of Fiduciary Net Position and Management's Discussion and Analysis included in the Financial Section of this report.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2018, PSERS provided over \$7.1 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the PA General Assembly and funded by the investment income of the System. For FY 2018, the appropriation was \$51.6 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 current and future benefit payments. The actuarial valuation measures the progress toward funding pension obligations of the System by comparing the actuarial assets to the actuarial liabilities of the System.

The results of PSERS' latest published actuarial valuation (as of June 30, 2017) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities for all benefits payable under the System at that date. The total funded status as of the latest actuarial valuation was 56.3%. Additional comparative information on the funded status of PSERS can be found in the Financial Section and in the Actuarial Section of this report.

Investments

In the years following the Great Recession of 2008-2009, PSERS' Board and investment professionals made significant changes to the Fund's investment asset allocation, including further refining its investment strategy and increasing the diversification of assets. In particular, PSERS actively reduced its risk profile by significantly decreasing its equity exposure and by moving portions of the Fund's assets into asset classes that are less correlated to the equity markets.

Income from the investment portfolio represents the major source of revenue to the System, accounting for 60% of total revenues over the twenty-year period from FY 1999 to FY 2018. During FY 2018, net investment income was \$4.7 billion. The investment portfolio, which is one part of the System's net position, totaled \$55.9 billion, at fair value, as of June 30, 2018. For FY 2018, the time-weighted net rate of return on the System's investments was 9.27%.

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

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. The Internal Revenue Service (IRS) issued a determination letter dated March 16, 2017 which stated that the plan and its underlying trust qualify under the provisions of Section 501(a) of the IRC and therefore are exempt from federal income taxes.

Internal Controls and Reporting

PSERS' management is responsible for and has implemented internal controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. This report has been prepared in accordance with accounting principles generally accepted in the United States of America. The System maintains a full accrual accounting system. More specific accounting information is detailed in the Summary of Significant Accounting Policies (Note 2) in the notes to the financial statements found in the Financial Section of this report.

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

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

GASB 75 OPEB Accounting and Financial Reporting Project (OPEB Project)

In June 2018, PSERS sent information to its employers to assist them in complying with the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The information sent to employers included a memo explaining PSERS' role, descriptions of the material provided, and the employers' responsibilities. In addition to the memo, PSERS provided a variety of schedules audited by PSERS' independent public accountants as well as unaudited schedules. PSERS strives to incorporate all the information necessary for employers to comply with GASB 75 reporting requirements in these audited and unaudited schedules. Additionally, PSERS continues to make itself available to assist employers and their auditors should they have any additional requests in order to comply with GASB 75.

PSERS also adopted Statement No. 75 for the fiscal year ended June 30, 2018 for the postemployment healthcare plan for employees of the System. Due to the implementation of Statement No. 75, PSERS' beginning net position restricted for pension, DC, and postemployment healthcare benefits has been restated. PSERS also reported its proportionate share of net OPEB liability from the Commonwealth's REHP plan. An analysis of Statement No. 75 can be found in the Management's Discussion and Analysis and notes to the financial statements.

Professional Services

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

Other Information

In compliance with the Retirement Code, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published in the Pennsylvania Bulletin (Vol. 48, No. 26). This information can be found at <http://www.pabulletin.com/secure/data/vol48/48-26/1029.html>.

System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for 35 consecutive years from FY 1983 to FY 2017. 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 2018 certificate.

GFOA Popular Annual Financial Reporting Award

Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to PSERS for its Popular Annual Financial Report for the fiscal year ended June 30, 2017, which PSERS refers to as its Summary Annual Financial Report. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

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

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for two consecutive years from FY 2016 to FY 2017. Its attainment represents an important accomplishment by the System.

Public Pension Coordinating Council Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award for Funding and Administration to PSERS for 2017. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards. Achievement of the Funding portion of this award is in recognition of the commitment of the Governor and General Assembly to fund 100% of the actuarially required contributions.

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

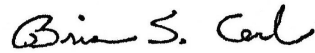
Acknowledgements

The preparation of this report reflects the combined efforts of PSERS' staff under the direction of the PSERS Board. 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,



Glen R. Grell
Executive Director



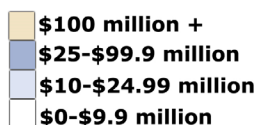
Brian S. Carl, CPA, CTP
Chief Financial Officer

Pension Benefit Disbursement by County Fiscal Year 2018

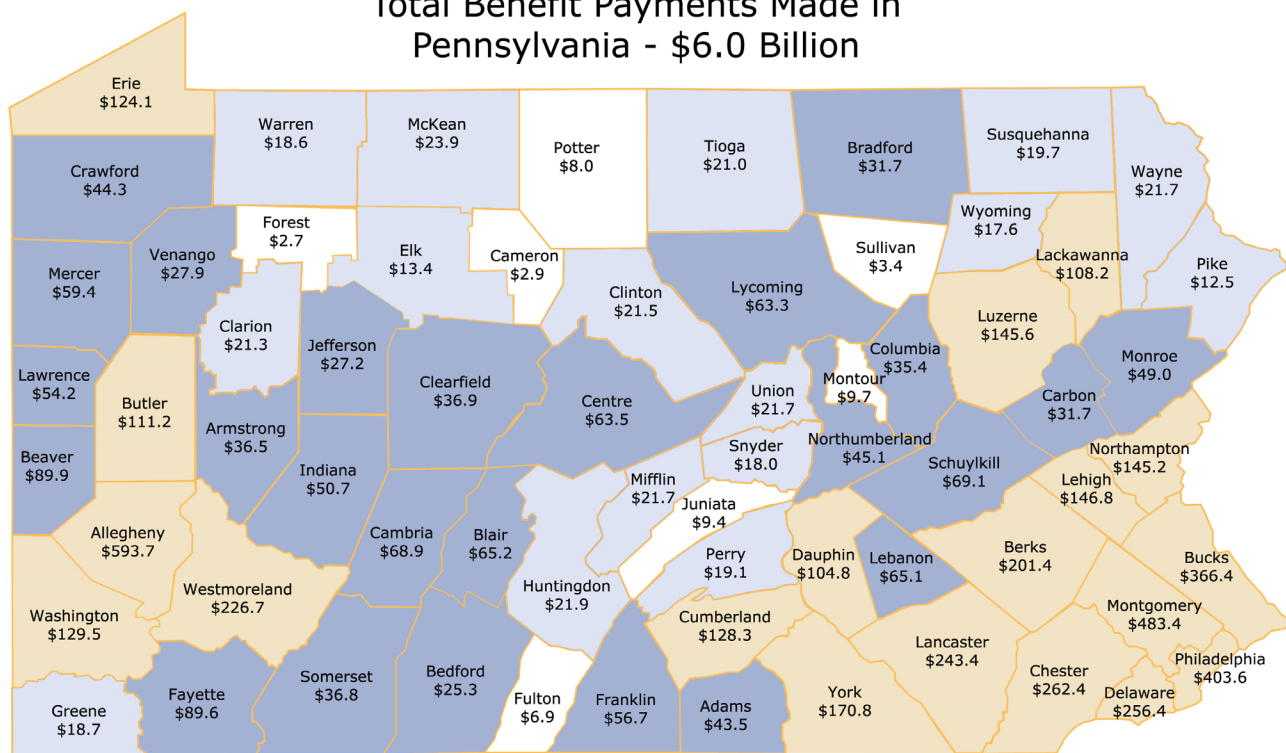
(Dollar Amounts in Millions)

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. Each year PSERS pays out billions in pension benefits to retired members who reside in Pennsylvania. In fiscal year 2018, PSERS pension disbursements to retirees totaled approximately \$6.6 billion. Of this amount nearly 91%, or \$6.0 billion, went directly into state and local economies. These pension disbursements are a significant economic driver that benefit the economy of the Commonwealth.

Top 10 Counties Based on Pension Benefit Disbursements (Dollars in Millions)	
Allegheny	\$593.7
Montgomery	\$483.4
Philadelphia	\$403.6
Bucks	\$366.4
Chester	\$262.4
Delaware	\$256.4
Lancaster	\$243.4
Westmoreland	\$226.7
Berks	\$201.4
York	\$170.8



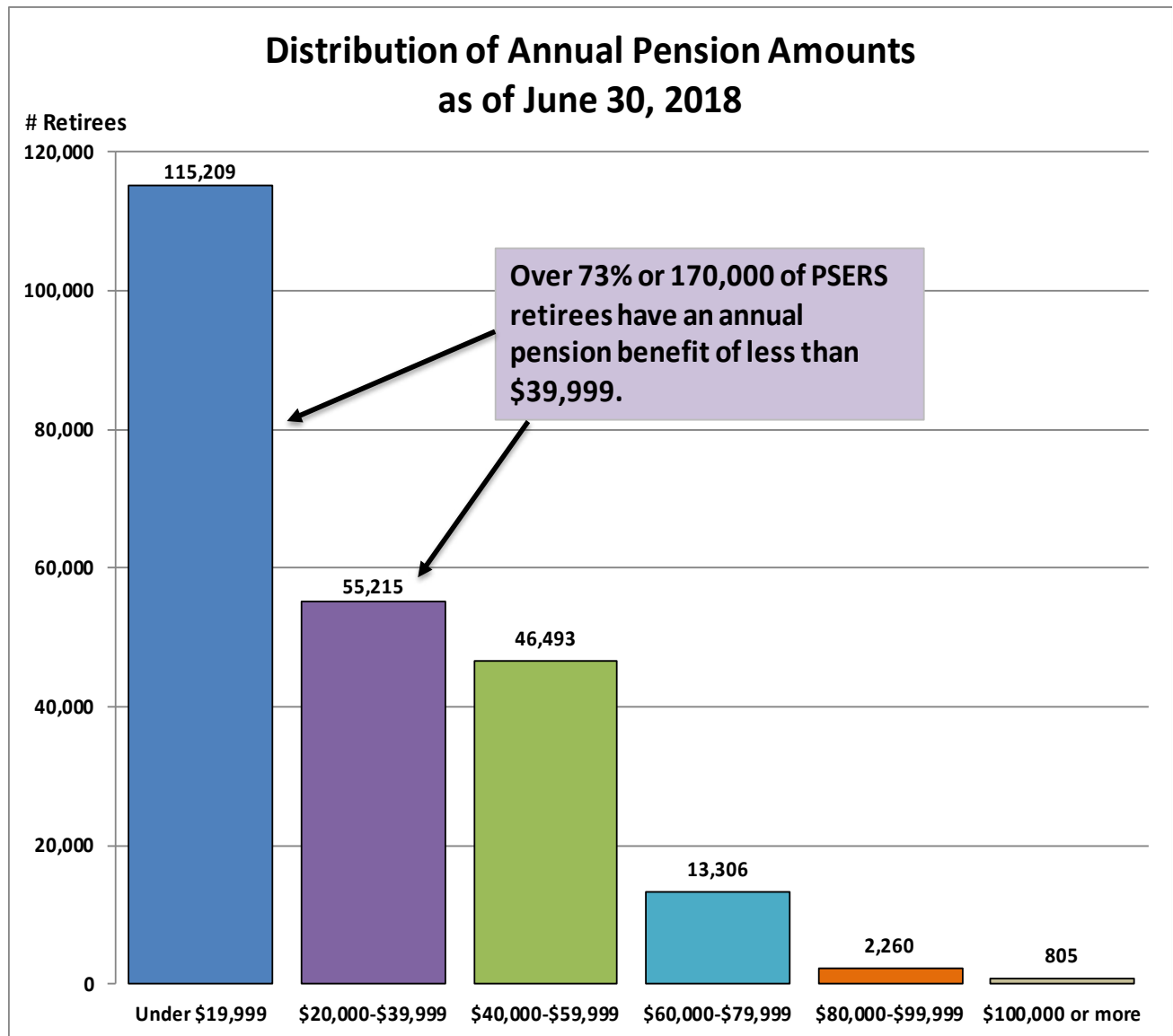
Total Benefit Payments Made in Pennsylvania - \$6.0 Billion

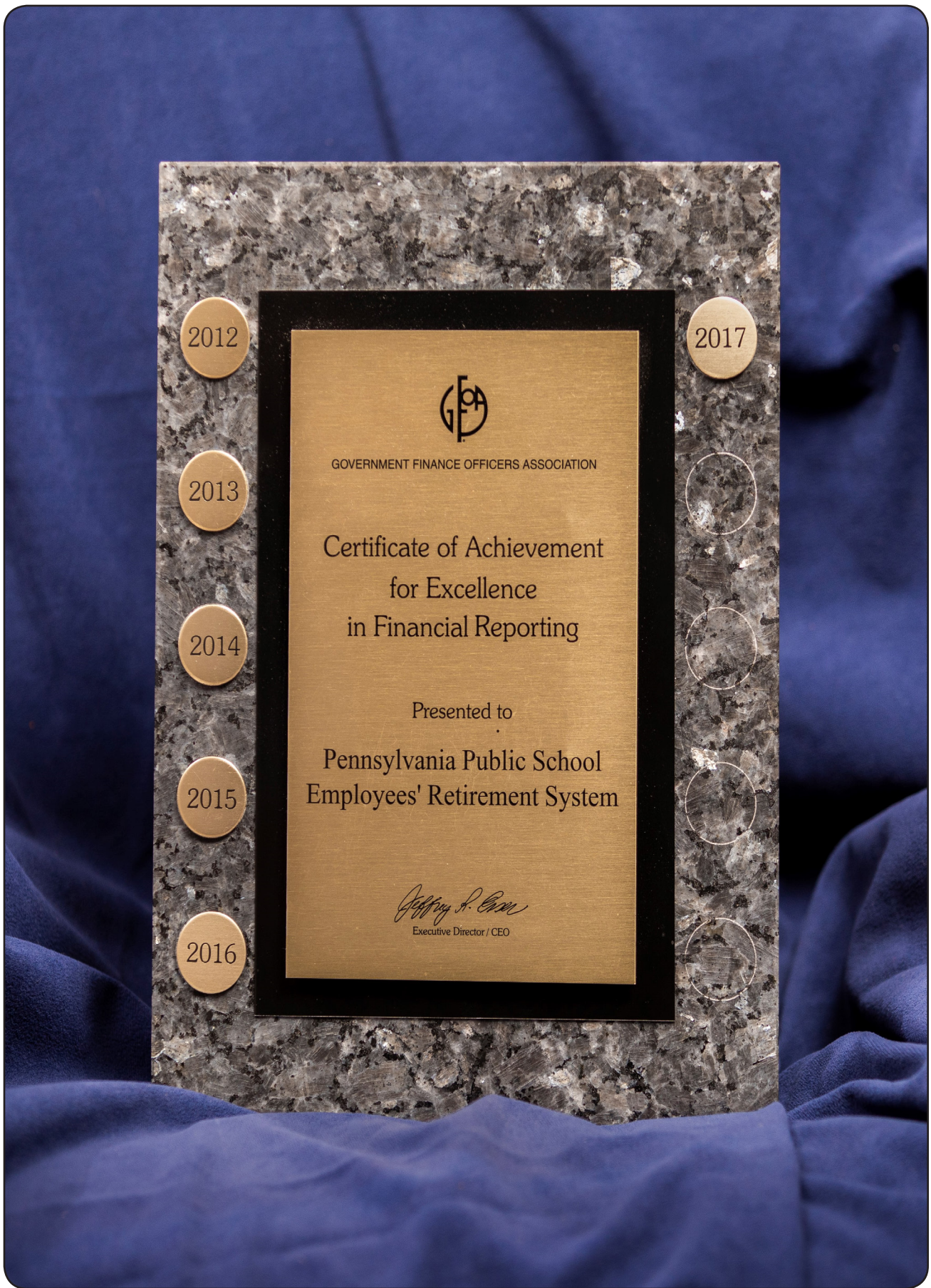


Pension Benefit Disbursement Amounts Fiscal Year 2018 (Dollar Amounts in Millions)

The average PSERS retiree receives a modest pension of \$25,405 on an annual basis, a benefit earned through a lengthy career of 23 years in public education. During their career, members make mandatory contributions to PSERS to help fund their own retirement benefit. Most members contribute between 7.50% and 10.30% of their pay depending on their class of membership to help fund their own retirement benefit. In accordance with Act 120, new members as of July 1, 2011 and thereafter are funding the majority of the cost of their benefit. This is in contrast to many non-public (private) pension plans. In over 90% of such plans, members do not contribute and the employers bear 100% of the cost of the benefit.

Six-figure pensions are rare. At June 30, 2018, there were 805 retired members receiving an annual benefit over \$100,000 out of a total 233,000 PSERS retirees. These six-figure pension retirees spent an average of 38 years working in their public education careers and contributing to their benefit.







Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration
2017*

Presented to

***Pennsylvania Public School Employees'
Retirement System***

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive, flowing style.

Alan H. Winkle
Program Administrator

Mission Statement



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

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

adopted June 20, 2008

Administrative Organization PSERS Board of Trustees



Seated, front row: Deborah J. Beck; Melva S. Vogler, Board Chairman; Susan C. Lemmo; Stacey Connors, designee for Honorable Patrick M. Browne

Standing, second row: Brian LaForme, designee for Secretary Robin L. Wiessman; Honorable John P. Blake; Lori Graham, designee for Secretary Pedro A. Rivera; Ambassador Martin J. Silverstein; Jason M. Davis; Glen R. Grell, PSERS' Executive Director, Board Secretary; Christopher SantaMaria; Honorable Stephen Bloom; Nathan G. Mains; Thomas Clancy, designee for Honorable Joseph M. Torsella; Bernard Gallagher, designee for Honorable Joseph F. Markosek

Not pictured: Eric DiTullio

PSERS Board of Trustees

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

Mr. Pedro A. Rivera

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

Ms. Robin L. Wiessmann

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Joseph M. Torsella

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

Mr. Nathan G. Mains

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

Ambassador Martin J. Silverstein (term expired 12/31/17)*

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

Mr. Jason M. Davis (term expires 12/31/19)

Ms. Susan C. Lemmo (term expires 12/31/18)

Mr. Christopher SantaMaria (term expires 12/31/20)

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

Ms. Deborah J. Beck (term expires 12/31/18)

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

Ms. Melva S. Vogler (term expires 12/31/19)

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

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

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

Honorable Stephen Bloom (term expires 12/31/18)

Honorable Joseph F. Markosek (term expires 12/31/18)

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

Honorable John P. Blake (term expires 12/31/18)

Honorable Patrick M. Browne (term expires 12/31/18)

*Ambassador Silverstein will remain on the Board until the Governor appoints a replacement, subject to Senate confirmation.

2018 Board Committees

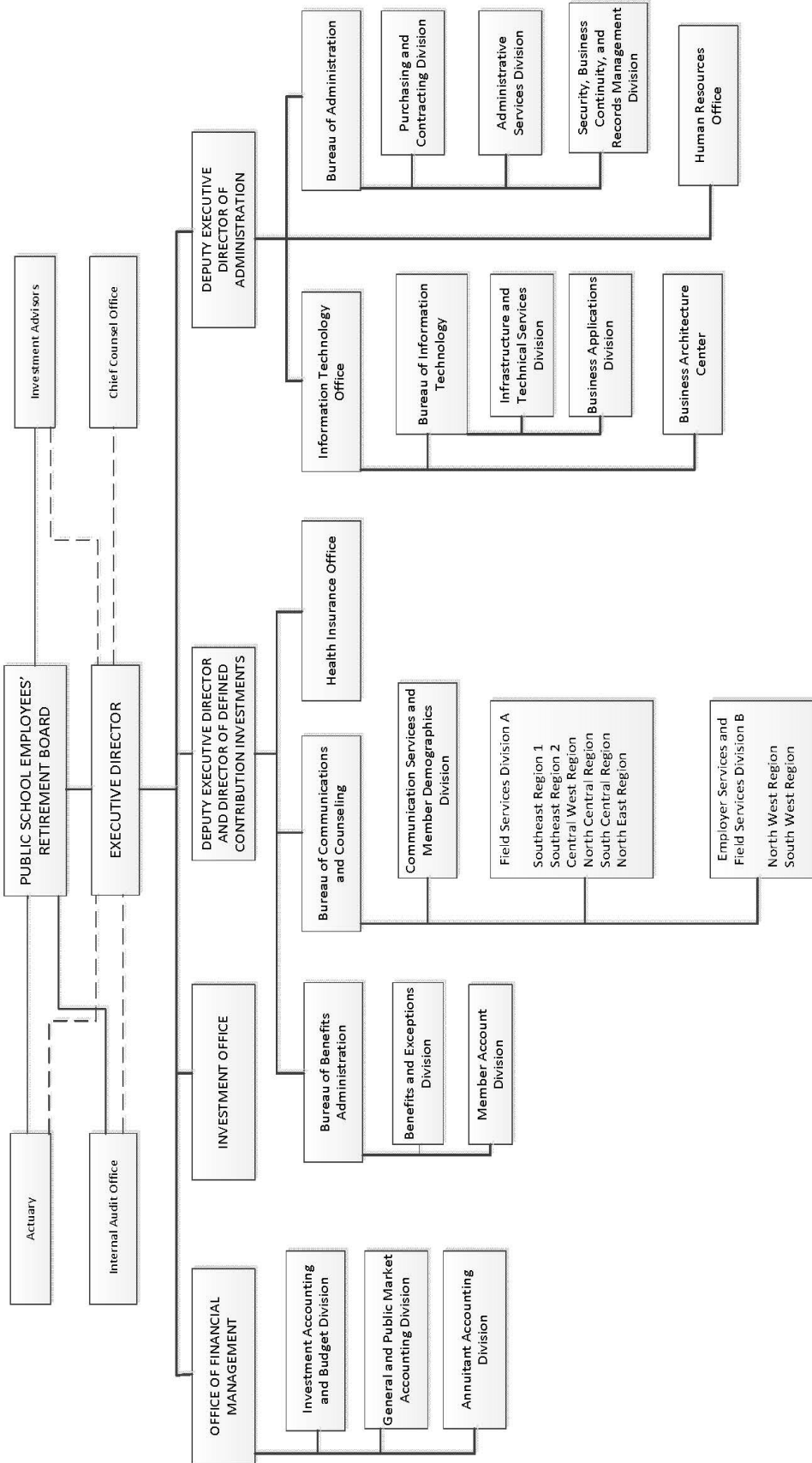
<p style="text-align: center;">Appeals/Member & Employer Services</p> <p style="text-align: center;">Ms. Beck, Chair Senator Blake Representative Bloom Mr. Davis Ms. Lemmo Mr. SantaMaria</p>	<p style="text-align: center;">Audit/Compliance</p> <p style="text-align: center;">Representative Bloom, Chair Mr. Mains Representative Markosek Mr. Rivera Ambassador Silverstein Treasurer Torsella</p>	<p style="text-align: center;">Budget/Finance</p> <p style="text-align: center;">Mr. Davis, Chair Senator Blake Senator Browne Mr. DiTullio Mr. SantaMaria Ms. Wiessmann</p>
<p style="text-align: center;">Bylaws/Policy</p> <p style="text-align: center;">Representative Markosek, Chair Senator Browne Mr. Davis Mr. DiTullio Mr. Mains Ms. Wiessmann</p>	<p style="text-align: center;">Corporate Governance</p> <p style="text-align: center;">Senator Browne, Chair Representative Markosek Mr. SantaMaria Ambassador Silverstein Treasurer Torsella Ms. Wiessmann</p>	<p style="text-align: center;">Elections</p> <p style="text-align: center;">Ambassador Silverstein, Chair Ms. Beck Senator Browne Mr. Rivera Treasurer Torsella Ms. Wiessmann</p>
<p style="text-align: center;">Health Care</p> <p style="text-align: center;">Ms. Lemmo, Chair Ms. Beck Senator Blake Representative Bloom Mr. Davis Mr. DiTullio</p>	<p style="text-align: center;">Investment</p> <p style="text-align: center;">Mr. Mains, Chair Ms. Lemmo</p> <p style="text-align: center;">Committee is comprised of all Board Members</p>	<p style="text-align: center;">Personnel</p> <p style="text-align: center;">Mr. SantaMaria, Chair Senator Blake Ms. Lemmo Mr. Mains Representative Markosek Mr. Rivera</p>

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

Organizational Chart of the Public School Employees' Retirement System

As of November 1, 2018

Public School Employees' Retirement System



For Schedules of Fees and Commissions please refer to the Financial section page 76 and Investment section page 93.

Administrative Staff

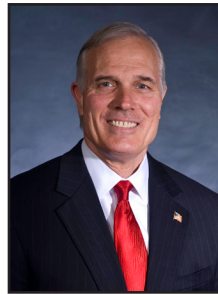
As of November 1, 2018



Glen R. Grell
Executive Director



James H. Grossman Jr.
Chief Investment Officer



Joseph E. Wasiak
Deputy Executive Director
of Administration



Jennifer Mills
Deputy Executive Director and Director
of Defined Contribution Investments



Charles K. Serine
Chief Counsel



Brian S. Carl
Chief Financial Officer



Steven C. Goldstein
Chief Technology Officer



Patricia Dence
Director of Administration



Peter Camacci
Director of Health Insurance



Eugene W. Robison
Director of Communications and
Counseling



Marla Cattermole
Director of Benefits Administration



Tammy L. Meshey
Director of Human
Resources



Alicia James
Internal Auditor



Tony Parisi
Legislative Liaison



Evelyn M. Williams
Communications
Director

PSERS REGIONAL OFFICES

Public School Employees' Retirement System of Pennsylvania

PSERS FIELD SERVICES DIVISION



Northwest

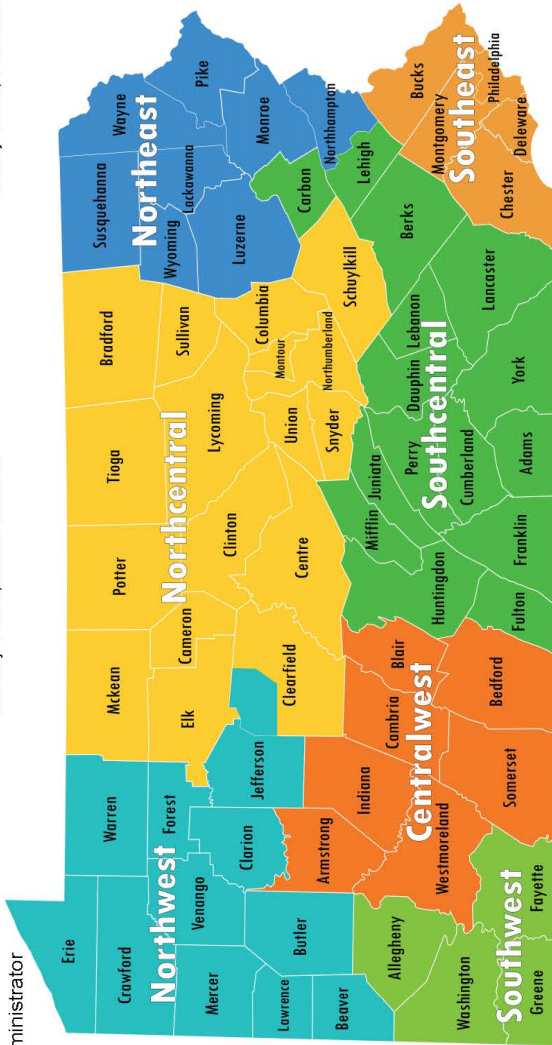
Pennwood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
 Local: 1.814.437.9845
 FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748 ext. 5175
 Donald Gregory, Administrator

Northcentral

300 Bellefonte Avenue, Suite 201
Lock Haven, PA 17745-1903
 Local: 1.570.893.4410
 FAX: 1.570.893.4414
Toll-Free: 1.888.773.7748 ext. 5275
 Jeremy Wible, Administrator

Northeast

417 Lackawanna Avenue, Suite 201
Scranton, PA 18503-2013
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 FAX: 1.570.614.0278
Toll-Free: 1.888.773.7748 ext. 5375
 Sherry Sibio, Administrator



Southwest

300 Cedar Ridge Drive, Suite 301
Pittsburgh, PA 15205-1159
 Local: 1.412.920.2014
 FAX: 1.412.920.2015
Toll-Free: 1.888.773.7748 ext. 5775
 Russell Miller, Administrator

Centralwest

219 W. High Street
Ebensburg, PA 16931-1540
 Local: 1.814.419.1180
 FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748 ext. 5875
 Brian Farester, Administrator

Southcentral

5 N 5th Street
Harrisburg, PA 17101-1905
 Local: 1.717.720.6335
 FAX: 1.717.783.9606
Toll-Free: 1.888.773.7748 ext. 6335
 John Tucker, Administrator

South

605 Louis Drive, Suite 500
Warminster, PA 18974-2830
 Local: 1.215.443.3495
 FAX: 1.215.443.3487
Toll-Free: 1.888.773.7748 ext. 5575
 Joshua Catalfu, Administrator
 Linda Visco, Administrator

PSERS Headquarters Building



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

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



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