



Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania



PA State Flower:
Mountain Laurel



PA State Animal:
White-tailed Deer



PA State Bird:
Ruffed Grouse

Annual Comprehensive Financial Report

Fiscal Years Ended June 30, 2021 & 2020

Pennsylvania Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

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Annual Comprehensive Financial Report

for the
Fiscal Years Ended June 30, 2021 and 2020

Christopher Santa Maria

***Chairman
Board of Trustees***

Honorable Francis X. Ryan

***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*

Table of Contents

Section One – Introductory	5
Letter of Transmittal	6
Pension Benefits by County	16
Pension Benefit Amounts	17
GFOA Certificate of Achievement for Excellence in Financial Reporting	18
Public Pension Coordinating Council Public Pension Standards Award	19
Mission Statement	20
Administrative Organization	
PSERS Board of Trustees	21
Board Committees	23
Organizational Chart of the Public School Employees’ Retirement System	24
Administrative Staff	25
PSERS Regional Offices	26
PSERS Headquarters Building	27
Section Two – Financial	29
Report of Independent Auditors	30
Management’s Discussion and Analysis	32
Financial Statements	
Statements of Fiduciary Net Position as of June 30, 2021 and 2020	44
Statements of Changes in Fiduciary Net Position Years ended June 30, 2021 and 2020	46
Notes to Financial Statements	48
Required Supplementary Information	80
Schedule 1 - Schedule of Changes in the Employer Net Pension Liability	80
Schedule 2 - Schedule of Employer Net Pension Liability	81
Schedule 3 - Schedule of Employer Pension Contributions	81
Schedule 4 – Schedule of Changes in the Employer Net OPEB (Premium Assistance) Liability	82
Schedule 5 – Schedule of Employer Net OPEB (Premium Assistance) Liability	83
Schedule 6 – Schedule of Employer OPEB (Premium Assistance) Contributions	83
Schedule 7 - Schedule of Investment Returns - Pension and OPEB	84
Notes to Required Supplementary Information	85
Supplementary Schedules	89
Supplementary Schedule 1 - Schedule of Administrative and Investment Expenses	89
Supplementary Schedule 2 - Summary of Investment Expenses	90
Supplementary Schedule 3 - Schedule of Payments to Non-Investment Consultants	91
Section Three – Investment	93
Chief Investment Officer Letter	94
Annualized Total Returns (%) Net of Fees	102
Portfolio Summary Statistics Asset Allocation Basis as of June 30, 2021	103
Comparison of Actual Portfolio Distribution to Asset Allocation Plan as of June 30, 2021	104
Graph – Comparison of Actual Portfolio Distribution to Asset Allocation Plan	104
Graph – Portfolio Capital Distribution 10 Year Trend	105

Table of Contents (Continued)

10 Largest Holdings Schedules	
Common and Preferred Stock	105
Fixed Income	106
Absolute Return	106
Postemployment Healthcare Investments	107
Defined Contribution Plan Investments	107
Comparison of Investment Activity Income Fiscal Years Ended June 30, 2021 and 2020	108
Summary Schedule of Brokers' Fees	108
Professional Consultants	109
Section Four – Actuarial	113
Actuary's Certification Letter	114
Summary of Results of Actuarial Valuation as of June 30, 2020	117
History of Contribution Rates and Funded Ratios	118
Description of Actuarial Assumptions and Methods	119
Schedule of Active Members	121
Schedules of Retired Members and Beneficiaries	122
Solvency Test for Pensions	123
Schedule of Funding Progress for Pensions	123
Analysis of Past Financial Experience - Reconciliation of Employer Contribution Rates	124
Section Five – Statistical	125
Narrative	126
Schedule of Trend Data	127
10 Year Trend Schedules	
Total Changes in Fiduciary Net Position - Pension	128
Additions to Fiduciary Net Position - Pension	129
Deductions from Fiduciary Net Position - Pension	129
Total Changes in Fiduciary Net Position - Postemployment Healthcare Plans	130
Additions to Fiduciary Net Position - Postemployment Healthcare Plans	132
Deductions from Fiduciary Net Position - Postemployment Healthcare Plans	132
Total Changes in Fiduciary Net Position - DC plan	133
Summary Membership Data	134
Summary Annuity Data	134
Pension Benefit and Refund Deductions from Fiduciary Net Position	135
Average Monthly Pension Benefit Payments	136
Average Monthly Pension Benefit Payments and Average Final Average Salary	138
Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary	139
Ten Largest Employers	140
Schedule of Employers	141

PA State
Plant:
Penngift
Crownvetch



INTRODUCTORY SECTION

Letter of Transmittal	6
Pension Benefits by County	16
Pension Benefit Amounts	17
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Public Pension Coordinating Council Public Pension Standards Award	19
Mission Statement	20
Administrative Organization	
PSERS Board of Trustees	21
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PSERS Regional Offices	26
PSERS Headquarters Building	27

PA State
Flag





5 North 5th Street
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Letter of Transmittal
COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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November 5, 2021

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 hundred-second edition of the Annual Comprehensive Financial Report (ACFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal years ended June 30, 2021 (FY 2021) and 2020 (FY 2020). 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. PSERS has adopted the name Annual Comprehensive Financial Report pursuant to GASB Statement No. 98 *The Annual Comprehensive Financial Report*, issued October 19, 2021. While GASB Statement No. 98 is required and effective for fiscal years ending after December 15, 2021, PSERS has elected to early implement GASB Statement No. 98 and change the name effective for this fiscal year ended June 30, 2021.

This year's ACFR highlights Pennsylvania's state symbols. The Keystone State is home to many diverse varieties of plants and wildlife that have been designated official state symbols. Our state bird, the ruffed grouse, and the state animal, the white-tailed deer, were historically essential sources of food for Pennsylvania Native Americans and early settlers. This year's ACFR celebrates these amazing natural resources and the importance of their place in Pennsylvania's environment.

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

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania (PA). The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. As of June 30, 2021, the System had approximately 248,000 active members with an estimated annual active payroll of \$14.2 billion.

The annuitant membership at June 30, 2021 was comprised of approximately 243,000 retirees and beneficiaries who receive approximately \$531 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$25,992. 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, 2021, 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 121,000 annuitants and their dependents.

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. In FY 2021, PSERS distributed \$6.7 billion or nearly 94% of total pension benefits to annuitants who reside in Pennsylvania. These pension benefits are a significant economic driver that benefit the economy of the Commonwealth. See the Pension Benefits by County map in the Introductory Section of this report.

The System is a governmental cost-sharing, multiple-employer defined benefit pension plan, to which most members and reporting units contribute. PSERS also administers a defined contribution plan to which all new members and reporting units contribute. PSERS is administered by a staff of 365 and has 769 reporting units as of June 30, 2021. 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 ACFR. An unmodified opinion means that PSERS' financial statements fairly present, in all material respects, its financial condition. In addition, no significant findings were noted during the audit and therefore, a management letter was not issued. This is the twelfth 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

Fiscal year 2021 will be remembered for the COVID-19 pandemic which dominated the headlines and affected everyone globally. With the advent of vaccines which received emergency approval, the economy transitioned from rolling lockdowns to being close to fully reopened in the U.S. Other headlines during the fiscal year included geopolitical tensions between the U.S. and China, and a Brexit deal between the United Kingdom and European Union in the last few days before the new year 2021 deadline. As a result of easing monetary policies, stimulative fiscal policies, and re-opening of global economies, global equities and global risk markets continued their upward march since the beginning of the fiscal year. With all of the liquidity injected into the markets, especially in the U.S., inflation significantly increased, with the U.S. Core Consumer Price Index (CPI) increasing to 4.5% year-over-year as of June 2021 from 1.2% one year ago. Housing inflation also picked up with the S&P CoreLogic Case-Shiller U.S. National Home Price Index showing home prices increased by 18.5% over the past 12 months ended June 30, 2021, the largest year-over-year increase since the index was created in 1990.

The U.S. economy had some very significant tail winds during the past fiscal year. First, the Federal Reserve continued to run very easy monetary conditions with very low interest rates and continued quantitative easing programs. The Federal Funds target rate range remained unchanged during the fiscal year at 0.00% - 0.25% with a commitment from the Federal Reserve to keep rates at rock bottom until at least 2022. In addition, the Federal Reserve continued to pump liquidity into the economy through its Treasury and MBS Asset Purchase program, injecting \$120 billion a month through asset purchases. Second, the federal government approved a \$1.9 trillion COVID-19 support package and is considering other fiscal programs, including an infrastructure bill. Finally, as COVID-19 cases moderated and with the deployment of a vaccine, the economy started to re-open and economic activity picked up significantly from being essentially shut down at the onset of the pandemic.

The Euro Area benefited from similar but weaker tail winds as the U.S. during the past fiscal year. Europe's economy did not open as quickly due to stricter lock downs and a slower pace of COVID-19 vaccination rollout. The European Central Bank increased its asset purchase program from €500 billion to €1.85 trillion to support the

market and stimulate growth. On the fiscal side, the European Union approved a €2.2 trillion budget and stimulus package which included a €750 billion pandemic relief package to be funded by joint debt. As of the second quarter 2021, the Euro Area had strong year-over-year growth of 13.7%, driven by a re-opening of the economy from COVID-19 restrictions, stimulative monetary policy, and strong fiscal support. The unemployment rate remained stable at 7.7%, the same as a year earlier due to companies receiving financial incentives to maintain employee payroll during the pandemic. Eurozone inflation trends remained stable during the past fiscal year, with Eurozone Core Inflation modestly increasing from 0.8% on an annualized basis in June 2020 to 0.9% in June 2021, continuing well below the European Central Bank (ECB) target of 2.0%. The Euro Area economy expanded this past fiscal year as evidenced by the Markit Eurozone Manufacturing PMI measurement of 63.4 in June 2021 and remained above the expansionary 50 level the entire fiscal year. The ECB continued its policy of very accommodative overnight interest rates.

Japan, and Asia in general, did not suffer from a health perspective as much as the western economies from COVID-19. As of the second quarter 2021, Japan's real GDP increased by 1.9% versus -10.1% as of June 2020. 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 as their aggressive actions fighting the COVID-19 virus allowed them to economically recover more quickly. China had strong real GDP growth of 7.9% over the past year, significantly faster than the 3.2% pace for the year ended June 2020.

Status of Pension Funding Initiatives

The ongoing budgetary commitment of Gov. Tom Wolf and the Legislature authorizing state and school employers to pay the full amount of the actuarially required contributions continues to help improve PSERS' funded status.

From FY 2017 to FY 2021 PSERS received full actuarial funding from school employers and the Commonwealth after 15 previous years of underfunding. Full actuarial funding from employers, along with member contributions and investment income, are all necessary sources of funds that will pay down the unfunded liability and bring PSERS back to fully funded status.

FY 2021 had strong investment returns resulting in record net investment gains that helped push the System's total net assets up by \$13.5 billion to an all-time high of \$72.5 billion. PSERS' fiscal year return of 24.58% was well above the Fund's long-term earnings assumption of 7.00%. On an actuarial basis, the funded ratio was 59.2% at June 30, 2020. Subject to future investment returns and continued commitment to making employer contributions, the actuarial funded ratio is expected to climb to 76% by 2029.

The System's funded ratio on a market-value basis was 63.67% at June 30, 2021. The increase in the FY 2021 funded ratio on a market-value basis was due to strong investment returns in FY 2021. Since June 30, 2016, when full actuarial funding began, the System's market value unfunded ratio has increased from 50.14% to 63.67% at June 30, 2021.

PSERS' actuary, Buck Global, LLC, completed a five-year experience study as required by the Retirement Code and presented the results at the March 5, June 11, and August 6, 2021 Board meetings. Based on the recommendations of the actuary, the Board adopted revised demographic and economic assumptions effective with the June 30, 2021 actuarial valuation and results will be available at the end of the 2021 calendar year. The revised demographic assumptions include new mortality, retirement, and withdrawal assumptions and updated option factors to match the new mortality tables. The revised economic assumptions include reducing the salary growth from 5.00% to 4.50%, reducing inflation from 2.75% to 2.50%, decreasing the payroll growth assumption from 3.50% to 3.25%, and reducing the investment rate of return from 7.25% to 7.00%.

Major Initiatives

PSERS Adapted Quickly to Pandemic Impacts

Since March 16, 2020, most PSERS employees have been working remotely from their homes, with limited visits to physical office locations. PSERS operations and processes quickly adjusted with staff working remotely with only brief interruptions to call center and walk-in, in-person assistance availability. Since then, overall, productivity has been maintained or even improved. Based on surveys conducted of persons attending online webinars, the majority of respondents preferred to have an in-person option for counseling. As a result, in-person counseling sessions began again in September 2021, while participating in these via a webinar will also continue to be an available option.

While all new retirees are required to set up direct deposit, PSERS had more than 11,000 annuitants receiving a monthly benefit via a paper check. PSERS faced a significant challenge due to issues with the US Postal Service in the month of March 2021 resulting in these members experiencing significant delays in receiving their benefit. Normal email and phone call volumes more than doubled due to repeated and ongoing outreach by these impacted members. PSERS conducted a campaign urging these members to switch to direct deposit netting over a 25% reduction in the number of members receiving a paper check moving forward.

PSERS is in the process of progressing from an emergency work from home experience to a permanent model of telework on a part-time or full-time basis. Not only will this help to alleviate issues of having enough space to accommodate a growing staff, but opportunities are being explored where this could equate to potential cost savings as well.

Member Self-Service

The PSERS Member Self-Service (MSS) Portal has continued to be a tremendous success. Since being implemented in April 2018, over 200,000 members have created their online account and conducted nearly 280,000 transactions for themselves. The most common actions taken are to create their own retirement estimates, update their beneficiaries, update their address and generate their own income verification. MSS also allows members to “Go Green” and as a result, nearly 95% of all MSS accounts have opted to go paperless and receive information from PSERS electronically.

In December of 2020, secure messaging functionality was added which enables members to communicate with PSERS securely within the online portal with messages retained in their online account. More than 7,000 messages have been received since this was implemented with an average response time of less than two business days.

In an ongoing effort to improve MSS, PSERS will be adding multiple enhancements in 2022 most notably a redesigned platform which will be easier to navigate from PCs and mobile devices. With this upgrade, additional information will be available to members within their accounts, more reports for employers, and additional security measures. The ability to track the status of applications submitted for a retirement estimate, retirement benefit, or refund will also become available within MSS accounts.

Improved Communication to Members

Throughout the year PSERS completed many undertakings to improve communication with members. Multiple videos have been added to the agency’s website ranging from the general PSERS overview Foundations for Your Future presentation, general updates, investments, and specific DC account information. PSERS continued monthly targeted email messages to all members and also targeted messages such as aspects unique to DC plan participants. Multiple surveys were conducted to acquire feedback on aspects including the public website, the MSS Portal, the member newsletter, DC Plan experiences, and overall engagement and satisfaction. The results will assist in developing PSERS short-term and longer-term communication plans and the redesign of current communication materials and efforts.

New members of PSERS have 90 days from notification of qualification to make an irrevocable membership class election decision which impacts their contribution amounts and their overall retirement benefit. To assist in making that decision, an online calculator was developed to enable new members to input their own personal information to

Introductory Section

help them project what their retirement benefit may look like under each of the membership class options they have available to them. Additionally, PSERS began conducting webinars to better educate new members of their choices and assist them in making the choice that is best for them.

Act 120 of 2010 and Act 5 of 2017 created a risk-sharing program for all members who first enrolled in PSERS after June 30, 2011 (Class T-E, Class T-F, Class T-G, and Class T-H members). With the "shared risk" provision, these members can benefit when PSERS investments are doing well and share some of the risk when PSERS investments underperform. DB contribution rates may increase or decrease by 0.50% or 0.75% within the specified range every three years. Beginning in April 2021, PSERS worked collaboratively with software providers and employers to implement an increase in required member contributions due to Shared Risk. As a result of the efforts and dedication by software providers and employers, these changes were able to be implemented relatively smoothly by July 2, 2021. The next shared risk investment performance measurement period for Class T-E, Class T-F, Class T-G, and Class T-H members ends June 30, 2023.

PSERS Health Options Program Updates

The PSERS Health Options Program (HOP) continues to see steady growth in enrollment and now has more than 121,000 PSERS retirees, spouses, and dependents enrolled as of June 30, 2021. Within the plan, there is a Dental Program offering which has eclipsed 27,000 enrollees. A Vision Program was added in January 2021 and has over 27,000 enrollees.

CMS' Medicare Star Rating program rates Medicare Advantage (MA) and Prescription Drug Programs (PDP) based on a number of metrics around quality and performance. Rating criteria is based on a 1 to 5 point system. The ratings help members select the best plans for themselves or their families. PSERS Prescription Drug Employer Group Waive Plan received the Federal Centers for Medicare and Medicaid Services (CMS) highest rating, 5 Stars, for this year for use in 2022. PSERS PDP is among only nine other plans in the U.S. to receive this award of excellence.

This marks the first time PSERS earned a 5 Star Rating in the 15-year history of offering a Medicare Part D program. The HOP PDP program has a history of earning high ratings of 4.0 to 4.5 rating annually since 2019 for overall service and quality of the prescription drug plan that retirees voluntarily pay for through monthly premiums. PSERS' latest CMS Star rating was based in part on how our members rate the plan's services and care, and how well our plan helps our members use recommended and safe prescription medications.

PSERS Increased Internal Management

PSERS Investment Office continued the process of filling vacant positions with very capable investment professionals which will allow PSERS to continue its efforts to bring additional assets in-house, provide additional depth to the investment team, and/or enhance risk management, compliance, and operational practices. The expansion of professional staff allows the Investment Office to support the large amount of assets managed in-house at a significantly lower cost than if those assets were managed externally. The Investment Office currently manages approximately 51%, or \$40.3 billion of the gross assets (inclusive of leverage), in-house. The estimated savings from managing those assets in-house is over \$40 million per year.

Investment Book of Record

The Operations team in the Investment Office successfully completed phase one of the migration, PSERS' Investment Book of Record (IBOR). The IBOR project started in December 2017 and is slated to be completed in 2022. The IBOR is a technological solution designed to deliver the current best available view of investment data suitable for investment decision-making, incorporating the current status and forward projections of portfolio investment holdings and cash position, as well as reference data and derived analytics supporting the investment decision-making process. Benefits sought from the IBOR include, among other things, modernization of processes, increased transparency, and increased functionality.

Budgetary and Financial Governance

PSERS manages multiple budget appropriations which support its ongoing operations. Each October, the agency submits its budget requests to the Governor's Office of the Budget. PSERS' Administrative, Defined Contribution, and Directed Commissions Recapture Program Budgets each require legislative approval. None of PSERS' budgets are funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself or participant charges. Historically, PSERS has underspent its approved budgets, keeping more funds available to invest for PSERS' members.

PSERS continues to be a leader among large U.S. public pension funds of similar size and complexity in its effective control of expenses while providing necessary services to its membership. During the last three years, the number of active and retired members electing to receive newsletters, statement of accounts, 1099-Rs and other publications electronically has continued to grow, which saves the agency over \$225,000 per year in postage, printing and paper costs.

During FY 2021 specifically, the agency achieved substantial savings in postage, reduced contracted maintenance and repair services, decreased rental of equipment and software, and lowered purchases of computer hardware and other equipment, all of which keep more of PSERS assets available for the benefit of the Fund and its members. In addition to these savings, PSERS renegotiated the terms with its database management system vendor through the Commonwealth of Pennsylvania contract in order to reduce costs by \$125,000.

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 \$6.4 million annually in administrative expenses compared to its peers.

In addition, during FY 2021, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received \$3.2 million in settlements from these cases in FY 2021 and \$41 million over the past five years.

PSERS Commitment to Fee Transparency

On December 6, 2019, PSERS Board of Trustees approved an investment transparency policy that codified many of the agency's long-standing methods of providing investment records to the public, press and policymakers in accordance with existing state laws, Commonwealth directives and best practices in government finance. The policy stresses that PSERS will abide by its legal and fiduciary obligations when using the agency's website and other means to release investment returns, fee data, and budgetary and actuarial data. PSERS provides extensive investment information on its website www.psers.pa.gov. For example, detailed reports providing investment performance by manager and detailed fee information have been added to PSERS website.

Financial Highlights

The fair value of the System's fiduciary net position increased by an all time high of \$13.5 billion during FY 2021 to \$72.5 billion as of June 30, 2021. The System is the 16th largest state-sponsored public defined benefit pension fund in the nation and the 37th largest among public and corporate pension funds in the nation. More specific information on the System's net position is detailed in the Statements of Fiduciary Net Position and Management's Discussion and Analysis included in the Financial Section of this report.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2021, PSERS provided approximately \$7.6 billion in pension and healthcare benefits to its members.

Introductory Section

The System's administrative budget request is appropriated by the PA General Assembly and funded by the assets of the System. For FY 2021, the appropriation was \$52.3 million. PSERS' Investment Related Expenses budget, which is also entirely sourced by the assets of the System, totaled \$34.1 million for FY 2021.

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, 2020) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities for all benefits payable under the System at that date. The total funded status as of the latest actuarial valuation was 59.2%. 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. In fact, the returns generated over the past 10 years were done so with one of the lowest risk profiles, as measured by standard deviation of investment returns, among public pension funds in the country as well as one of the highest investment return to risk ratios.

Income from the investment portfolio represents the major source of revenue to the System, accounting for 60% of total revenues over the twenty five-year period from FY 1997 to FY 2021. During FY 2021, net investment income was a record \$14.8 billion. The investment portfolio, which is one part of the System's net position, totaled \$72.2 billion, at fair value, as of June 30, 2021. For FY 2021, the time-weighted net rate of return on the System's investments was 24.58%.

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, 2021 was 7.70% and exceeded the Fund's long-term investment rate of return assumption (currently 7.00%). Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

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

- to generate returns to support the System's actuarial soundness so it may provide its members with benefits as required by law;
- to earn a long-term total return, net of fees, investment, and administrative expenses, that equals or exceeds the Actuarial Assumed Rate approved by the Board;
- to earn a long-term total return, net of fees, and investment expenses, that equals or exceeds the Policy Index approved by the Board; and
- to prudently manage investment risks that are related to the achievement of investment goals.

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

Defined Contribution Plan

The Defined Contribution (DC) Plan has continued to rapidly grow. As of July 1, 2021, there were close to 30,000 participants with a total DC Plan balance exceeding \$62 million. The Retirement Code requires the DC Plan to provide no less than ten investment options offered by three or more investment providers. Currently, the DC Plan has eight providers offering twenty investment options.

In building upon the communication efforts within the relatively new defined contribution program, PSERS created a Year End Summary document highlighting changes and overall plan participation information. Notable changes within the plan included the removal of the Templeton Global Bond R6 Fund, the addition of the T. Rowe Price Target Date 2065 fund, modifications to the T. Rowe Price Target Date glide path, and fee reductions within many of the available investment funds. The online experience through Voya has also been enhanced with a revised online portal, availability of a budgeting calculator and the availability of Spanish translations for much of the online material in a participant's account. PSERS also continued its efforts to acquire feedback and conduct specialized surveys on participants' financial wellness and investment preferences.

Federal and State Tax Status

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

Internal Controls and Reporting

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

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

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

In addition, each year PSERS undergoes a very thorough internal controls assessment. This past year the in-depth assessment reviewed five areas of PSERS operations: Benefit Processing, Communications, Healthcare, Investments, and Financial Reporting. Each internal control assessment was based on five major components. The five components included, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

As required by the Commonwealth, PSERS submitted the assessment and monitoring plan in a timely manner to the Commonwealth's Office of Budget. No significant deficiencies were identified in this past year's internal control assessment.

Introductory Section

In August 2021, the Board approved a SOC1 Type 2 Audit Study and directed staff to issue the Notice of Forthcoming Procurement for the SOC1 Type 2 Audit to provide an internal control audit of the System in compliance with Act 128 of 2020.

Professional Services

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

Litigation and Contingencies

The System received subpoenas from various federal agencies regarding the certification of the shared risk member contribution rate, the purchase and valuation of certain directly held properties as well as investment performance and relationships with investment managers. PSERS is cooperating fully with the federal investigations. The System is subject to various threatened and pending lawsuits. The System had a lawsuit filed by a board member regarding access to various documents and communications related to investments. It is the opinion of management that the ultimate liability arising from such threatened, pending litigation and investigations will not have a material effect on the financial position of the System.

Other Information

In compliance with the Retirement Code, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published in the Pennsylvania Bulletin (Vol. 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 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2020. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized annual comprehensive financial report whose contents conform to program standards. Such an annual comprehensive financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for 38 consecutive years from FY 1983 to FY 2020. A photograph of this award appears in the Introductory Section of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the Annual Comprehensive Financial Report.

The System believes the current report continues to conform to the Certificate of Achievement program requirements and will be submitting this report to GFOA to determine eligibility for the 2021 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, 2020, 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 five consecutive years from FY 2016 to FY 2020. 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 2020. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards. Achievement of the Funding portion of this award is in recognition of the commitment of the Governor and General Assembly to fund 100% of the actuarially required contributions.

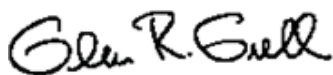
The Public Pension Coordinating Council was formed in 1990 to assist the public employee retirement community. The Council is composed of representatives from three national associations whose members are directly involved in the administration of public employee retirement systems: the National Association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

Acknowledgments

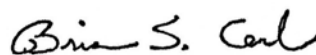
The preparation of this report reflects the combined efforts of PSERS' staff under the direction of the PSERS Board. Our sincere appreciation is extended to all who assisted in and contributed to the completion of this document. This report is intended to provide complete and reliable information in conformance with accepted standards and to document responsible stewardship of the System's assets.

We embrace our responsibilities of being prudent stewards and to proactively prepare for the anticipated challenges ahead. We will continue to take responsible action and will work with our members, employers and stakeholders to position PSERS to be a strong pension system.

Respectfully submitted,



Glen R. Grell
Executive Director



Brian S. Carl, CPA, CTP
Chief Financial Officer

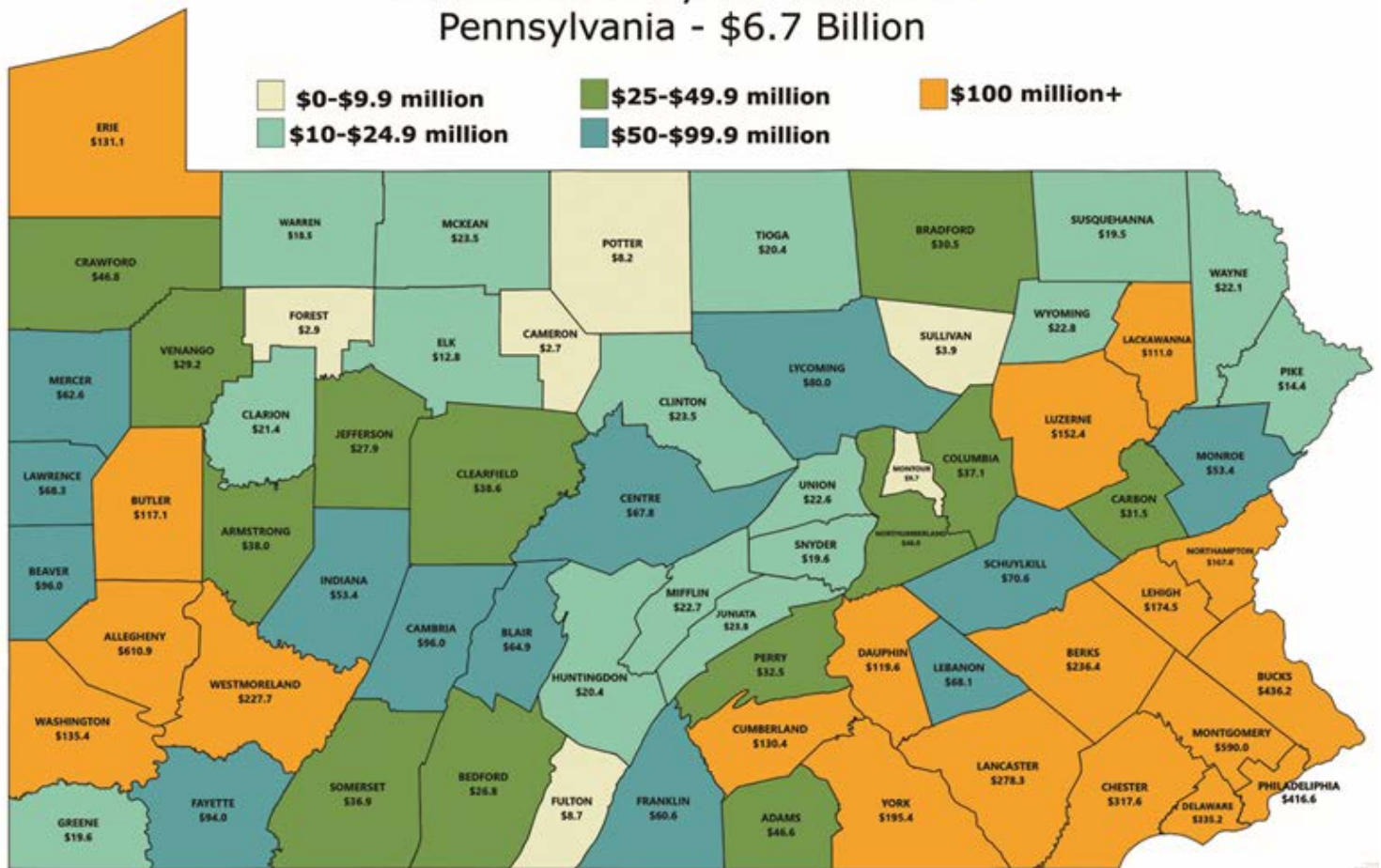
Pension Benefits by County Fiscal Year 2021 (Dollar Amounts in Millions)

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 2021, PSERS pension benefits to retirees totaled approximately \$7.1 billion. Of this amount nearly 94%, or \$6.7 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	\$610.9
Montgomery	\$590.0
Bucks	\$436.2
Philadelphia	\$416.6
Delaware	\$335.2
Chester	\$317.6
Lancaster	\$278.3
Berks	\$236.4
Westmoreland	\$227.7
York	\$195.4

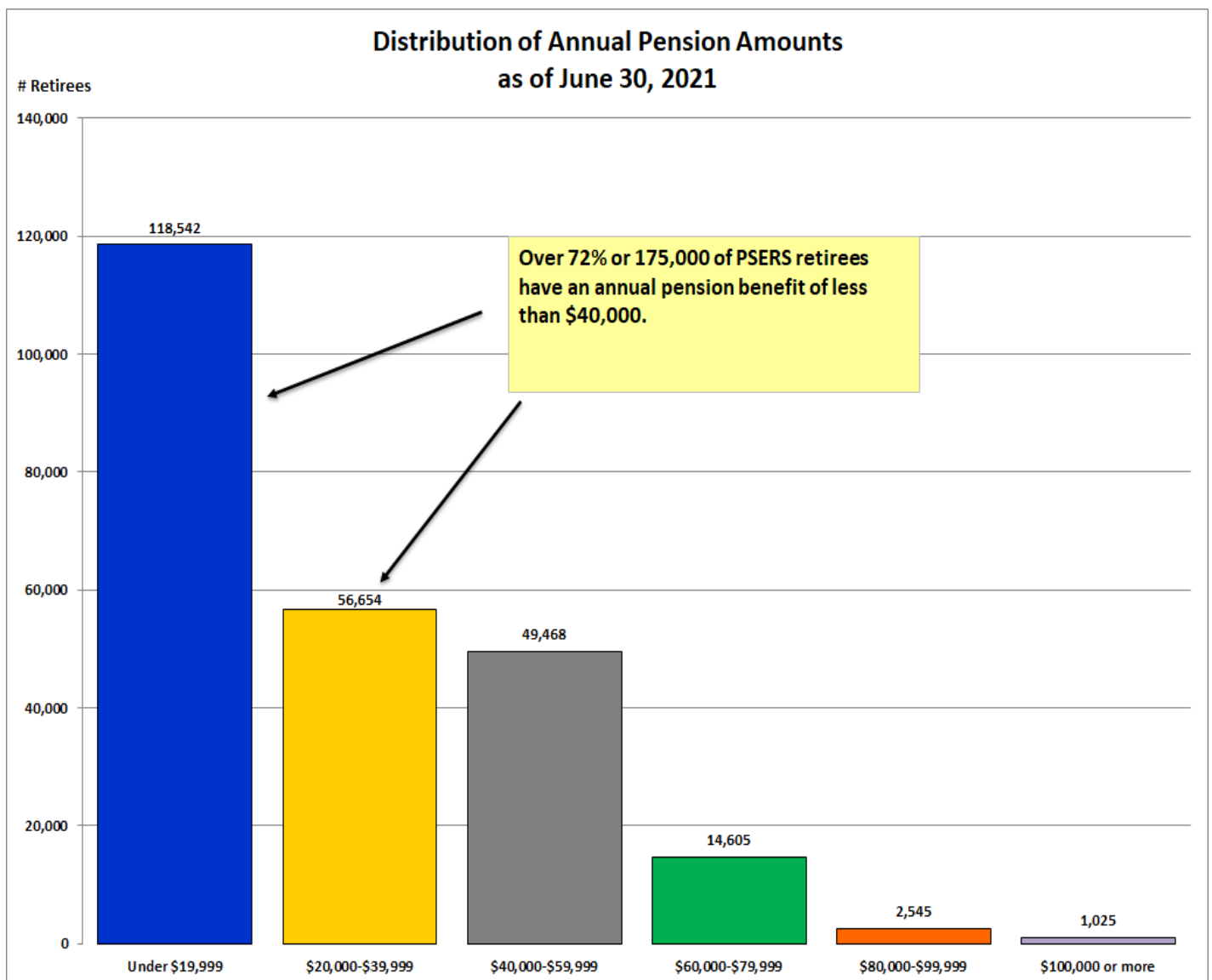
Total Benefit Payments Made in Pennsylvania - \$6.7 Billion

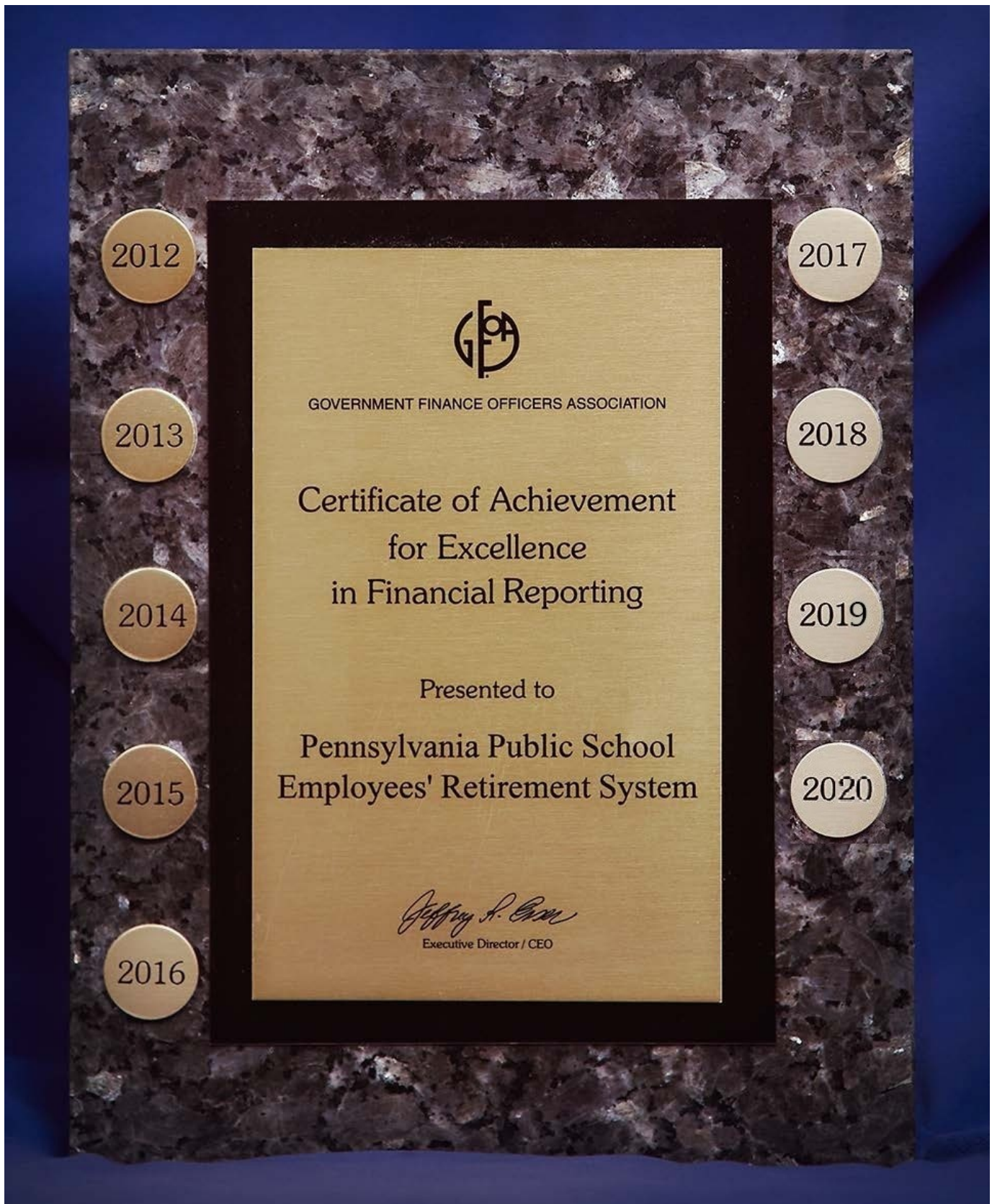


Pension Benefit Amounts Fiscal Year 2021 (Dollar Amounts in Millions)

The average PSERS retiree receives a modest pension of \$25,992 on an annual basis, a benefit earned through a lengthy career of 23 years in public education. During their career, members make mandatory contributions, most of which are 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, 2021, there were 1,025 retired members receiving an annual benefit over \$100,000 out of a total 243,000 PSERS retirees. These six-figure pension retirees spent an average of 37 years working in their public education careers and contributing to their benefit.







Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration*

2020

Presented to

*Pennsylvania Public School Employees'
Retirement System*

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

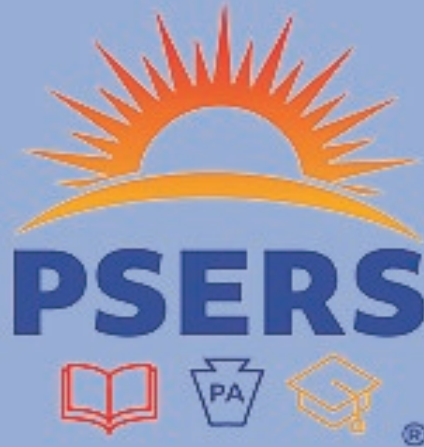
Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Mission Statement



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

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

adopted June 20, 2008

**PSERS Board of Trustees
as of June 30, 2021**

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

Secretary Noe Ortega

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

Secretary Richard Vague

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Stacy Garrity

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

Mr. Nathan G. Mains

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

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

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

Mr. Jason M. Davis (term expires 12/31/22)

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

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

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

Ms. 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 12/31/22)

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

Mr. Eric DiTullio (term expires 12/31/23)

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

Honorable Francis X. Ryan (term expires 12/31/22)

Honorable Matthew D. Bradford (term expires 12/31/22)

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

Honorable Katie J. Muth (term expires 12/31/22)

Honorable Patrick M. Browne (term expires 12/31/22)

Seal
of
Pennsylvania

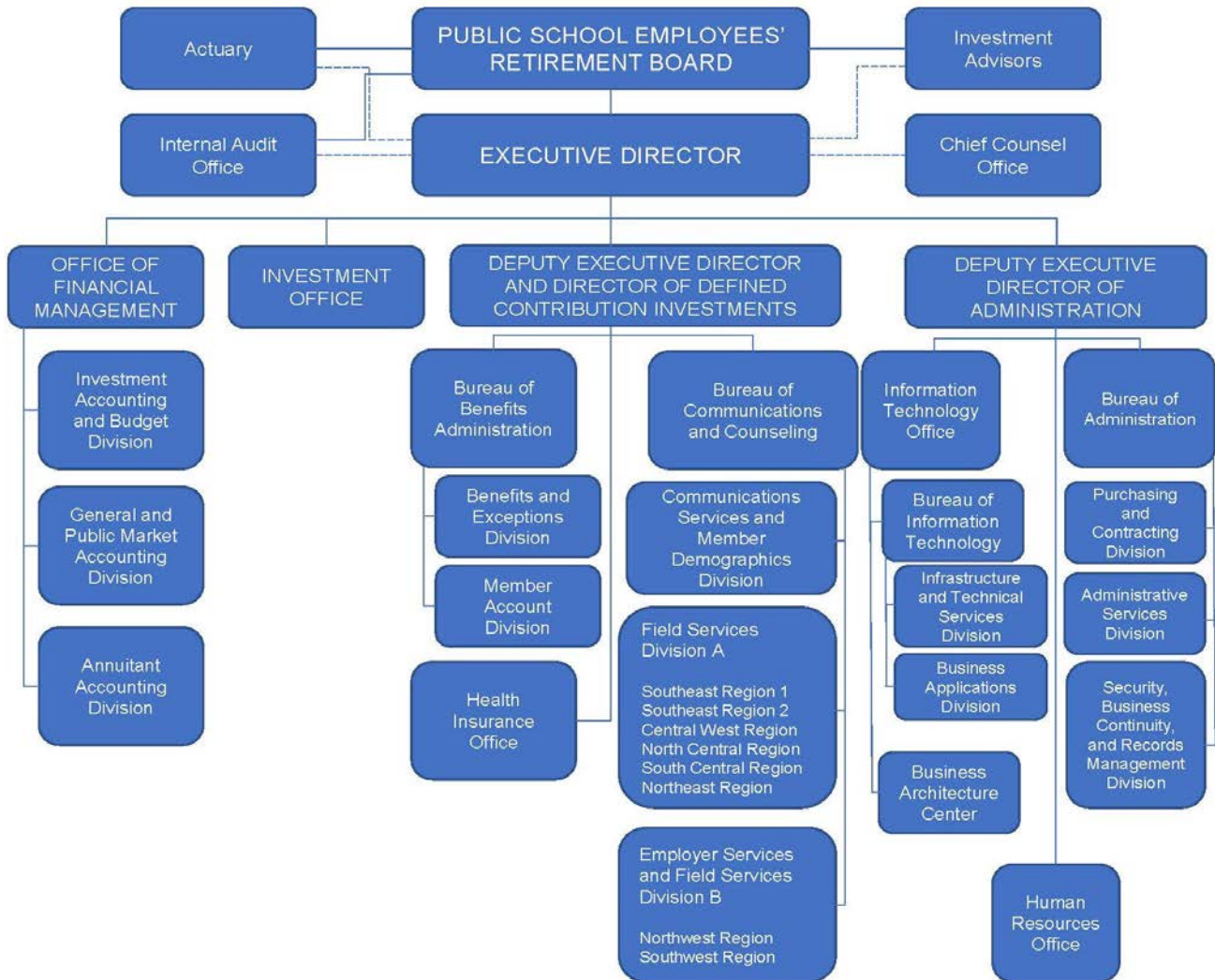


2021 Board Committees

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

NOTE: Mr. Santa Maria, 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 90 and Investment section page 108.

As of September 30, 2021



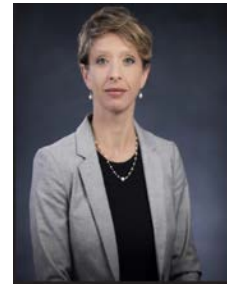
Glen R. Grell
Executive Director



James H. Grossman Jr.
Chief Investment Officer



Beverly Hudson
Deputy Executive Director of
Administration



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



Jackie W. Lutz
Chief Counsel



Brian S. Carl
Chief Financial Officer



Steven C. Goldstein
Chief Technology Officer



Patricia Dence
Director of Administration



Mei Gentry
Chief Audit Officer



Eugene W. Robison
Director of Communications and
Counseling



Caitlin Witmer
Director of Human Resources



Todd Fulton
Director of Benefits Administration



Peter Camacci
Director of Health Insurance



Evelyn M. Williams
Communications Director

The Legislative Liaison position was vacant.

PSERS REGIONAL OFFICES

Northwest

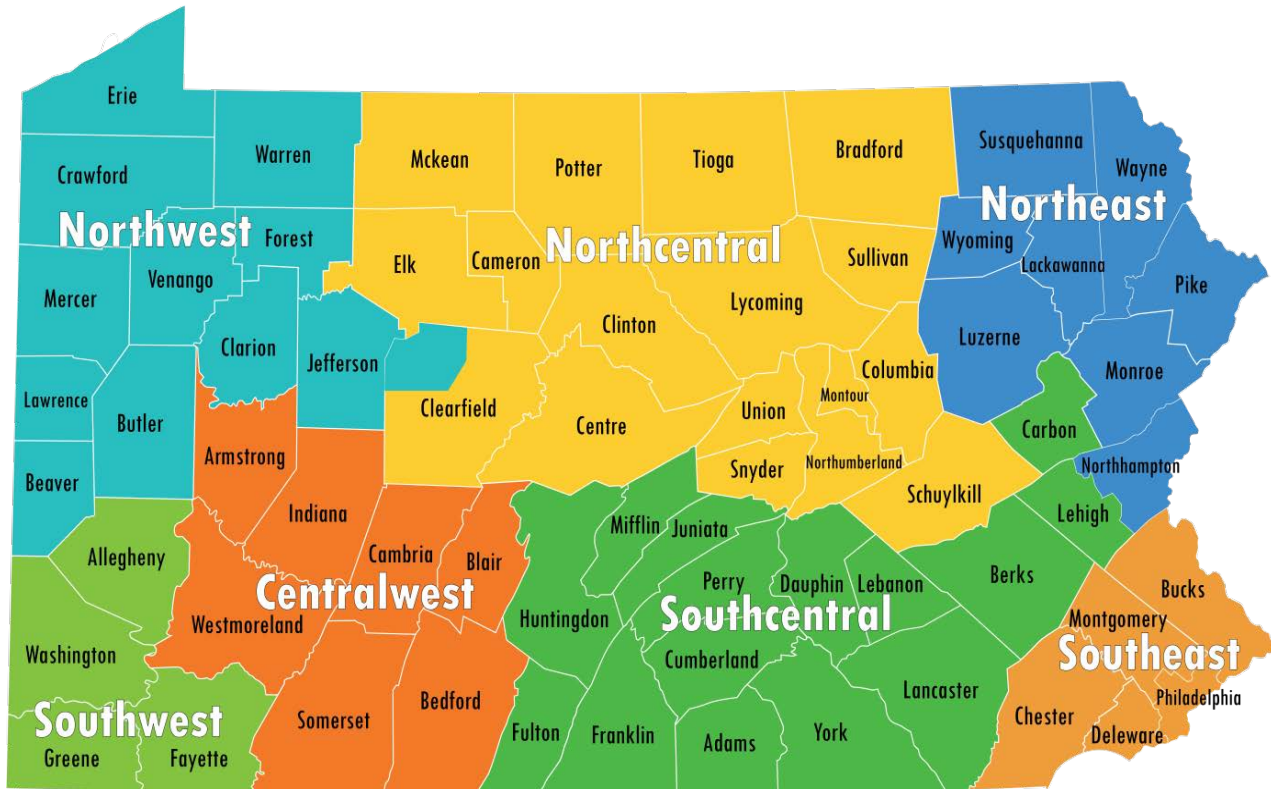
Franklin Penn Wood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
Local: 1.814.437.9845
FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
Donald Gregory, Administrator

Northcentral

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

Northeast

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

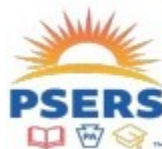
219 West High Street
Ebensburg, PA 15931-1540
Local: 1.814.419.1180
FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748
Brian Farester, Administrator

Southcentral

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

Southeast

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



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.

PA State
Animal:
White-tailed
Deer

