

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2002



**S
R
E
S
P**

Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

Public School Employees' Retirement System of Pennsylvania

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125

Harrisburg, Pennsylvania 17108-0125

Telephone:

Toll-Free - 1-888-773-7748

(1-888-PSERS4U)

Local - 717-787-8540

Comprehensive Annual Financial Report

for the

Fiscal Year Ended June 30, 2002

Honorable Barbara Hafer

Chairman

Thomas P. Hassall

Vice Chairman

Board of Trustees

Dale H. Everhart

Executive Director

Report prepared by the Public School Employees' Retirement System staff

Table of Contents

Certificate of Achievement for Excellence in Financial Reporting	4
Section One - Introductory	5
Chairman's Report	6
Mission Statement	8
Letter of Transmittal	10
Administrative Organization	
PSERS Board of Trustees	12
Board Committees	14
Organizational Chart	15
Organizational Structure	16
Administrative Staff	20
PSERS Regional Offices	21
PSERS Headquarters Building	22
Section Two - Financial	23
Independent Auditors' Report	24
Management's Discussion and Analysis	25
Basic Financial Statements	
Statements of Plan Net Assets Years ended June 30, 2002 and 2001	30
Statements of Changes in Plan Net Assets Years ended June 30, 2002 and 2001	32
Notes to Financial Statements	34
Required Supplemental Schedule 1 - Schedule of Funding Progress	53
Required Supplemental Schedule 2 - Schedule of Employer Contributions	54
Notes to Required Supplemental Schedules	55
Supplemental Schedule 1 - Schedule of Operating Expenses	57
Supplemental Schedule 2 - Summary of Investment Expenses	58
Supplemental Schedule 3 - Schedule of Payments to Non-Investment Consultants	59
Section Three - Investment	61
Investment Overview	62
Portfolio Summary Statistics Asset Allocation as of June 30, 2002	66
Comparison of Actual Portfolio Distribution to Asset Allocation Plan as of June 30, 2002 ..	67
Graph - Comparison of Actual Portfolio Distribution to Asset Allocation Plan	67
Graph - Portfolio Distribution 10 Year Trend	68
Portfolio Detail Statistics as of June 30, 2002	
Domestic common and preferred stock	68
International common stock	69
Collective trust fund	69
Domestic corporate and taxable municipal bonds	70
Domestic mortgage-backed securities	70
U.S. government and agency obligations	71
International fixed income	71
Miscellaneous domestic fixed income	72
Postemployment Healthcare short-term investments	72
Comparison of Investment Activity (Loss) Income -	
Fiscal Years Ended June 30, 2002 & 2001	73
Graph - Comparison of Investment Activity (Loss) Income -	
Fiscal Years Ended June 30, 2002 & 2001	73
Summary Schedule of Brokers' Fees	74
Professional Consultants	75

Table of Contents (Continued)

Section Four - Actuarial	79
Actuary's Certification Letter	
Introduction	80
Executive Summary	82
Changes Since Last Year	82
Contribution Rates	83
Summary of Principal Results	84
Five-Year History of Contribution Rates	85
Funded Ratio	86
GASB No. 25 Disclosure	89
Rate of Return	89
Table 1 - Summary of Results of Actuarial Valuation as of June 30, 2001	90
Table 2 - Summary of Sources of Employer Contribution Rate as of June 30, 2001	91
Table 3 - Determination of Health Insurance Premium Assistance Contribution Rate for Fiscal Year 2002/2003	92
Table 4 - Summary of Market Value of Plan Assets as of June 30, 2001	93
Table 5 - Derivation of Actuarial Value of Assets as of June 30, 2001	94
Table 6 - Analysis of Change in Unfunded Accrued Liability as of June 30, 2001	95
Table 7 - Schedule of Funding Progress - GASB Statement No. 25 Disclosure	96
Table 8 - Schedule of Employer Contributions - GASB Statement No. 25 Disclosure	97
Table 9 - Solvency Test	98
Table 10 - History of Contribution Rates	99
Table 11 - History and Projection of Annuitants, Beneficiaries, Survivor Annuitants and Active Members	100
Table 12 - Description of Actuarial Assumptions and Methods	101
Table 13 - Summary of Benefit and Contribution Provisions	104
Table 14 - Summary of Membership Data as of June 30, 2001	107
Exhibit I - Active Membership Data as of June 30, 2001 - Number and Average Annual Salary	108
Number and Average Annual Annuity as of June 30, 2001:	
Exhibit II - Retired on Account of Superannuation, Early Retirement & Those in Receipt of Withdrawal Annuities	109
Exhibit III - Beneficiaries and Survivor Annuitants	110
Exhibit IV - Retired on Account of Disability	111
Exhibit V - Those in Receipt of a Refund Annuity	112
Exhibit VI - Annuitant and Beneficiary Membership Data as of June 30, 2001 - Number and Average Annual Benefit	113
Exhibit VII - 10 Year History of Membership Data	114
Section Five - Statistical	115
Graph - Changes in Plan Net Assets	116
Graph - Changes in Plan Net Assets - Additions vs. Deductions - 10 Year Trend	116
Additions to Plan Net Assets, Years ended June 30, 1993 through 2002	117
Deductions from Plan Net Assets, Years ended June 30, 1993 through 2002	118
Graph - Total Net Assets - 10 Year Trend	119
Graph - Total Net Assets - 1920 to June 30, 2002	119
Graph - Total Membership - Active & Retired	120
Graph - Retired Members - 10 Year Trend	120
Components of Total Contribution Rate	121
Schedule of Retired Members by Type of Benefit	122
Schedule of Employers	124

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Employees'
Retirement System,
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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



Thomas A. Arue
President

Jeffrey L. Esser
Executive Director