

PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

A COMPONENT UNIT OF THE
COMMONWEALTH OF PENNSYLVANIA

IN THE NINETY-ONE YEARS OF ITS EXISTENCE SINCE THE 1917 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT ACT CREATED THE SYSTEM, THE PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM HAS ENDURED AND THRIVED DESPITE NUMEROUS AND FAR REACHING DISRUPTIONS IN THE COUNTRY AND THE WORLD. PSERS HAS STAYED THE COURSE SET BY ITS MISSION STATEMENT REGARDLESS OF WAR, SOCIAL UPHEAVAL, ECONOMIC DURESS, AND COMPLEX POLITICAL ENVIRONMENTS. AS PSERS MOVES THROUGH THE CURRENT DECADE IN ADVANCE OF ITS GOLDEN ANNIVERSARY, IT'S BOARD OF TRUSTEES, MANAGEMENT, AND STAFF DILIGENTLY STRIVE TO FULFILL THEIR FIDUCIARY RESPONSIBILITIES TO SERVE THEIR STAKEHOLDERS OVER THE LONG-TERM.

**Pennsylvania
Public School Employees'
Retirement System**

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

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Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2008

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



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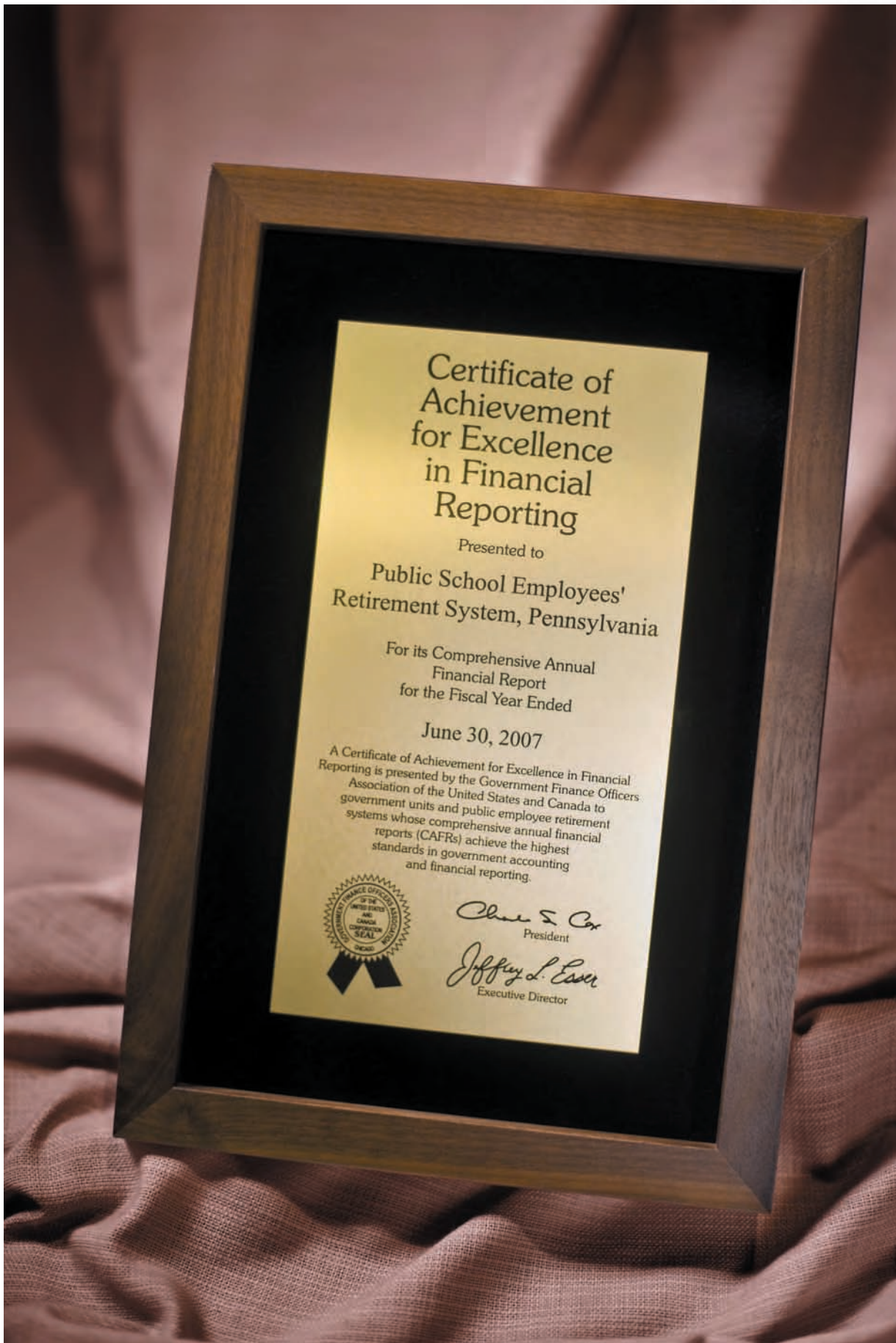
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Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Public School Employees'
Retirement System, Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2007

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.



Charles S. Cox
President

Jeffrey L. Essex
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)

Alan H. Winkle
Program Administrator





COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

MELVA S. VOGLER
Chairman

STEVEN R. NICKOL
Vice Chairman

November 14, 2008

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the General Assembly
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-ninth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2008. The report provides an in-depth review of the financial, actuarial, and investment status of the Pension Fund and PSERS' post-employment healthcare programs. The report also highlights many of the significant activities of PSERS for the fiscal year ended June 30, 2008, as well as programs to improve services to the active and retired members of the System.

Through the years the System has experienced overall growth in net assets as well as the total numbers of its members and annuitants. At June 30, 2008, the net assets held in trust for pension and post-employment healthcare benefits were \$62.7 billion; the active membership was approximately 279,000; and the number of retirees and beneficiaries was approximately 176,000.

The financial integrity and actuarial soundness of the System are attested by the accompanying reports of the independent auditor and consulting actuary. Moreover, for the 25th consecutive year, PSERS received the Government Finance Officer's Association's prestigious Certificate of Achievement for Excellence for Financial Reporting Award for its June 30, 2007 CAFR.

As is reflected in its *Mission Statement*, the Board of Trustees is also keenly aware of its responsibilities to the Commonwealth, its taxpayers, and the employers of the System; all stakeholders in the System. Therefore the Board of Trustees pledges to continue to administer the affairs of the PSERS in the most competent and efficient manner possible, with the ultimate goal that the retirement and post-employment healthcare funds are managed prudently for the sole benefit of the System's members.

Finally, the Board of Trustees appreciates the continuing cooperation extended by the Governor's Office, the General Assembly and PSERS' Employers, which enables and empowers PSERS to meet its current challenges and make timely provisions for the future.

Melva S. Vogler
Chairman, Board of Trustees



INTRODUCTORY



1975

Act 96, a new Retirement Code, was enacted with profound effects on the System, some of which were:

- PSERS became an independent administrative “Board”
- Board of Trustees membership increased to fifteen
- The System’s authority to invest in common stocks was liberalized
- Part-time school employees were made eligible for PSERS membership



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:

- *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 6/20/2008



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

November 14, 2008

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

We are pleased to present the eighty-ninth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2008. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. 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.state.us.

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, 2008, the System had approximately 279,000 active members with an estimated annual active payroll of \$11.9 billion.

The annuitant membership at June 30, 2008 was comprised of approximately 176,000 retirees and beneficiaries who receive over \$300 million each month. The average yearly benefit paid to annuitants is \$21,653. 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 310. 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.

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

The past fiscal year saw mixed investment market returns across the major asset classes. The market psychology became increasingly negative as the fiscal year progressed. The credit crunch which began with the bursting of the housing bubble in the fiscal first quarter has yet to run its course as of this writing. As a result, for the year ended June 30, 2008 (FY 2008) PSERS' investment portfolio generated a rate of return of -2.82%. The total net assets of the System decreased from \$67.5 billion to \$62.7 billion from July 1, 2007 to June 30, 2008. The decrease is primarily attributable to net investment loss and payment of benefits and administrative expenses combined that exceeded member and employer contributions.

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

New Pension Administration System (NPAS)

PSERS is pleased to announce that it has successfully completed the implementation of the last major phase of the NPAS project, bringing this multi-year project to a close and allowing PSERS to decommission its outdated legacy mainframe system. This new system brings with it many new features and capabilities that not only helps today, but also positions PSERS well for the future. PSERS' staff is quickly learning how to make the most of the new system, improving process efficiency as well as customer service levels. PSERS plans to continue to use this tremendous opportunity to raise the bar, bringing the organization to new levels of efficiency and adaptability as it strives to serve its members in the best possible manner.

Reducing 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' investment returns over the past five years have reduced the projected fiscal year 2012-2013 employer contribution rate by more than 35%, from a projected high of over 27% to the current projected rate of below 17.00% and have decreased the projected amount of contributions needed from school employers and Commonwealth taxpayers in fiscal year 2012-2013 by \$1.7 billion. The volatile financial markets since the end of the fiscal year on June 30, 2008, however, have the potential to reverse the progress made to reduce the 2012-2013 projected rate increase. PSERS continues to work with its various stakeholders on potential solutions to reduce the projected impact of the projected rate increase.



Royal Dutch Shell and Qwest Settlements

In March 2008 Royal Dutch Shell Plc. agreed to terms with PSERS and the PA State Employees Retirement System (SERS) to settle a securities class action litigation case, and received tentative Court approval of the settlement in June 2008. PSERS and SERS were the lead plaintiffs in the litigation and negotiated a settlement of \$130 million to be shared by U.S. class members and were instrumental in the \$352 million settlement of non-U.S. class members (and potential additional relief of up to \$60.5 million, should certain contingencies occur). The settlement includes the following:

- An \$89.5 million cash benefit, plus interest;
- Payment of all expenses related to implementing the settlement in the approximate amount of \$8.0 million, and
- Payment of \$30 million in counsel fees and \$3 million in expenses (paid directly by Royal Dutch Shell – over and above the amounts going directly to the class).

In addition, in October 2007 Qwest Communications, Inc. agreed to terms with PSERS in a securities fraud case in which PSERS had opted out of the settlement of the securities class action lawsuit against Qwest. PSERS was able to negotiate more favorable settlement terms with Qwest than if PSERS had remained a member of the class.

Implementation of Medicare Advantage Private Fee-For-Service Plan

In April 2008 PSERS issued a request-for-proposal (RFP) for a nationwide Medicare Advantage Private Fee-For-Service Plan (MA-PFFS) and companion Pre-65 Managed Care Plan for the Health Options Program (HOP) effective January 1, 2009. HOP is a voluntary group health benefits program available to PSERS retirees, their spouse and dependents. As of January 1, 2008 there were 63,000 participants (51,000 retirees plus their dependents) in the HOP. The purpose of the RFP is to consolidate the regional Medicare Advantage benefit plans into one MA-PFFS Plan option and to obtain the most competitive vendor in terms of service and cost. Highmark was the successful bidder and in addition to the HOP Medical Plan and companion Pre-65 Medical Plan will provide the only Medicare Advantage and companion Pre-65 Managed Care Plan available to new enrollees effective January 1, 2009.

Financial Highlights

The fair value of the System's net assets totaled \$62.7 billion as of June 30, 2008. The System is the 14th largest public defined benefit pension fund in the nation and the 21st 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.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2008 PSERS provided \$4.9 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2008, the appropriation was \$40.8 million.



Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding for a defined benefit pension plan entails an actuarial examination of the fund balances and liabilities to ensure money will be available for future and current 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, 2007) 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 funded status as of the latest actuarial valuation was 85.8%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and 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 77% of total revenues over the period from FY 1999 to FY 2008. During FY 2008 the net investment loss was \$1.8 billion. The investment portfolio, which is one part of the System's net assets, totaled \$63.9 billion, at fair value, as of June 30, 2008. For FY 2008, the time-weighted rate of return on the System's investments was -2.82%.

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.

It should be noted that the Internal Revenue Service (IRS) held a Roundtable discussion on voluntary compliance for public plans in April 2008 to announce a renewed focus on the tax qualification of public pension funds. PSERS is working proactively in conjunction with the SERS to address this new IRS initiative.



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.

We believe the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

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 at 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, 2007 (FY 2007). 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 25 consecutive years from FY 1983 to FY 2007.** A photograph of this award appears in the **Introductory Section** of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the *Comprehensive Annual Financial Report*.

The System believes the current report continues to conform to the *Certificate of Achievement* program requirements and will be submitting this report to GFOA to determine eligibility for the 2008 certificate.



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

Brian S. Carl, CPA, CTP
Chief Financial Officer





Administrative Organization PSERS Board of Trustees



Secretary of Education
Gerald R. Zahorchak
(ex officio)



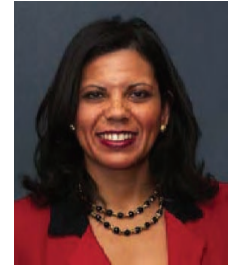
Executive Director
Pennsylvania
School
Boards Association
Thomas J. Gentzel
(ex officio)



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



Two members appointed by the Governor
Hal Moss



Tina Byles-Williams



One member
elected
by retired members
Sally J. Turley



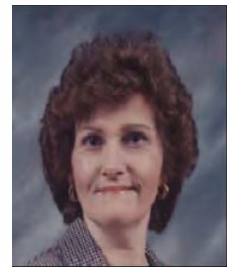
Three members elected by active certified contributors
Glen S. Galante



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 Rob Wonderling





PSERS Board of Trustees

as of June 30, 2008

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. Hal Moss (term expires 01/01/2010)

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. Glen 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 12/31/2010)

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)





2008 Board Committees

as of June 30, 2008

Appeals / Member Services

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

Audit / Budget

Mr. Galante, Chair
Senator Fumo
Mr. Gentzel
Mr. Moss
Mr. Rose
Treasurer Wiessmann

Bylaws / Policy

Representative Nickol, Chair
Ms. Byles-Williams
Representative Evans
Senator Fumo
Mr. Sando
Mrs. Turley

Corporate Governance

Mr. Sando, Chair
Ms. Byles-Williams
Mr. Galante
Mr. Rose
Treasurer Wiessmann
Senator Wonderling

Elections

Dr. Zahorchak, Chair
Representative Evans
Mr. Moss
Ms. Tozer
Treasurer Wiessmann
Senator Wonderling

Finance

Mr. Rose, Chair

Committee is comprised
of all Board members.

Health Care

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

Personnel

Mr. Gentzel, Chair
Representative Nickol
Mr. Rose
Mr. Sando
Mrs. Turley
Representative Wonderling
Dr. Zahorchak

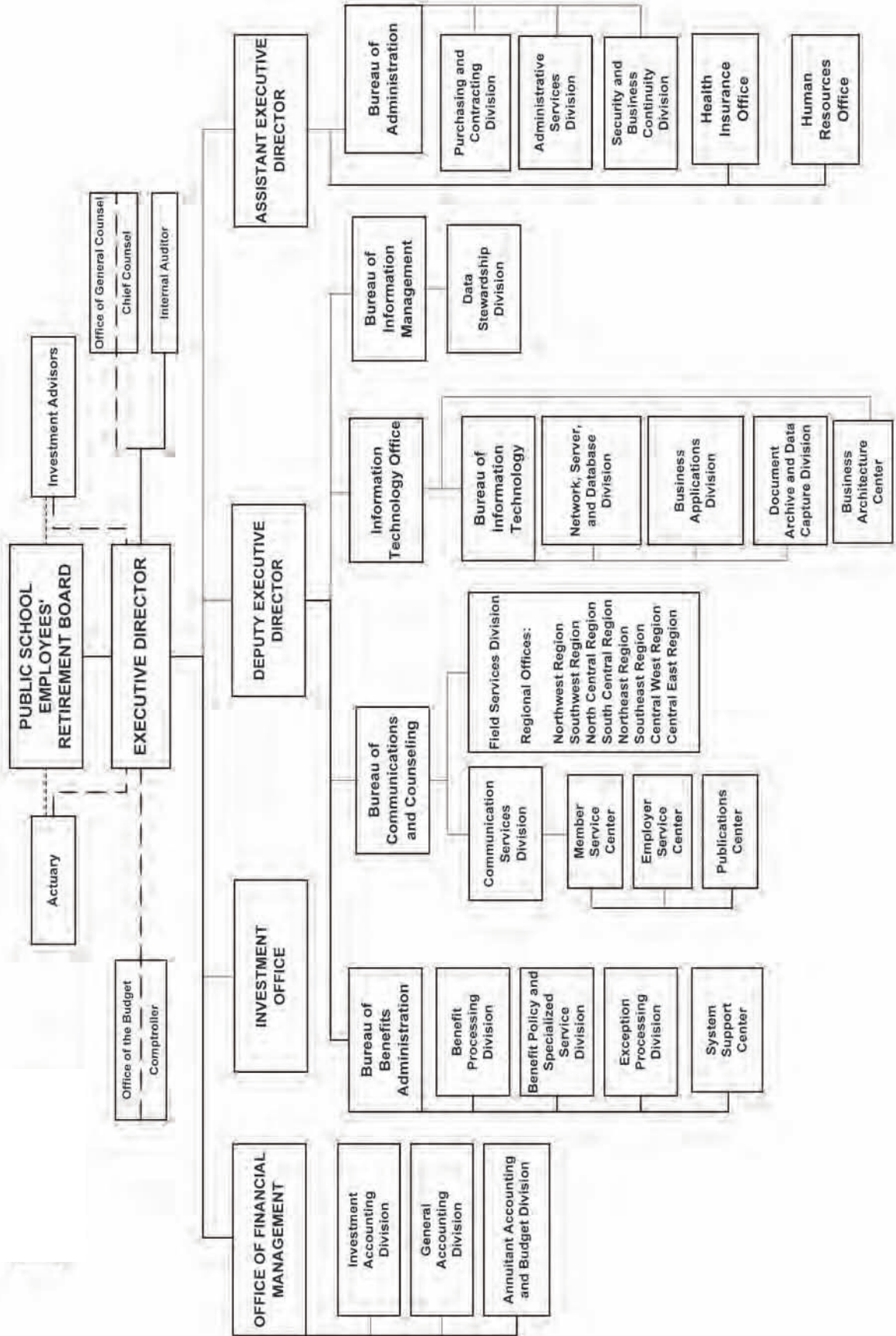
Technology Steering

Senator Fumo, Chair
Ms. Byles-Williams
Mr. Galante
Mr. Moss
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

This 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, Assistant Executive Director, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, 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

This office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals.

Chief Counsel's Office

This office provides legal services through a team of professional personnel under the Governor's Office of General Counsel. The Legal staff is responsible for representing PSERS in all administrative hearings and other litigation matters; drafting and negotiating PSERS' investment and administrative services contracts; and providing counsel on a wide variety of matters, including the interpretation of the Retirement Code and the Right-to-Know Law.

Internal Auditor's Office

This 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 PSERS' internal control system.

Office of Financial Management

This office is directed by the Chief Financial Officer and 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 accounting 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, treasury operations, taxation, actuarial and budgetary matters. The office is organized into three divisions: General Accounting Division, Annuitant Accounting and Budget Division, and Investment Accounting Division.



General Accounting Division

This division has the responsibility of recording all financial transactions for the pension and health care operations of the System. It maintains PSERS' General Ledger 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

This division is responsible for the mission-critical annuitant payroll and disbursement function. The division also has the responsibility of monitoring and recording post-employment 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

This division serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. The division processes, audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations. Working with the assistance of a third-party application service provider, it has the responsibility for monitoring the overall internal control structure for investments thereby assuring adequate custody of all investment assets.

The division 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, Private Market Reporting and Analysis, and Treasury and Manager Administration sections.

Deputy Executive Director

The Deputy Executive Director directly oversees the benefit programs for all active and retired members of the System, the development and implementation of the member and employer communications programs and the member counseling programs, and the maintenance of agency policies, procedures, and benefit related data. Additionally, this position supervises a Chief Information Officer who oversees business and information technology strategic planning, policy development, and implementation. The organizational units directly reporting to this position include the Bureau of Benefits Administration, the Bureau of Communications and Counseling, and the Bureau of Information Management. The position oversees the Bureau of Information Technology through the Chief Information Officer.

Information Technology Office

This office oversees the Bureau of Information Technology and the Business Architecture Center. It is responsible for strategic information technology planning and policy development, ensuring that information technology plans and policies are aligned with, in support of, and prioritized according to agency needs and requirements, as well as those Commonwealth needs and requirements that are consistent with agency needs, and for communicating such to the agency's information technology staff. Large information technology contracts and projects are managed by this office. This office is respon-





sible for understanding, analyzing, documenting, and improving PSERS' organization, business rules, processes, information systems, 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, technologies; and account for its organization business rules and processes, information systems and technologies.

Business Architecture Center

This center serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff. The center receives and responds to data queries from agency staff and investigates system, data, or process problems. This center 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. They look for opportunities for improvement, lead the development of business requirements, and serve as liaisons between PSERS' end-users and information technology staff.

Bureau of Information Technology

This bureau is responsible for planning, coordinating, administering, and implementing information technology resources in accordance with the agency's strategic plans, goals, objectives, and priorities as communicated by PSERS' Chief Information Officer, and for providing operational support for those technologies and initiatives. 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

This 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

This 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

This 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.

Bureau of Information Management

This bureau is responsible for maintaining, documenting, and cleansing PSERS' member and employer data, managing PSERS' electronic data records, imaged records, paper and film/fiche records, understanding the meaning and knowing the location of its data. The bureau currently includes the Data Stewardship Division which houses PSERS' records management program, and the Data Integrity and Member Accounting sections.





Data Stewardship Division

Staff in this division 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. This division maintains responsibility for PSERS' records management programs.

Bureau of Benefits Administration

This bureau 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 734 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf. The bureau is organized into three divisions: the Benefit Processing Division, Benefit Policy and Specialized Service Division, and Exception Processing Division.

Benefit Processing Division

This division is responsible for handling a high volume of benefit requests. It houses the Retirement Processing Center and Purchase of Service and Refund Center.

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 who at the time of termination are ineligible for a retirement benefit.

Benefit Policy and Specialized Service Division

This division is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. In addition, the division processes the most complex and sensitive benefit requests. Last, the division has a quality assurance program responsible for the review and approval of all benefit payments. It houses the Benefit Policy Center and Specialized Service and Quality Assurance Center.

Benefit Policy Center: The Benefit Policy Center is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. Policy writing involves extensive research into existing laws, regulations and policy as well as impact analysis. Staff coordinate all requests for legal analysis and legal opinions. When unique and/or new calculations are needed, this area works with the agency's consulting actuary. This area also manages the first level of the administrative appeal process which involves presenting recommendations, supporting legal analyses, and relevant documents to the Executive Staff Review Committee. In addition, the center reviews unusual and suspicious salary contracts to ensure only retirement-covered compensation is reported by employers. Last, staff reviews atypical requests for membership eligibility.





Specialized Service and Quality Assurance Center: The Specialized Service and Quality Assurance Center is responsible for both processing the most complex benefit requests and for quality assurance. Much of the work is generated by the review and implementation of portions of Domestic Relations Orders that address the distribution of pension benefits when divorce occurs. This area calculates benefits for members affected by Section 415(b) of the IRS code and is responsible for the calculation of a workers compensation (WC) offset. Last, a team of auditors review and approve all retirement and death benefit calculations, all requests for payment, and all purchase of service calculations.

Exception Processing Division

This division is responsible for a variety of benefit requests which involve manual or special processing. It houses the Manual Processing and Multiple Service Membership Center and the Disability and Death Benefit Center.

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.

System Support Center

The System Support Center reports directly to the bureau director and is comprised of a team of management analysts who serve as the bureau's link to information technology (IT). The analysts work closely with IT consultants, the Bureau of Information Technology, the Bureau of Information Management, bureau managers and supervisors to ensure the effectiveness of business processes and the integration of those processes with application systems and other technology resources. They are responsible for project management, training, system design, workflow analysis and user acceptance testing. They participate in implementation of new business processes, new systems and system enhancements. They utilize end-user software to extract routine data and to provide statistical information.

Bureau of Communications and Counseling

This bureau 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. It is organized into two divisions: Field Services Division and Communications Services Division.





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 provide counseling services.

Communications Services Division

This division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web, and various publications. This division houses the Member Service Center, Employer Service Center and Publications Center.

Member Service Center: This center answers the PSERS' telephone system, responding to general inquiries about the benefits and processes of PSERS 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, mass communications to the membership, and presentation material. It also responds to general correspondence and email inquiries.

Assistant Executive Director

This position reports to the Executive Director and may provide assistance to the Executive Director on agency-wide projects. The position administers the Health Options and Premium Assistance Programs in addition to the facilities, human resources, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by the Assistant Executive Director include the Bureau of Administration, the Human Resources Office, and the Health Insurance Office.

Bureau of Administration

This bureau provides facilities, purchasing and contracting, policies and procedures, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions. The bureau is organized into three divisions: the Purchasing and Contracting Division, Administrative Services Division and Security and Business Continuity Division.

Purchasing and Contracting Division

This 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

This division manages building and grounds for the agency both at headquarters and at the regional locations. It provides mail, imaging, and work introduction services to the agency, in addition to asset management, automotive and other administrative services.



**Security and Business Continuity Division**

This 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.

Human Resources Office

This 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 Opportunities and other miscellaneous programs.

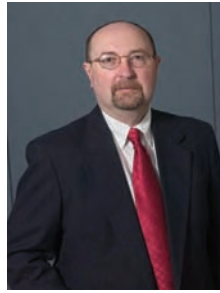
Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program (HOP) and administering PSERS' annuitant 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.

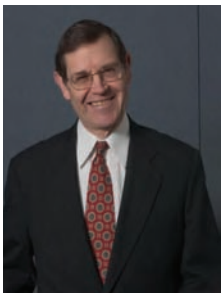




Administrative Staff



Jeffrey B. Clay
Executive Director



Gerald Gornish
Chief Counsel



Brian S. Carl
Chief
Financial Officer



Terrill J. Savidge
Deputy Executive
Director



Joseph E. Wasiak
Assistant Executive
Director



Alan H. Van Noord
Chief
Investment Officer



Eugene W. Robison
Director of Communications
& Counseling



Deborah L. Garraway
Director of Information
Management



Donald J. Halke, II
Internal Auditor



Ginger L. Bucher
Director of Benefits
Administration



Maribel La Luz
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James F. Noone
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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.

