

Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania



Celebrating



Years (est. 1919)



Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2019 & 2018

Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

Telephone:

Toll-Free 888-773-7748

888-PSERS4U

Local 717-787-8540

Comprehensive Annual Financial Report

for the

Fiscal Years Ended June 30, 2019 and 2018

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 with support from many areas of PSERS*

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Henry H. Baish
PSERS' First Secretary
1918 - 1944



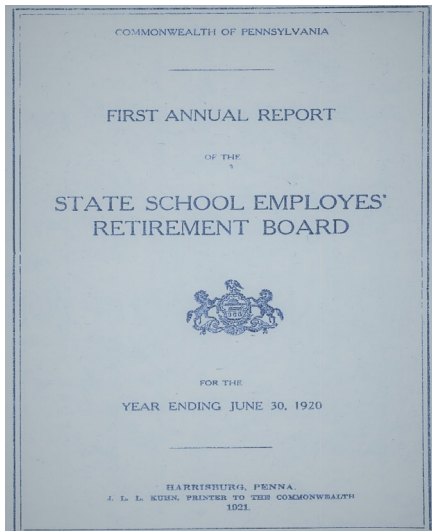
Glen R. Grell
PSERS' Executive Director
2015 - Present

INTRODUCTORY SECTION

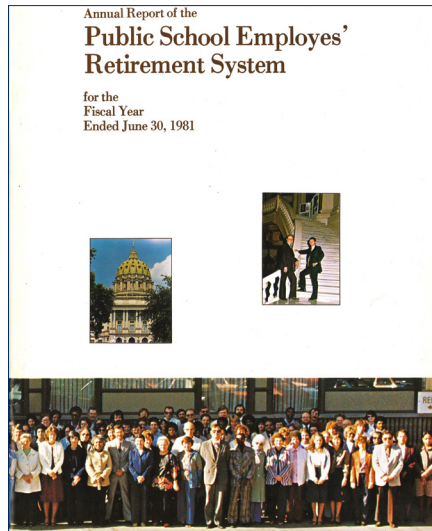
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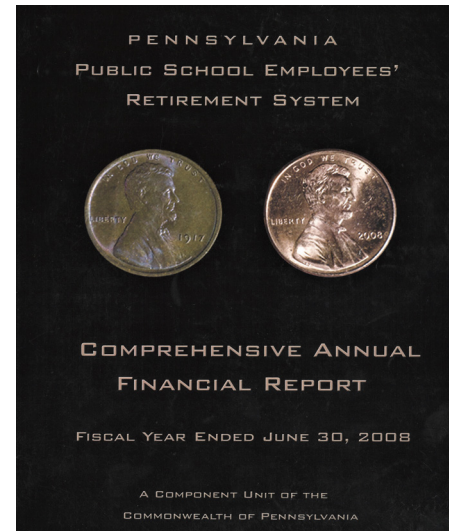
1920 CAFR Cover



1981 CAFR Cover



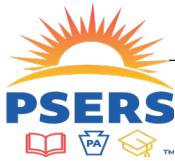
2008 CAFR Cover



Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM



5 North 5th Street
Harrisburg PA 17101-1905

Toll-Free - 1-888-773-7748

(1-888-PSERS4U)

Local - 717-787-8540

Web Address: www.pasers.pa.gov

November 7, 2019

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

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

We are pleased to present the one-hundredth 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, 2019 (FY 2019) and 2018 (FY 2018). 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.

This past July 1, 2019 marked the 100th anniversary since PSERS officially began operations and providing retirement benefits for public school employees throughout Pennsylvania. PSERS has paid out retirement benefits uninterrupted for 100 years through two World Wars, the Great Depression, and the Great Recession. Over 500,000 active and retired public school employees rely on PSERS for their retirement. PSERS is proud to serve our members and provide secure retirement income and we will continue our commitment to our members for the next 100 years. The theme of this year's CAFR is a celebration of all of PSERS' employees throughout our history who made PSERS' 100th anniversary possible. Through good times and bad, PSERS staff's dedication and commitment to our members has never wavered since our System began. PSERS' members remain our priority and we continue to operate the System for their exclusive benefit. In recognition of the 100th anniversary, the CAFR section title pages display a sampling of prior year CAFR report covers, financial section title pages, investment portfolio covers and actuarial reports. In addition, the CAFR also includes current and past staff photos, and a historical timeline of PSERS.

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.pasers.pa.gov.

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania (PA). The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. As of June 30, 2019, the System had approximately 256,000 active members with an estimated annual active payroll of \$13.8 billion.

The annuitant membership at June 30, 2019 was comprised of over 237,000 retirees and beneficiaries who receive over \$509 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$25,498. 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, 2019, there were over 94,000 members participating in the Premium Assistance Program. PSERS also manages a health insurance program, PSERS Health Options Program, that is entirely funded through participating member premiums and

provides Medicare Supplemental, Medicare Advantage, Prescription Drug, and Dental plans to over 99,000 retirees and their dependents.

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. In FY 2019, PSERS distributed \$6.3 billion or nearly 93% of total pension benefits to retired members who reside in Pennsylvania. These pension benefits are a significant economic driver that benefit the economy of the Commonwealth. See the Pension Benefits by County map in the Introductory Section of this report.

The System is a governmental cost-sharing, multiple-employer defined benefit pension plan, to which all members and reporting units contribute. PSERS is administered by a staff of 347 and has 773 reporting units as of June 30, 2019. The System is headquartered in Harrisburg, Pennsylvania, and has seven field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

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

Economic Summary

Economically, the past fiscal year was a volatile and challenging one for global economies. The U.S. economy showed a significant decrease in momentum during the fiscal year as measured by the manufacturing Institute of Supply Management (ISM) Purchasing Managers Index (PMI), an indicator of activity in the sector. During the fiscal year, the ISM PMI decreased by 8.3 points to 51.7 at June 30, 2019, however, this was offset by a rise in Gross Domestic Product (GDP) and a decrease in unemployment. Significant headwinds affecting many non-U.S. economies included political uncertainty in Europe, specifically the rise of populism as evidenced by the formation of a populist coalition government in Italy, Great Britain's planned exit from the European Union (Brexit), and the imposition of billions of dollars of tariffs on goods imported into the U.S. from China. Faced with these challenges, central banks globally made efforts to encourage borrowing with the European Central Bank (ECB) and the Bank of Japan keeping short-term interest rates in negative territory.

The U.S. economy showed improvement this past year, driven by favorable monetary conditions and a change in the Federal Reserve (Fed) interest rate expectations during the year. The Fed increased interest rates two times in the first half of the fiscal year; however, it pivoted in the second half of the year from a tightening bias to an easing bias which improved optimism about the U.S. economy. The Federal Funds target rate increased by 0.5% during the past fiscal year with a range of 2.25% to 2.50%. While interest rates increased, they continue to be historically low providing for improvement in broad economic conditions. The U.S. real GDP increased year-over-year an average of 2.3% per quarter during the past fiscal year with a range of 1.1% to 3.1%. The official unemployment rate fell during the fiscal year from 4.0% at June 30, 2018 to 3.7% at June 30, 2019, approaching what the Fed would consider full employment.

The Euro Area economy continued to struggle, with modest growth during the past year. The unemployment rate began to normalize and improved to 7.6% as of June 2019 from 8.3% a year earlier. The Euro Area economy fell into contraction territory as evidenced by the Markit Eurozone Manufacturing PMI measurement of 47.6 in June 2019 falling from 54.9 last June. Aggressive actions by the ECB have generated improvements in employment but have failed to sustain economic growth and inflation. Although it slightly tightened monetary conditions by ending quantitative easing in December 2018, the ECB has continued its policy of very accommodative overnight interest rates by introducing another round of Targeted Long-Term Refinancing Operations in 2019.

Introductory Section

Japan's economy has moderately retreated over the past fiscal year. As of the second quarter 2019, Japan's real GDP grew by a year-over-year rate increase of 1.2% versus a 1.5% year-over-year rate increase as of June 2018. Japanese policy makers continue to aggressively attempt 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 had robust growth compared to the other developed regions of the world. China's real GDP increased by 6.2% over the past year, moderately slower than the 6.7% pace for the year-ended June 2018. In addition, the trade war with the United States is putting pressure on the Chinese economy with no signs of abating anytime soon.

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, 2019 was 8.08% 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

For the third consecutive year PSERS received full actuarial funding from school employers and the Commonwealth after 15 previous years of underfunding the actuarially required amount. Full actuarial funding from employers, along with member contributions and investment income, are all necessary sources of funds that will pay down the unfunded liability of the System and bring PSERS back to fully funded status.

PSERS net assets increased by more than 4% or \$2.4 billion to \$59.1 billion in the fiscal year ended June 30, 2019. The net asset increase was generated by solid investment returns and the ongoing budgetary commitment of Gov. Tom Wolf and the Legislature authorizing the state and employers to pay the full amount of the actuarially required contributions. As a result, the System's funded ratio on a market-value basis improved for the third consecutive year. The funding ratio increased from 54.0% at June 30, 2018 to 55.7% at June 30, 2019.

Full actuarial funding, which resulted from funding reforms from Act 120 of 2010, is making a positive difference to the health of the System. Subject to future investment returns and continued commitment to making employer contributions, the funded ratio is expected to climb to 60% in the next three years and to 70% by 2028.

Major Initiatives

Member Self-Service

PSERS has been highly successful in its efforts to have members take advantage of the opportunities available through their Member Self-Service (MSS) Portal. Since being implemented in April 2018, more than 140,000 members have created their online account and conducted more than 141,000 transactions for themselves. The most common action taken was to update their nomination of beneficiaries. MSS also allows members to "Go Green" and as a result, 96% of all MSS accounts have opted to go paperless and receive information from PSERS electronically. This paperless opportunity has netted approximately \$300,000 in savings cumulatively since inception in FY 2018. Looking ahead, in an ongoing effort to ensure the protection of members' data, PSERS will be introducing multi-factor authentication requirements for members and employers using PSERS' online systems. Additional enhancements coming in 2020 include more mobile friendly design and secure messaging functionality.

Act 5 of 2017

The defined contribution plan enacted under Act 5 of 2017 was successfully implemented with the assistance of Voya Institutional Plan Services (VIPS) as the Third Party Administrator and Charles W. Cammack Associates as the consultant for the DC plan. School employees who become new members of PSERS on or after July 1, 2019 can choose from two hybrid plans consisting of defined benefit and defined contribution (DC) components or a stand-alone defined contribution plan. Also, Class T-C, Class T-D, Class T-E, and Class T-F members who were active on July 1, 2019 have a one-time option from September 1 to November 30, 2019 to elect prospectively into one of the new Act 5 membership classes.

As a part of this major implementation, PSERS not only modified its own systems but also worked with all of the public school employers across the Commonwealth to ensure this transition would be ready on time. Through that process, PSERS received valuable feedback from employers and moving forward we will be seeking additional feedback from our members as well.

Upcoming enhancements to the PSERS pension administration system will include enhanced security for web services consisting of multi-factor authentication, additional customer service functionality for improved call center interactions and modifications to enable the calculation of benefits for Class T-G and Class T-H members, who have a hybrid defined benefit/defined contribution retirement benefit.

New Logo

On July 1, 2019, PSERS transitioned to a brand-new logo for the System. PSERS' logo celebrates the dawn of a new era for PSERS, that includes implementing a defined contribution plan and continuing our commitment to providing secure retirement benefits to Pennsylvania public school employees.

PSERS Investment Expenses Declined as Assets Continued to Grow

Investment expenses decreased by \$17.9 million from \$467.7 million in FY 2018 to \$449.8 million in FY 2019 mainly due to a decrease in management fees in absolute return and fixed income of \$23 million. The decrease in absolute return is mainly attributable to a renegotiation of fee terms and lower performance fees earned in FY 2019. The decrease in fixed income is due to a decrease in performance fees. The decreases are partially offset by increases in management fees in the international equity asset class.

As a percentage of total benefits and expenses, investment expense decreased from 6.1% in FY 2018 to 5.8% in FY 2019. Similarly, investment expense has decreased from a high of 8.2% in FY 2013 to 5.8% in FY 2019 due to a decrease in investment expenses from \$557.6 million in FY 2013 to \$449.8 million in FY 2019. During this same period net assets increased \$10.4 billion from \$48.7 billion at June 30, 2012 to \$59.1 billion at June 30, 2019.

PSERS Increased Internal Management of Investments & Increased Annual Fee Savings

The Investment Office received approval to increase its professional complement during the past fiscal year. The complement increase has allowed the Investment Office to support a large increase in assets managed in-house at a significantly lower cost than if those assets were managed externally. Over the past four years, the Investment Office increased the amount of assets managed internally from 30% to 39%, or by \$5.6 billion. The estimated savings from managing those assets in-house is over \$50 million per year.

New Fee Reduction Plan to Save \$2.4 Billion

PSERS investment professionals and its investment consultants developed and presented an investment fee savings plan at the August 2018 PSERS Board Meeting as directed by the Board. PSERS investment professionals took a two-pronged approach to generate fee savings. The first was to establish a plan to renegotiate management fee arrangements to create a better alignment of interest between PSERS and each investment manager. The second was to expand internal management and bring additional assets in-house at a lower cost than external management.

Together, the projected fee savings are \$2.4 billion compounded over 30 years, which represent a 9.6% annual reduction in base management fees. The detailed fee reduction plan is posted on the investment page of PSERS website www.psers.pa.gov.

Budgetary and Financial Governance

PSERS manages multiple budgets/appropriations which support its ongoing operations. Each October, the agency submits its budget requests to the Governor's Office of the Budget. PSERS' Administrative, 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 a leader among large U.S. public pension funds in its effective control of expenses while providing necessary services to its membership. Within the past eighteen months, the System has added significantly to the number of active and retired members electing to receive newsletters, statement of accounts, 1099-Rs and other publications electronically, which saves the agency over \$200,000 per year in postage, printing and paper costs. During FY 2019 specifically, the agency achieved a substantial decline in overtime, reduced consultant and legal fees, decreased election and data storage services, and lowered subscriptions, all of which helps to maintain more investment earnings for the benefit of the Fund. In addition to these savings, PSERS purchased programming hours from its pension administration system vendor at a reduced prepaid rate in order to allow for vital changes to be made in the near future to comply with Act 5 of 2017.

PSERS participates in an independent, international benchmarking survey evaluating its costs and service performance in comparison to other similar public pension funds. Based on the most recent survey, PSERS had a 13% lower pension administration cost per member than the average cost for its peer group. By running a lean and efficient operation, PSERS saves the Commonwealth and school employers approximately \$6.2 million annually in administrative expenses compared to its peers.

In addition, during FY 2019, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received \$5.8 million in settlements from these cases in FY 2019.

Social Media

During FY 2019 PSERS received legal approval to begin using social media as a method of communicating to PSERS members and the general public. Since that time, PSERS has created a Twitter page and posts tweets daily. PSERS Twitter handle is @PA_PSERS. PSERS expects to create other social media accounts over the next fiscal year to further enhance communication with our members.

PSERS Commitment to Fee Transparency

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 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 practices 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.

In October 2018, PSERS Board created an ad hoc Agency Committee on Fee Transparency comprised of five Board Members and supported by PSERS staff. The committee was charged with reviewing and assessing current and emerging best industry policies, practices and standards regarding the reporting of investment management performance and fees, charges, expenses and profit-sharing arrangements. The committee is expected to make recommendations to the Board, with the goal of making PSERS a national public pension fund leader in fee and performance disclosure and transparency.

PSERS Health Options Program Prescription Drug Plan Earned High Rating

The PSERS Health Options Program (HOP) Prescription Drug Employer Group Waiver Plan earned a 4.5 star rating (out of 5 stars) from the Centers for Medicare and Medicaid Services (CMS) for the 2019 calendar year. PSERS is committed to keeping the HOP prescription drug program affordable, offering meaningful member choice, and holding vendors accountable to provide our members with best-in-class service.

Each year, CMS evaluates applicable health and prescription drug plans based on a plan's quality and performance. CMS uses a 5-star rating system that helps beneficiaries know how well a plan is doing. The star rating is a quality rating system of 14 measures of Medicare beneficiaries' experience with their drug plans. Star ratings can be used by beneficiaries to compare a plan's performance with other plans. PSERS' HOP Prescription Drug Plan scored very high in its recent CMS evaluation in the following areas: Quality Improvement, Rating of Drug Plan, and Obtaining Needed Prescription Drugs.

Public Pension Management and Asset Investment Review Commission (PPMAIRC)

The PPMAIRC was created under Act 5 of 2017 to study three areas of PSERS and the State Employees' Retirement System (SERS) including:

- Fee transparency & stress testing
- Evaluating benchmarks
- Developing recommendations to reduce external investment fees

PSERS testified at the Commission's October 2018 meeting. A copy of PSERS's testimony can be found on PSERS website www.psers.pa.gov. The Commission issued its final report in December 2018. One of PSERS' goals during 2019 was to evaluate and consider the recommendations in the PPMAIRC report. PSERS continues the evaluation process but has already implemented a number of the recommendations.

Financial Highlights

The fair value of the System's fiduciary net position grew \$2.4 billion during FY 2019 to \$59.1 billion as of June 30, 2019 and the unfunded liability, on a market value basis, declined by \$1.2 billion. The System is the 15th largest state-sponsored public defined benefit pension fund in the nation and the 34th 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 2019, PSERS provided over \$7.2 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 2019, the appropriation was \$51.6 million. PSERS' Investment Related Expenses budget, which is also entirely sourced by the investment income of the System, totaled \$22.7 million for FY 2019.

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, 2018) 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 56.5%. 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.

Introductory Section

Income from the investment portfolio represents the major source of revenue to the System, accounting for 56% of total revenues over the twenty-year period from FY 2000 to FY 2019. During FY 2019, net investment income was \$3.6 billion. The investment portfolio, which is one part of the System's net position, totaled \$57.7 billion, at fair value, as of June 30, 2019. For FY 2019, the time-weighted net rate of return on the System's investments was 6.68%.

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

Internal Controls and Reporting

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

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

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

GASB 75 OPEB Reporting for Employers

In June 2019, 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, PSERS provided a variety of schedules audited by PSERS' independent auditors 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.

Professional Services

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

Other Information

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

System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. 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 36 consecutive years from FY 1983 to FY 2018. 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 2019 certificate.

GFOA Popular Annual Financial Reporting Award

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to PSERS for its Popular Annual Financial Report for the fiscal year ended June 30, 2018, 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 three consecutive years from FY 2016 to FY 2018. 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 2018. 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.

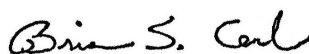
Acknowledgements

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



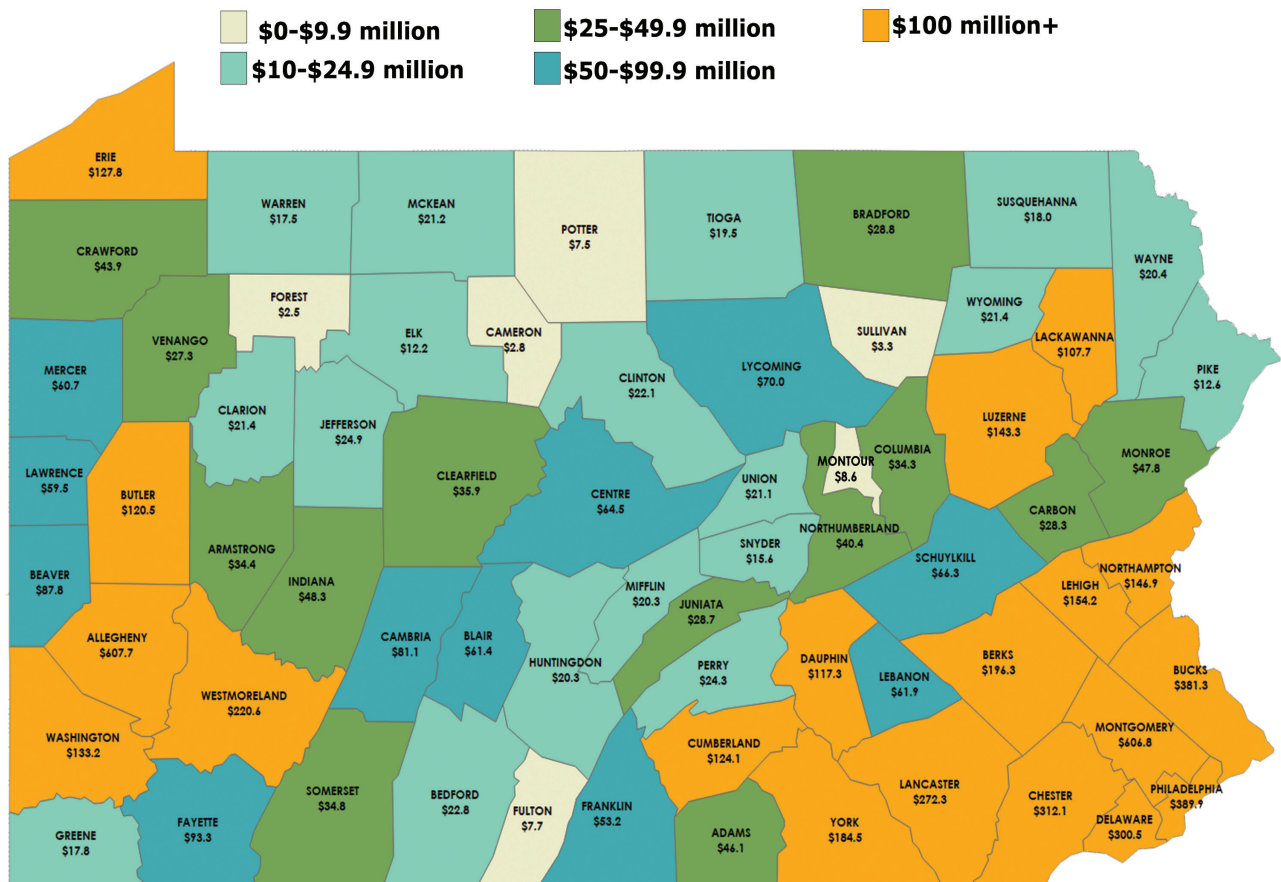
Brian S. Carl, CPA, CTP
Chief Financial Officer

Pension Benefits by County Fiscal Year 2019 (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 2019, PSERS pension benefits to retirees totaled approximately \$6.7 billion. Of this amount nearly 93%, or \$6.3 billion, went directly into state and local economies. These pension benefits are a significant economic driver that benefit the economy of the Commonwealth.

Top 10 Counties Based on Pension Benefits (Dollars in Millions)	
Allegheny	\$607.7
Montgomery	\$606.8
Philadelphia	\$389.9
Bucks	\$381.3
Chester	\$312.1
Delaware	\$300.5
Lancaster	\$272.3
Westmoreland	\$220.6
Berks	\$196.3
York	\$184.5

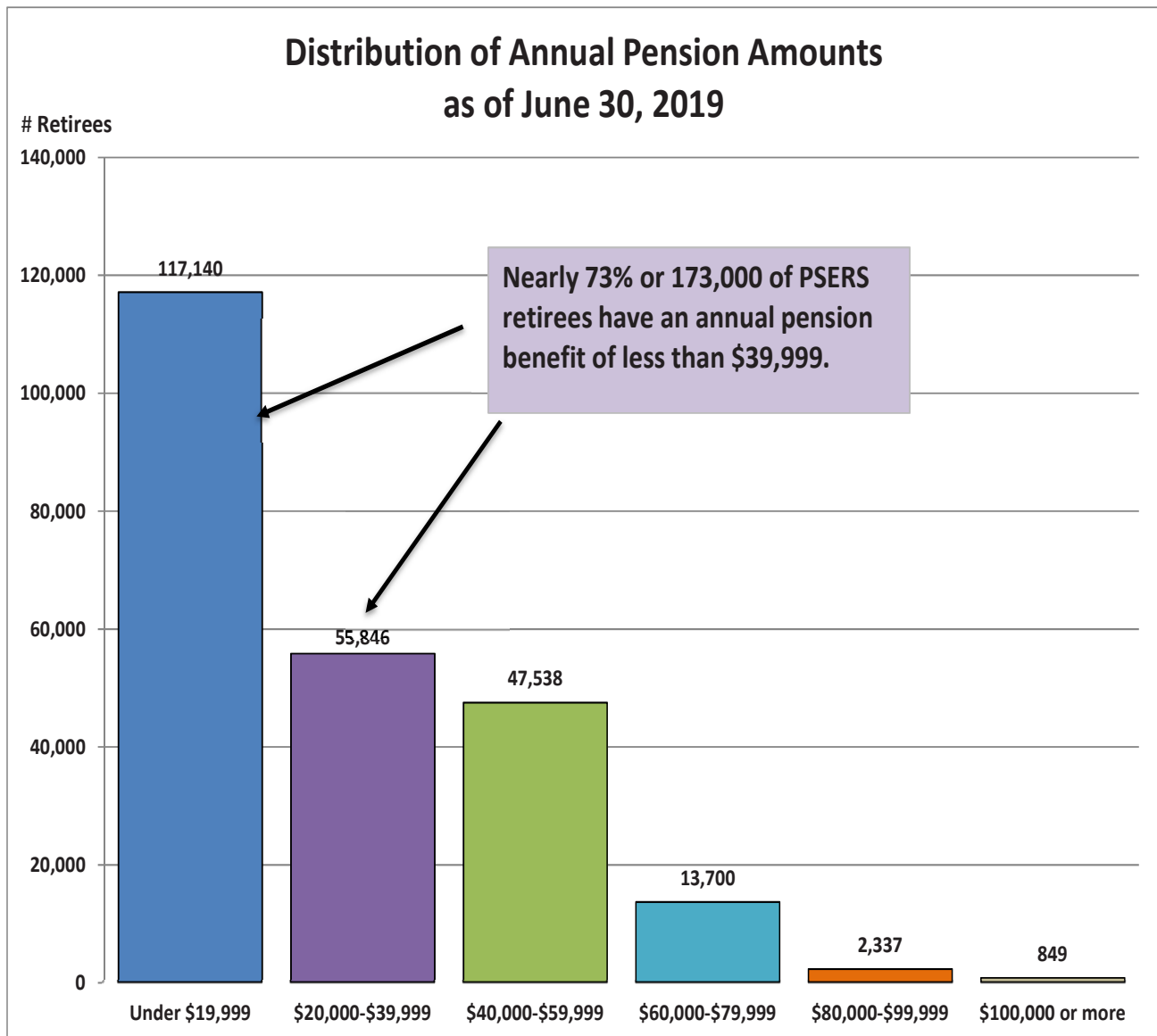
Total Benefits in Pennsylvania - \$6.3 Billion



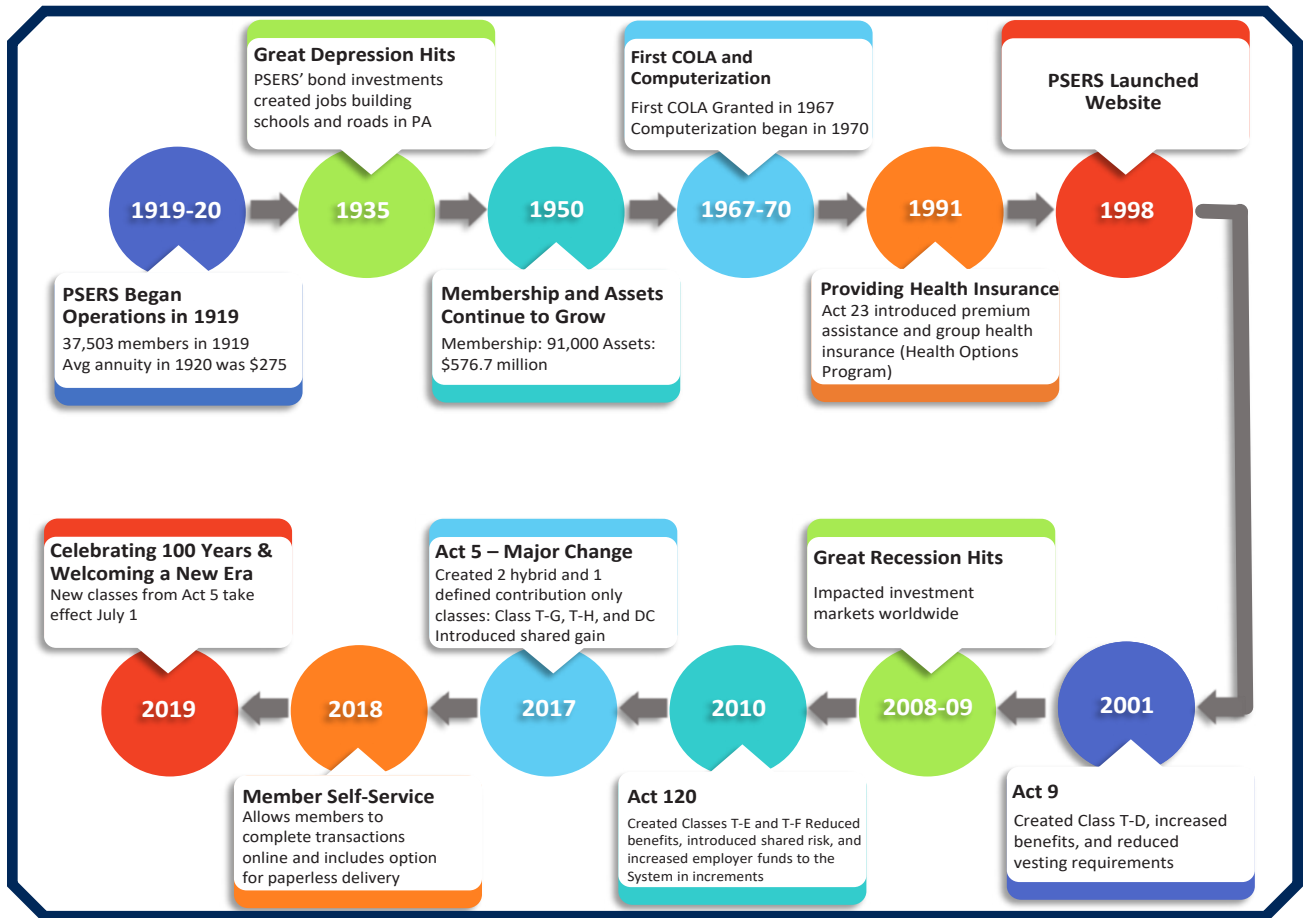
Pension Benefit Amounts Fiscal Year 2019 (Dollar Amounts in Millions)

The average PSERS retiree receives a modest pension of \$25,498 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, 2019, there were 849 retired members receiving an annual benefit over \$100,000 out of a total 237,000 PSERS retirees. These six-figure pension retirees spent an average of 38 years working in their public education careers and contributing to their benefit.

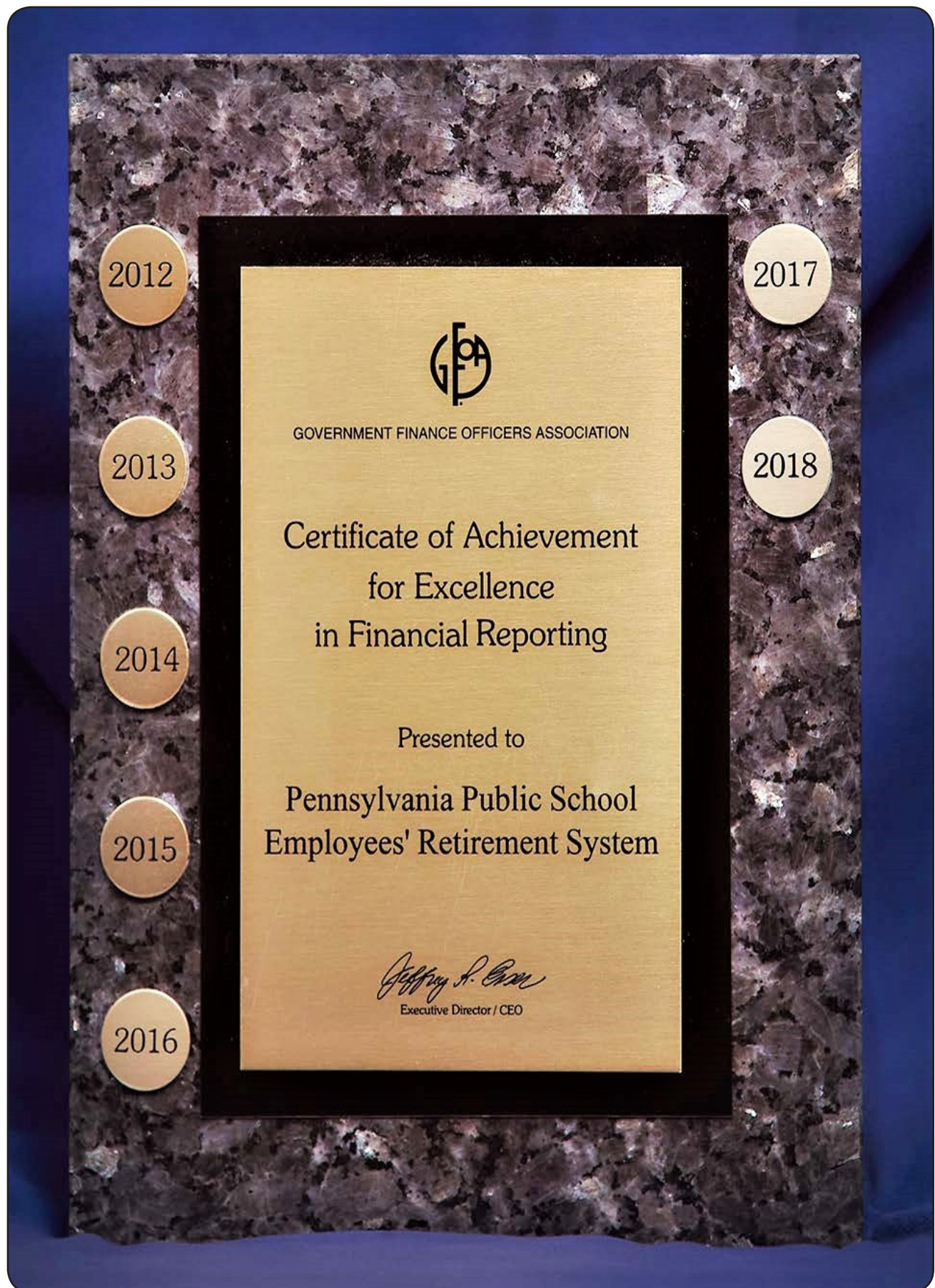


PSERS Thru The Years



Current Staff-Field Offices







Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration
2018*

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.

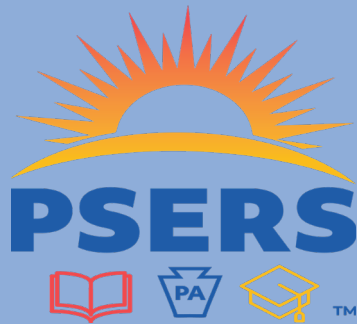
Presented by the Public Pension Coordinating Council, a confederation of

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: Secretary Robin L. Wiessmann; Melva S. Vogler, Board Chairman; Susan C. Lemmo; Deborah J. Beck

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

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

Vacant

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

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

Ms. Susan C. Lemmo (term expires 12/31/21)

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

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

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

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

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

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 Francis X. Ryan (term expires 12/31/20)

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

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

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

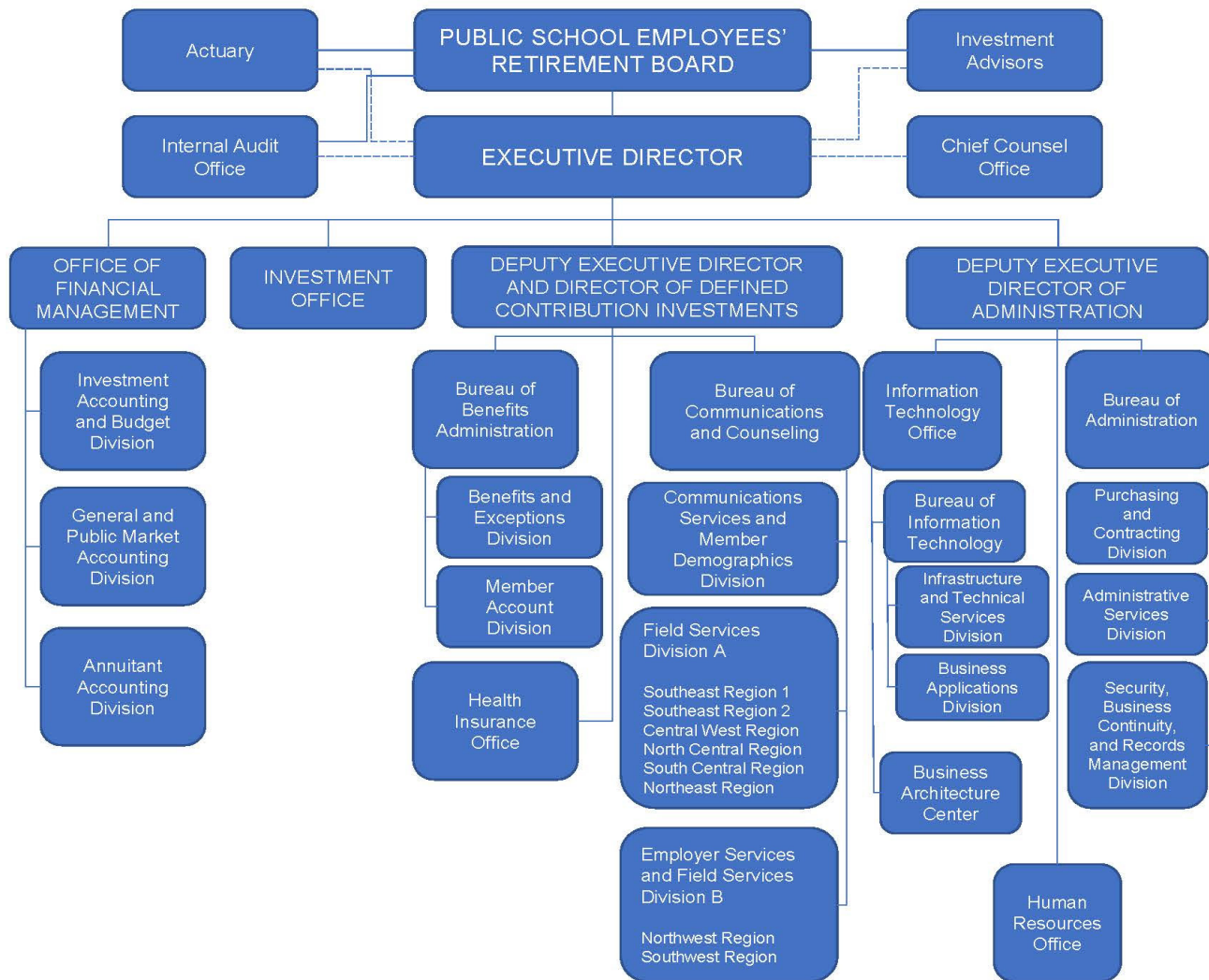
Honorable Patrick M. Browne (term expires 12/31/20)

2019 Board Committees

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

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

Organizational Chart of the Public School Employees' Retirement System



For Schedules of Fees and Commissions please refer to the Financial section page 79 and Investment section page 98.

As of June 30, 2019

Administrative Staff

As of June 30, 2019



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



Charles Hodge
Director of Human Resources



Todd Fulton
Director of Benefits Administration



Tony Parisi
Legislative Liaison



Evelyn M. Williams
Communications Director

The Internal Auditor position was vacant.

PSERS REGIONAL OFFICES

Northwest

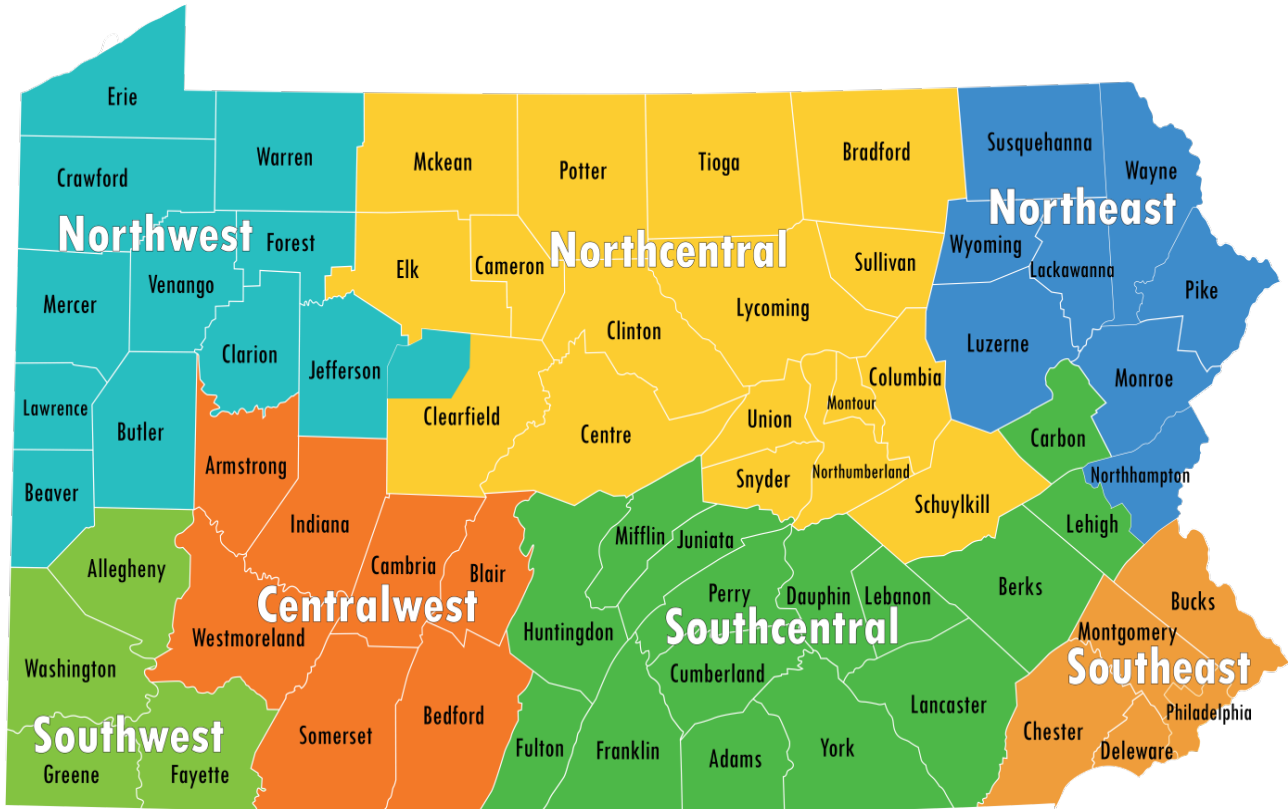
Pennwood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
 Local: 1.814.437.9845
 FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
 Donald Gregory, Administrator

Northcentral

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

Northeast

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



Southwest

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

Centralwest

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

Southcentral

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

Southeast

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



As of June 30, 2019

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.

Past Staff Photo



Current Staff-Executive Office

