



PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2007

A COMPONENT UNIT OF THE
COMMONWEALTH OF PENNSYLVANIA

Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

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Comprehensive Annual Financial Report

for the

Fiscal Year Ended June 30, 2007

Melva S. Vogler
Chairman

Honorable Steven R. Nickol
Vice Chairman
Board of Trustees

Jeffrey B. Clay
Executive Director

Report prepared by the Public School Employees' Retirement System staff

Table of Contents

Certificate of Achievement for Excellence in Financial Reporting	4
Public Pension Coordinating Council - 2007 Public Pension Standards Award	5
Chairman's Report	6
Section One - Introductory	7
Mission Statement	8
Letter of Transmittal	9
Administrative Organization	
PSERS Board of Trustees	14
Board Committees	16
Organizational Chart	17
Organizational Structure	18
Administrative Staff	24
PSERS Regional Offices	25
PSERS Headquarters Building	26
Section Two - Financial	27
Independent Auditor's Report	29
Management's Discussion and Analysis	30
Basic Financial Statements	
Statements of Plan Net Assets Years ended June 30, 2007 and 2006	36
Statements of Changes in Plan Net Assets Years ended June 30, 2007 and 2006	38
Notes to Financial Statements	40
Required Supplemental Schedule 1 - Schedule of Funding Progress	59
Required Supplemental Schedule 2 - Schedule of Employer Contributions	60
Notes to Required Supplemental Schedules	61
Supplemental Schedule 1 - Schedule of Operating Expenses	63
Supplemental Schedule 2 - Summary of Investment Expenses	64
Supplemental Schedule 3 - Schedule of Payments to Non-Investment Consultants	65
Section Three - Investment	67
Investment Overview	68
Portfolio Summary Statistics Asset Allocation as of June 30, 2007	74
Comparison of Actual Portfolio Distribution to Asset Allocation Plan as of June 30, 2007	75
Graph - Comparison of Actual Portfolio Distribution to Asset Allocation Plan	75
Graph - Portfolio Distribution 10 Year Trend	76
Portfolio Detail Statistics as of June 30, 2007	
Domestic Common and Preferred Stock	76
Collective Trust Funds - Common and Preferred Stock	77
International Common and Preferred Stock	77
Domestic and International Fixed Income	78
Postemployment Healthcare Investments	78
Comparison of Investment Activity Income -	
Fiscal Years Ended June 30, 2007 & 2006	79
Graph - Comparison of Investment Activity Income -	
Fiscal Years Ended June 30, 2007 & 2006	79
Summary Schedule of Brokers' Fees	80
Professional Consultants	81
Section Four - Actuarial	89
Actuary's Certification Letter	
Introduction	90
Executive Summary	92

Table of Contents (Continued)

Changes Since Last Year	92
Contribution Rates	92
Summary of Principal Results	94
Five-Year History of Contribution Rates	95
Funded Ratio	96
GASB No. 25 Disclosure	99
GASB No. 43 Disclosure	99
Rate of Return	100
Table 1 - Summary of Results of Actuarial Valuation as of June 30, 2006	101
Table 2 - Summary of Sources of Employer Contribution Rate as of June 30, 2006	102
Table 3 - Determination of Health Insurance Premium Assistance Contribution Rate for Fiscal Year 2007/2008	103
Table 4 - Summary of Market Value of Plan Assets as of June 30, 2006	104
Table 5 - Derivation of Actuarial Value of Assets as of June 30, 2006	105
Table 6 - Analysis of Change in Unfunded Accrued Liability as of June 30, 2006	106
Table 7 - Schedule of Funding Progress - GASB Statement No. 25 Disclosure	107
- Schedule of Funding Progress - GASB Statement No. 43 Disclosure	107
Table 8a - Schedule of Employer Contributions - GASB Statement No. 25 Disclosure	108
Table 8b - Schedule of Employer Contributions - GASB Statement No. 43 Disclosure	109
Table 9 - Solvency Test	110
Table 10 - History and Projection of Contribution Rates and Funded Ratios	111
Table 11 - History and Projection of Annuitants, Beneficiaries, Survivor Annuitants and Active Members	112
Table 12 - Description of Actuarial Assumptions and Methods	113
Table 13 - Summary of Benefit and Contribution Provisions	116
Table 14 - Summary of Membership Data as of June 30, 2006	119
Exhibit I - Active Membership Data as of June 30, 2006 - Number and Average Annual Salary	120
Number and Average Annual Annuity as of June 30, 2006:	
Exhibit II - Retired on Account of Superannuation, Early Retirement & Those in Receipt of Withdrawal Annuities	121
Exhibit III - Beneficiaries and Survivor Annuitants	122
Exhibit IV - Retired on Account of Disability	123
Exhibit V - Annuitant and Beneficiary Membership Data as of June 30, 2006 - Number and Average Annual Benefit	124
Exhibit VI - 10 Year History of Membership Data	125
Section Five - Statistical	127
Narrative	129
Schedule of Trend Data	130
Schedule of Total Changes in Plan Net Assets - 10 Year Trend	131
Additions to Plan Net Assets, Years ended June 30, 1998 through 2007	132
Deductions from Plan Net Assets, Years ended June 30, 1998 through 2007	133
Schedule of Investment Income - 10 Year Trend	134
Schedule of Summary Membership Data - 10 Year Trend	135
Schedule of Summary Annuity Data - 10 Year Trend	136
Components of Total Contribution Rate	137
Schedule of Retired Members by Type of Benefit	138
Ten Largest Employers	140
Schedule of Employers	141

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, 2006

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.



A handwritten signature in black ink, appearing to read "Thomas J. Blum".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director



Public Pension Coordinating Council
Public Pension Standards
2007 Award

Presented to

Pennsylvania Public School Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large initial 'A'.

Alan H. Winkle
Program Administrator



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

MELVA S. VOGLER
Chairman

STEVEN R. NICKOL
Vice Chairman

December 1, 2007

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the Legislature
Members of the Retirement System
Members of the Boards of PSERS' Employers

Dear Governor Rendell, Legislators, Members, and Employer Board members:

On behalf of the Board of Trustees of the Pennsylvania Public School Employees' Retirement System (the System, PSERS), I am pleased to present this eighty-eighth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2007. The report provides an in-depth review of the financial, actuarial, and investment status of the Retirement Fund and PSERS' postemployment healthcare programs.

As the System's report details, as of June 30:

1. The funded status of the pension plan as reported in the System's June 30, 2006 Actuarial Valuation was 81.2%.
2. The net assets held in trust for pension benefits were \$67.3 billion.
3. Net assets held in trust for postemployment healthcare benefits were \$181.7 million.
4. The active contributing membership of the System numbered approximately 264,000.
5. The number of annuitants totaled approximately 168,000 and received nearly \$4.3 billion in pension and postemployment healthcare benefits during the fiscal year.

The Board of Trustees is committed to prudent management of the System's assets for the benefit of the membership. At the same time, we are aware of our responsibilities to the Commonwealth, its taxpayers, and the System's employers.

The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and make timely provisions for the challenges ahead.

The Board of Trustees pledges to continue to administer the affairs of the Pennsylvania Public School Employees' Retirement System in the most competent and efficient manner possible.

Melva S. Vogler
Chairman
Board of Trustees

INTRODUCTORY

Mission Statement



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

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

adopted 12/9/2005

Letter of Transmittal



COMMONWEALTH OF PENNSYLVANIA

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - (717) 787-8540

Building Location
5 North 5th Street
Harrisburg PA 17101

December 1, 2007

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

We are pleased to present the eighty-eighth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2007. 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 System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The System has experienced various benefit modifications throughout its existence.

The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year for any of the 739 reporting entities in Pennsylvania. As of June 30, 2007, the System had approximately 264,000 active members with an estimated annual active payroll of \$11.8 billion.

The annuitant membership at June 30, 2007 was comprised of approximately 168,000 retirees and beneficiaries who receive nearly \$277 million each month. The average yearly benefit paid to annuitants is \$20,970. The average benefits for each option type are detailed in the **Statistical Section** of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which 739 reporting units contribute. PSERS is administered by a staff of 306. The System is headquartered in Harrisburg, Pennsylvania, and maintains eight field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules.

PSERS was established by law as an independent administrative board, directed by a governing board of trustees (Board) which exercises control and management of the System, including the investment of its assets. PSERS is considered a component unit of the Commonwealth of Pennsylvania as defined by the Governmental Accounting Standards Board (GASB). An annual audit of the System by a certified public accounting firm is required by the Retirement Code. PSERS has contracted with Clifton Gunderson LLP for this audit of its financial statements and has received an unqualified opinion as evidenced in the **Independent Auditors' Report** in the **Financial Section** of this report.

Economic Summary

Investment market conditions showed continued strength during the fiscal year ended June 30, 2007 (FY 2007) enabling PSERS' investment portfolio to generate a rate of return of 22.93%. The total net assets of the System increased from \$57.4 billion to \$67.5 billion from July 1, 2006 to June 30, 2007. The increase is primarily attributable to net investment income and member and employer contributions combined that exceeded the payment of pension benefits and administrative expenses.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the actuarial soundness of the Fund with respect to its funding status. Of utmost importance to the Board is the assurance that the required reserves are available for payment of current and prospective retirement benefits. PSERS has maintained its position among the top twenty-five largest pension systems in the nation.

Major Initiatives

Shrinking the Projected Employer Contribution Rate Increase

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

PSERS' outstanding investment returns have continued to dramatically decrease the projected employer contribution rate in fiscal year 2012-2013. PSERS' investment returns over the past four years have reduced the projected fiscal year 2012-2013 employer contribution rate by more than 50 percent, from a projected high of over 27 percent to the current projected rate of 11.23 percent and have decreased the projected amount of contributions needed from school employers and Commonwealth taxpayers in fiscal year 2012-2013 by \$2.3 billion.

New Pension Administration System (NPAS)

PSERS' continues to make progress in its efforts to implement the NPAS. Testing the remaining core benefit processing functions, including retirement benefit, death benefit, and refund calculations and related processes, has been very productive. PSERS is committed to taking the necessary time to properly test and prepare for this last major phase of the project.

As the testing process of this phase continues, PSERS is excited to see the many benefits NPAS has to offer and looks forward to its full implementation. Previous phases included the successful implementation of Employer Reporting functions (how public school employers report public school employee information to PSERS) and Employer Accounting functions (how employer and member contribution billing and payment information is maintained), the Member Accounting functions (how member account information is maintained), the Statement of Account functions (how member account information is reported to members), the Benefit Payment functions (how disbursement of all PSERS benefits, including the monthly retirement benefit payroll as well as refund and death benefit payments are processed), and the Purchase of Service functions (how members purchase any of PSERS' twenty creditable types of service).

Financial Highlights

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.

The System has established policies and procedures for the review and verification of all payments made by PSERS.

The fair value of the System's net assets totaled \$67.5 billion as of June 30, 2007. The System is the 16th largest public pension fund in the nation and the 23rd largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Assets and Management's Discussion and Analysis included in the **Financial Section** of this report.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2007, the appropriation was \$39.5 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding entails an actuarial examination of the fund balances to ensure money will be available for future and current benefit payments.

The results of the latest published actuarial valuation (as of June 30, 2006) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The 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 funded status as of the latest actuarial valuation was 81.2%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and MD&A in the **Financial Section** of this report.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for nearly 81% of total revenues over the period from FY 1998 to FY 2007. During FY 2007 net investment income was \$12.7 billion. The investment portfolio totaled \$68.5 billion, at fair value, as of June 30, 2007. For FY 2007, the time-weighted rate of return on the System's investments was 22.93%.

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

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

Federal and State Tax Status

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

Professional Services

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

Other Information

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

System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2006 (FY 2006). The *Certificate of Achievement* is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a *Certificate of Achievement*, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A *Certificate of Achievement* is valid for a period of one year only. PSERS has received a *Certificate of Achievement* for 24 consecutive years from FY 1983 to FY 2006. 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 2007 certificate.

A reproduction 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*.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2007. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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

A reproduction of this award appears in the **Introductory Section**.

Acknowledgements

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

Respectfully submitted,



Jeffrey B. Clay
Executive Director



Arthur J. Granito
Chief Financial Officer

Administrative Organization PSERS Board of Trustees



Secretary of Education
Gerald R. Zahorchak
(ex officio)



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



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



Two members appointed by the Governor
Arthur J. Rooney, II Tina Byles-Williams



One member elected by retired members
Sally J. Turley



Three members elected by active certified contributors
Glen S. Galante



James M. Sando



Melva S. Vogler
Chair



One member elected by active noncertified contributors
Patricia A. Tozer



Two members appointed by the Speaker of the Pennsylvania House of Representatives
Honorable Dwight Evans



Honorable Steven R. Nickol
Vice-Chair



One member elected by members of Pennsylvania Public School Boards
Richard N. Rose



Two members appointed by the President *Pro Tempore* of the Pennsylvania Senate
Honorable Vincent J. Fumo



Honorable Robb Wonderling

PSERS Board of Trustees

as of June 30, 2007

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Robin L. Wiessmann

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

Dr. Gerald R. Zahorchak, Ph.D.

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

Mr. Thomas J. Gentzel

Two members appointed by the Governor of the Commonwealth of Pennsylvania

Mr. Arthur J. Rooney, II (term expired 12/31/2006)

Ms. Tina Byles-Williams (term expires 12/31/2008)

Three members elected from among the certified contributors of the System for a term of three years

Mr. Glenn S. Galante (term expires 12/31/2009)

Mr. James M. Sando (term expires 12/31/2010)

Ms. Melva S. Vogler, *Chairman* (term expires 12/31/2008)

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

Ms. Patricia A. Tozer (term expires 12/31/2009)

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

Mrs. Sally J. Turley (term expires 12/31/2007)

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

Mr. Richard N. Rose (term expires 12/31/2008)

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 Dwight Evans (term expires 02/12/2009)

Honorable Steven R. Nickol, *Vice-Chairman* (term expires 02/12/2009)

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

Honorable Vincent J. Fumo (term expires 02/12/2009)

Honorable Rob Wonderling (term expires 02/10/2011)

2007 Board Committees

as of June 30, 2007

Appeals / Member Services

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

Audit / Budget

Mr. Galante, Chair
Representative Evans
Senator Fumo
Mr. Gentzel
Mr. Rooney
Mr. Rose

Bylaws / Policy

Representative Nickol, Chair
Ms. Byles-Williams
Representative Evans
Mr. Sando
Mrs. Turley
Treasurer Wiessmann

Corporate Governance

Mr. Sando, Chair
Ms. Byles-Williams
Mr. Galante
Mr. Rose
Treasurer Wiessmann
Dr. Zahorchak

Elections

Dr. Zahorchak, Chair
Representative Evans
Mr. Rooney
Ms. Tozer

Finance

Mr. Rose, Chair

Committee is comprised
of all Board members.

Health Care

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

Personnel

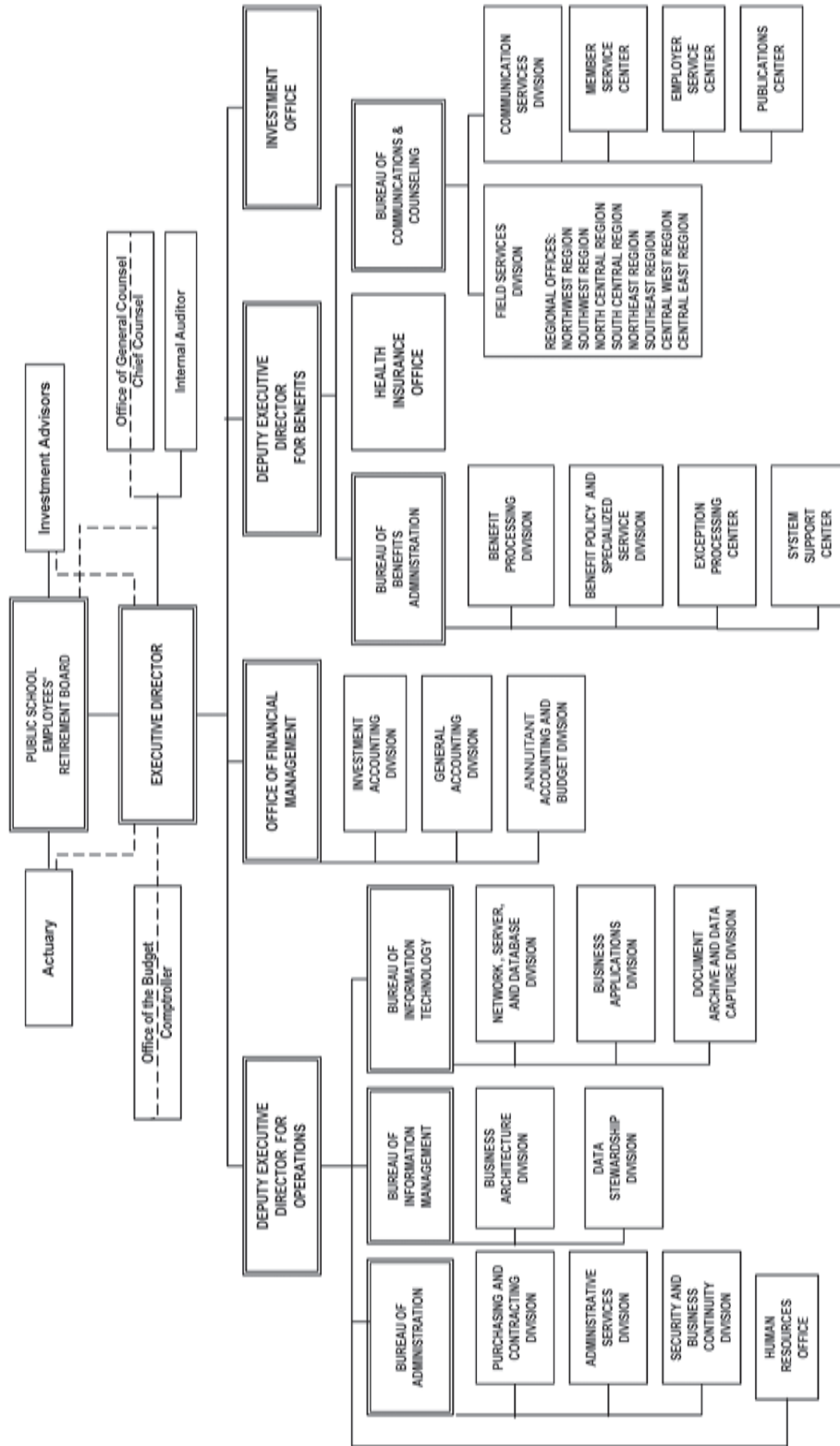
Mr. Gentzel, Chair
Ms. Byles-Williams
Representative Evans
Mrs. Turley
Treasurer Wiessmann
Representative Wonderling
Dr. Zahorchak

Technology Steering

Senator Fumo, Chair
Ms. Byles-Williams
Representative Evans
Mr. Galante
Treasurer Wiessmann
Dr. Zahorchak

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

Organizational Chart of the Public School Employees' Retirement System



Organizational Structure of the Public School Employees' Retirement System

Executive Office

The Executive Office is responsible for the overall management of the Public School Employees' Retirement System (PSERS) to achieve the primary objectives of the Fund as established by the Board of Trustees (Board). Reporting directly to the Executive Director are the Deputy Executive Director for Operations, Deputy Executive Director for Benefits, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, Board Liaison, and Legislative Liaison. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds for and services to the active members and annuitants of the System.

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation.

Investment Office

The Investment Office is responsible for the investment activities of the System. In accordance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous external professional investment advisors and internal investment professionals. Refer to the **Investment Section** Pages 81 to 87 for lists of professional investment advisors and Page 64 in the **Financial Section** for a summary of investment expenses.

Office of Chief Counsel

Legal services are provided by a team of professional personnel under the Governor's

Office of General Counsel. The legal staff is responsible for representing the System in all administrative hearings and other litigation matters and providing counsel on a wide variety of matters including the interpretation of the Retirement Code, the form and legality of all System contracts, corporate governance issues and the structure and implementation of the System's varied financial investments.

Internal Auditor's Office

The Internal Auditor's Office performs systematic reviews of the various activities of PSERS, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of the System's internal control system.

Office of Financial Management

The Office of Financial Management has responsibility for planning, organizing and directing a complete accounting and financial reporting system in conformance with accounting principles generally accepted in the United States of America. Oversight is provided for new systems development and maintenance of existing systems, and ensuring appropriate accounting controls. The Office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting matters. The Office is organized into three divisions: General Accounting, Annuitant Accounting and Budget, and Investment Accounting.

General Accounting Division

The General Accounting Division has the responsibility of recording all financial transactions for the pension and health care operations of the system. It maintains PSERS' General Ledger, audits and processes administrative expenses, and prepares interim and annual financial statements. It bills and collects contributions due to the Fund from its employers. It provides

accounts receivable services to the System for member debts. It also interacts with the other divisions in the Office of Financial Management to assure that the basic financial statements of the System include all financial activity monitored and controlled by those accounting divisions.

Annuitant Accounting and Budget Division

The Annuitant Accounting and Budget Division analyzes, controls and issues the System's benefit payments to retirees, members and other parties such as beneficiaries and the IRS. The Division also has the responsibility of monitoring and recording Postemployment Healthcare transactions. It reconciles and monitors the financial activities of the third party administrator of the Health Options Program. Additionally, the Division is responsible for developing and monitoring the System's annual budget.

Investment Accounting Division

The Investment Accounting Division (IAD) has responsibility for processing, monitoring, and recording all investment transactions. It contracts with a third-party application service provider to assist with monitoring the overall internal control structure for investments and assure adequate custody of all investment assets. It serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. It audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations.

The IAD is also responsible for directing and administering the Class Action Revenue Recovery, the Foreign Cash Overdraft and the Foreign Tax Reclaim Collection programs as part of PSERS' investment activities. It also supports PSERS' Investment Office and the Board in achieving investment objectives and monitoring compliance with investment policy. The Division is comprised of the Public Market Reporting and Analysis, Special Investment Reporting and Analysis, and Treasury and Manager Administration sections.

Deputy Executive Director, Operations

The Deputy Executive Director for Operations administers the facilities, technologies, data and records, policies and procedures, human resource, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by this position include the Human Resources Office, the Bureau of Administration, the Bureau of Information Management, and the Bureau of Information Technology.

Human Resources Office

The Human Resources Office is responsible for supporting management and staff to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunity and other miscellaneous programs.

Bureau of Administration

The Bureau of Administration provides facilities, purchasing and contracting, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions.

Purchasing and Contracting Division

The Purchasing and Contracting Division procures materials, supplies, and services needed to support organizational goals and develops, monitors, processes and evaluates contract usage in the agency.

Administrative Services Division

The Administrative Services Division manages building and grounds for the agency both at the headquarters and at the regional locations.

It provides mail, imaging, and work introduction services, asset management, automotive, and other administrative services to the agency.

Security and Business Continuity Division

The Security and Business Continuity Division develops and implements those policies, programs and procedures necessary to ensure that PSERS' human, technology, and capital resources are secure and to ensure that PSERS is prepared to quickly recover and continue critical operations in the event of a disaster.

Bureau of Information Management

PSERS' organization, business processes, data, and information systems are inextricably intertwined with each other. To understand PSERS' business, as it exists, as well as the impact of change and potential for improvements, each of these components must be understood on their own, within the context of each other, and in context of PSERS' mission, vision, values and goals.

The goal of the Bureau of Information Management is to understand, analyze, document, and improve PSERS' organization, business rules, processes, information systems, data and the relationships among these components so that PSERS is able to:

- conduct its business consistently and according to established rules
- understand each component, its relationship to each of the other components and to PSERS' mission, vision, values and goals
- fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others
- more effectively identify inefficient, duplicate, or suspect processes, data, or technologies
- account for its organization, business rules and processes, information systems and technologies, and data
- best manage its electronic data records, imaged records, paper and film/fiche records
- understand the meaning and know the

location of its data

- ensure that PSERS' data, information systems, and business processes meet established quality goals
- manage PSERS' forms
- ensure that PSERS' data, forms, information systems, and business processes are in support of its business.

Business Architecture Division

The Division of Business Architecture includes analysts who collect, analyze, and document PSERS' organization, business rules, processes, information systems, and data, and perform detailed impact analysis as and when change is proposed. Additionally, staff in this unit confirm that changes have been applied correctly. Staff in this unit also look for opportunities for improvement, lead the development of business requirements and serve as liaisons between PSERS' end-users and Information Technology staff.

This division serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff.

This division also receives and responds to data queries from agency staff and investigates system, data, or process problems. Finally, this division maintains responsibility for PSERS' records and forms management programs.

Data Stewardship Division

PSERS has realized that poor data quality and/or the lack of data can be a significant inhibitor to timely and efficient processing. Staff in the Division of Data Stewardship are the trustees and primary maintainers of PSERS' member and employer data, working to make this data most usable to agency processing staff. Specifically, this group maintains PSERS' member demographic information, affiliate information, and is responsible for correctly applying monetary and non-monetary adjustments to member accounts.

Bureau of Information Technology

The Bureau of Information Technology is responsible for planning, coordinating,

administering, implementing, and supporting information technology resources within PSERS and for providing operational support for those technologies. The Bureau is organized into three Divisions: The Network, Server, and Database Division, the Business Applications Division and the Document Archive and Data Capture Division.

Network, Server, and Database Division

The Network, Server, and Database Division is responsible for administering those information technology resources that collectively provide the fundamental hardware, software, and network components and services required to support PSERS various applications.

Business Applications Division

The Business Applications Division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' business applications.

Document Archive and Data Capture Division

The Document Archive and Data Capture Division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' enterprise archive application software, scanning software, and data capture software as well as the interfaces of those applications with PSERS' various business applications. This division also develops and implements archive project solutions for the PSERS using a variety of archive tools and applications.

Deputy Executive Director, Benefits

The Deputy Executive Director for Benefits oversees the administration of the benefits programs for all active and retired members of the System and oversees the development and implementation of the communications and counseling programs. Organizational units

under the management of the Deputy include the Bureau of Benefits Administration, the Bureau of Communications and Counseling and the Health Insurance Office.

Bureau of Benefits Administration

The Bureau of Benefits Administration (BBA) is responsible for administering a comprehensive pension benefits program for PSERS. The bureau provides professional and technical services to individuals who are employed full-time and part-time in one of Pennsylvania's 739 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf.

Benefit Processing Division

The Benefit Processing Division is responsible for handling a high volume of benefit requests. It houses the following centers:

Retirement Processing Center

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

Purchase of Service and Refund Center

The Purchase of Service and Refund Center determines eligibility and calculates the cost to the members and to the employers for the purchase of additional service credit. Staff also process requests to refund contributions and interest from members terminating from the system.

Exception Processing Division

The Exception Processing Division is responsible for a variety of benefit requests which involve manual or special processing. It houses the following centers:

Manual Processing and Multiple Service Membership Center

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

Disability and Death Benefit Center

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

Benefits Policy and Exception Processing Division

The Benefit Policy and Exception Processing Division has responsibility for creating and writing all benefits policies, procedures, business rules and calculations and presenting policies to the Executive staff and the Board's Appeals/ Members Services Committee; for coordinating all requests for legal analyses and legal opinions; and for working with the System's actuaries

regarding benefit calculations and audits. The staff also manages the first level of the member's administrative appeal process.

This division makes determinations relative to membership eligibility, retirement covered compensation and emergency employment where circumstances are suspect or atypical. To insure compliance with the Retirement Code, the division is also responsible for the review and approval of domestic relations orders.

The staff of this division also handles the benefits determinations that are more complex, more time-sensitive or have a significant impact on the agency or the members. This work includes divorce transactions, death benefits for in-service members, frozen annuity calculations, computations that must comply with special IRS regulations, multiple service eligibility and calculations, post finalized benefit adjustments, calculating cost of living increases and processing changes to annuitant or survivor gross benefits.

System Support Center

The System Support Center's primary responsibility is to work with technical staff in the Bureau of Information Technology to enhance automated business systems and the use of technology within the business areas. Enhancements are the result of changing technology as well as changes to legislation, court decisions and board policies. Work involves workflow analysis, requirements definition, testing and implementation. The Center is also responsible for reporting and providing assistance to resolve all problems with production, hardware and software.

Bureau of Communications & Counseling

The Bureau of Communications and Counseling is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to the members, the employers, the Legislature, the Governor's Office, other government organizations, professional organizations and the public.

Field Services Division

The Field Services Division provides services to both active and retired PSERS' members through eight regional offices located throughout the Commonwealth of Pennsylvania. The regional representatives conduct various meetings and workshops for members and employers and provide counseling services.

Communication Services Division

The Communication Services Division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web and various publications. There are four centers within this division:

Member Service Center

This center answers the PSERS' toll-free telephone number, responding to general inquiries about the benefits and processes of the System as well as specific inquiries related to members' accounts.

Employer Service Center

Staffing of the center includes customer service representatives to answer phone calls and emails, as well as field representatives to visit employers and conduct workshops, to provide assistance and training for proper reporting to the System.

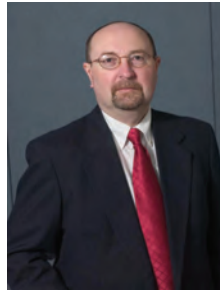
Publications Center

This center is responsible for the development, production, and distribution of all printed and audiovisual materials for the System. Publications include newsletters, handbooks, pamphlets, annual reports, mass communications to the membership, and presentation material. Staff also responds to general correspondence and email inquiries.

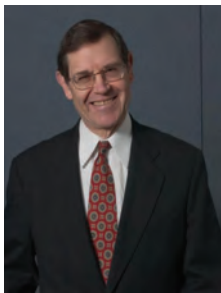
Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program and administering the annuitants' health insurance premium assistance benefits. HOP is a voluntary statewide plan that provides group health insurance coverage for school retirees, their spouses, and eligible dependents.

Administrative Staff



Jeffrey B. Clay
Executive Director



Gerald Gornish
Chief Counsel



Arthur J. Granito
Chief
Financial Officer



Terrill J. Savidge
Deputy Executive
Director, Operations



Veronica P. Thomas
Deputy Executive
Director, Benefits



Alan H. Van Noord
Chief
Investment Officer



Douglas A. Bonsall
Director of Communications
& Counseling



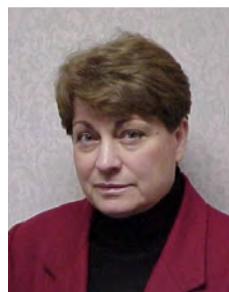
Deborah L. Garraway
Director of Information
Management



Donald J. Halke, II
Internal Auditor



Helen D. Hosler
Director of Benefits
Administration



Maribel La Luz
Director of Human
Resources



James F. Noone
Director of Administration



Mark F. Schafer
Director of Health Insurance

PSERS REGIONAL OFFICES

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PSERS Headquarters Building



The headquarters of the Public School Employees' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania within the State Capitol complex. Regional field offices are also maintained in Fleetwood, Franklin, Johnstown, Lock Haven, Mechanicsburg, Pittsburgh, Warminster and Wilkes Barre.

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