

Pennsylvania

Public School Employees' Retirement System

Comprehensive Annual Financial Report

FISCAL YEAR ENDED

JUNE 30, 2010

A Component Unit of the Commonwealth of Pennsylvania

Pennsylvania Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

Telephone:

Toll-Free 1-888-773-7748
 1-888-PSERS4U

Local 717-787-8540

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

Melva S. Vogler
Chairman
Board of Trustees

Sally J. Turley
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 – 2009 Public Pension Standards Award	5
Section One – Introductory	7
Mission Statement	8
Letter of Transmittal	9
Administrative Organization	
PSERS Board of Trustees	16
Board Committees	18
Organizational Chart	19
Administrative Staff	20
PSERS Regional Offices	21
PSERS Headquarters Building	22
Section Two – Financial	23
Independent Auditor’s Report	24
Management’s Discussion and Analysis	25
Financial Statements	
Statements of Plan Net Assets Years ended June 30, 2010 and 2009	36
Statements of Changes in Plan Net Assets Years ended June 30, 2010 and 2009	38
Notes to Financial Statements	40
Required Supplemental Schedule 1 – Schedules of Funding Progress	59
Required Supplemental Schedule 2 – Schedules of Employer Contributions	60
Supplemental Schedule 1 – Schedule of Operating Expenses	61
Supplemental Schedule 2 – Summary of Investment Expenses	62
Supplemental Schedule 3 – Schedule of Payments to Non-Investment Consultants	63
Section Three – Investment	65
Investment Overview	66
Portfolio Summary Statistics Asset Allocation as of June 30, 2010	75
Comparison of Actual Portfolio Distribution to Asset Allocation Plan as of June 30, 2010	76
Graph – Comparison of Actual Portfolio Distribution to Asset Allocation Plan	76
Graph – Portfolio Distribution 10 Year Trend	77
Common and Preferred Stock Non - U.S. Equity	77
Common and Preferred Stock - U.S. Equity	78
Fixed Income	78
Absolute Return	79
Postemployment Healthcare Investments	79
Comparison of Investment Activity Income Fiscal Years Ended June 30, 2010 and 2009	80
Graph – Comparison of Investment Activity Income Fiscal Years Ended June 30, 2010 and 2009	80
Summary Schedule of Brokers’ Fees	81
Professional Consultants	81
Section Four – Actuarial	85
Actuary’s Certification Letter	
Introduction	86
Executive Summary	88

Introductory Section

Table of Contents (Continued)

Table 1 – Summary of Results of Actuarial Valuation as of June 30, 2009	97
Table 2 – Summary of Sources of Employer Contribution Rate as of June 30, 2009	98
Table 3 – Determination of Health Insurance Contribution Rate for Fiscal Year 2010/2011	99
Table 4 – Summary of Market Value of Plan Assets as of June 30, 2009	100
Table 5 – Derivation of Actuarial Value of Assets as of June 30, 2009	101
Table 6 – Analysis of Change in Unfunded Accrued Liability as of June 30, 2009	102
Table 7 – Schedule of Funding Progress – GASB Statement No. 25 Disclosure	103
Schedule of Funding Progress – GASB Statement No. 43 Disclosure	103
Table 8a – Schedule of Employer Contributions – GASB Statement No. 25 Disclosure	104
Table 8b – Schedule of Employer Contributions – GASB Statement No. 43 Disclosure	105
Table 9 – Solvency Test	106
Table 10 – History and Projection of Contribution Rates and Funded Ratios	107
Table 11 – History and Projection of Annuitants, Beneficiaries, Survivor Annuitants and Active Members	108
Table 12 – Description of Actuarial Assumptions and Methods	109
Table 13 – Summary of Benefit and Contribution Provisions	112
Table 14 – Summary of Membership Data as of June 20, 2009	114
Exhibit I – Active Membership Data as of June 30, 2009 Number and Average Annual Salary	115
Number and Average Annual Annuity as of June 30, 2009: Exhibit II – Retired on Account of Superannuation, Early Retirement & Those in Receipt of Withdrawal Annuities	116
Exhibit III – Beneficiaries and Survivor Annuitants	117
Exhibit IV – Retired on Account of Disability	118
Exhibit V – Annuitant and Beneficiary Membership Data as of June 30, 2009 Number and Average Annual Benefit	119
Exhibit VI – 10 Year History of Membership Data	120
Section Five – Statistical	121
Narrative	122
Schedule of Trend Data	123
Schedule of Total Changes in Pension Plan Net Assets - 10 Year Trend	124
Additions and Deductions from Pension Plan Net Assets Years ended June 30, 2001 through 2010	125
Schedule of Total Changes in Postemployment Healthcare Plans Net Assets - 10 Year Trend	126
Additions to Postemployment Healthcare Plans Net Assets -10 Year Trend	127
Deductions from Postemployment Healthcare Plans Net Assets -10 Year Trend	128
Schedule of Pension Investment Income – 10 Year Trend	129
Schedule of Premium Assistance Investment Income – 10 Year Trend	130
Schedule of Health Options Program Investment Income – 10 Year Trend	130
Schedule of Summary Membership Data – 10 Year Trend	131
Schedule of Summary Annuity Data – 10 Year Trend	131
Components of Total Contribution Rate	132
Schedule of Pension Benefit and Refund Deductions from Plan Net Assets - 10 Year Trend	133
Schedule of Average Monthly Pension Benefit Payments - 10 Year Trend	134
Schedule of Average Monthly Pension Benefit Payments and Average Final Average Salary	136
Schedule of Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary	137
Ten Largest Employers	138
Schedule of Employers	139





Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration
2009*

Presented to

***Pennsylvania Public School Employees
Retirement System***

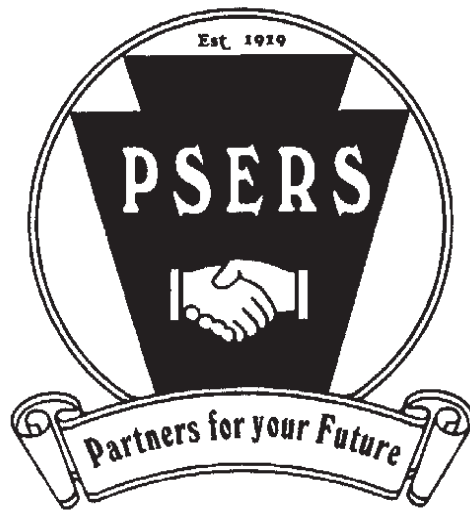
In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

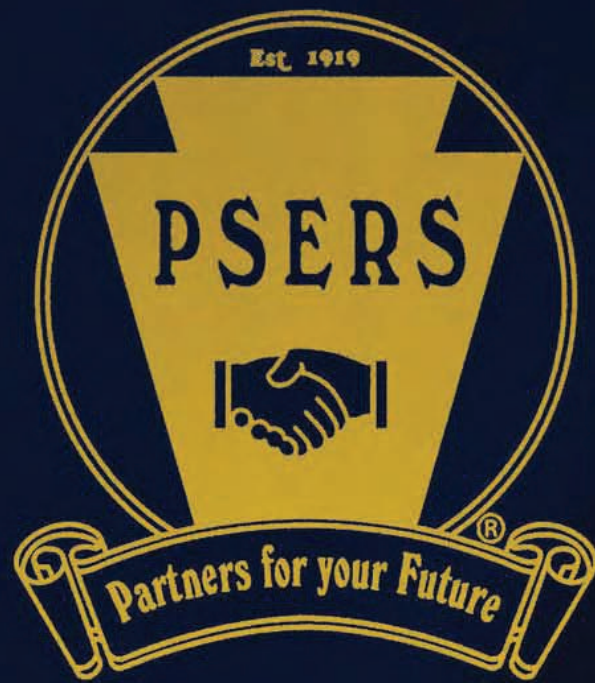
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, appearing to read 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator



This page intentionally left blank



Introductory

Financial

Investment

ACTUARIAL

Statistical

Mission Statement



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

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

adopted 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

Web Address www.pfers.state.pa.us

November 5, 2010

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
Pennsylvania Public School Employees' Retirement System Board of Trustees

Dear Governor Rendell, Legislators, Members, Employer Board members and PSERS Board of Trustees:

We are pleased to present the ninety-first edition of the Comprehensive Annual Financial Report for the Pennsylvania Public School Employees' Retirement System (System, PSERS, Fund) for the year ended June 30, 2010. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The front cover of this year's CAFR portrays several reference books found in any school library. This is a subtle implication to the long-standing relationship that PSERS shares with the public school institutions in Pennsylvania. The reference book theme carries forward into the CAFR's five section title pages. 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.pfers.state.pa.us.

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the 749 reporting entities in Pennsylvania. As of June 30, 2010, the System had approximately 282,000 active members with an estimated annual active payroll of \$12.8 billion.

The annuitant membership at June 30, 2010 was comprised of approximately 185,000 retirees and beneficiaries who receive over \$340 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$23,466. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which all members and 749 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. An unqualified opinion means that PSERS' financial statements fairly present

its financial condition. In addition, no significant findings were noted during the audit and therefore, no management letter was issued. This is the first time in many years that a management letter was not issued by the independent auditors and is reflective of the hard work and dedication of PSERS' staff to continue to improve the internal controls, operations and efficiency of the System.

Economic Summary

The past fiscal year saw a rebound from the worst economic contraction since the Great Depression. The U.S. Gross Domestic Product (GDP) increased in all four quarters of the fiscal year ended June 30, 2010 (FY 2010) and the U.S. unemployment rate stabilized after increasing significantly in FY 2009. As a result, the Fund experienced positive investment performance in all asset classes except for real estate. For FY 2010 PSERS' investment portfolio generated a rate of return of 14.59% which resulted in \$6.1 billion of net investment income. The total net assets of the System increased from \$43.2 billion to \$45.8 billion from July 1, 2009 to June 30, 2010. The increase was due to net investment income plus member and employer contributions exceeding the deductions for 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. The annualized rate of return for the twenty-five year period ended June 30, 2010 was 8.83% and exceeded the Fund's long-term investment rate of return assumption during that time period. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits. PSERS has maintained its position among the top thirty largest pension systems in the nation.

Major Initiatives

Pension Funding

The resolution of the current funding issues facing the System continues to represent the greatest challenge in the history of the System. The employer contribution rate is projected to significantly increase from 5.64 percent in FY 2011 to nearly 29 percent in FY 2013. PSERS continues to work closely with and provide technical assistance to the legislature on this significant issue. During the most recent legislative session, numerous pieces of legislation addressing the pension funding issue were introduced. One bill, HB 2497, passed both the House and Senate and was then sent back to the House for concurrence on Senate amendments in the bill. As of the date of this publication, it is unclear if the House will concur on the Senate amendments.

The pension funding issue also remains a top issue for the PSERS Board. As a consequence of passage of the Fiscal Code Bill (Act 2010-46) that accompanied the Commonwealth's General Fund Budget (Act 2010-1A), the Board met in July 2010 and recertified the employer contribution rate for Fiscal Year 2010-2011. The rate was decreased from 8.22% down to 5.64% as directed under the provisions of Act 46.

Unlike past recertifications of the employer contribution rate by the Board, this recertification was not the result of either a modification of PSERS' funding methodology or any other change made to the Public School Employees' Retirement Code. Therefore, the Board passed a resolution that voiced its concern and stated that the mandated recertification of the employer contribution rate not only fails to address the serious long-term under-funding of PSERS, but increased the unfunded liability of PSERS.

PSERS remains committed to providing all available assistance to the Governor, General Assembly and school employers to resolve the rate spike and future funding issues as soon as possible. For additional information on the funding issues see http://www.pfers.state.pa.us/press/pension_funding_issues/index.html.

Budgetary and Financial Governance

PSERS submits its administrative budget request to the Governor’s Office of the Budget each October where it is reviewed and evaluated. Any changes proposed by the Governor’s Budget Office are made and a final amount is provided to the Legislature, which passes the final budget and submits it to the Governor for his signing into law. The administrative budget is not funded from the Commonwealth’s General Fund, rather from the earnings of the Fund itself. The Commonwealth’s Office of Administration continued FY 2009 cost control initiatives into FY 2010 that included a ban on most out-of-state travel, a moratorium on new vehicle purchases, and a freeze on hiring and management salaries. As reflected in the five-year table below, PSERS has also been committed to the prudent use of its funds and managing its annual budget. As a result, PSERS has annually underspent its approved budget, thus keeping more funds available to invest for PSERS’ members. In conjunction with the Commonwealth’s initiatives the System continually looks for ways to cut costs while maintaining excellent customer service and efficiency of operations. As an example, during FY 2010 postage and printing costs were less than FY 2009. Postage costs were reduced by 20.33% and printing by 7.62% as the System continued to look for more efficient ways to communicate with members and employers using the Internet and other electronic means.

Fiscal Year:	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Administrative Budget*	\$39,539,000	\$39,455,000	\$40,811,000	\$42,068,000	\$42,651,600
Expenditures**	36,935,084	38,230,663	38,009,568	39,224,000	39,339,480
Lapse (unspent funds)	2,603,916	1,224,337	2,801,432	2,844,000	3,312,120
Percentage Lapsed	6.6%	3.1%	6.9%	6.8%	7.8%

*Administrative Budget is net of budgetary reserve of \$229,000 in FY 2009 and \$575,400 in FY 2010.

**Expenditures are those posted to the Commonwealth’s accounting system and therefore do not include accruals.

In addition to these savings, during FY 2010, PSERS continued its on going efforts to recover funds from securities class action litigation. The System received \$11.0 million in settlements from these cases in FY 2010.

Customer Service

PSERS’ efforts to provide complete and accurate retirement benefits in a much timelier manner have continued to be a success. Traditionally, PSERS’ retirement benefits had been paid to members in two steps; a reduced initial benefit within about 10 weeks of retirement based on information on file with PSERS at that time, and then a final benefit with retroactive monies within about 18 months of the retirement date using final information. With new processes in place and improved employer reporting, PSERS expects to process 75% of all retirements in 2010 as one step, enabling staff to only work on a member’s account once and providing the full benefit to the member as the initial payment. This reduction in duplicated work has enabled staff to focus on other customer service areas.

In the not so distant past, PSERS had a backlog of more than 34,000 purchase of service applications to be processed. Despite receiving thousands more every year, by December of 2009 the backlog was reduced to 17,600. As of the date of this publication, there are less than 10,000 left with a goal of having the backlog nearly eliminated as of the close of calendar year 2010. This will provide members with a more accurate portrayal of the service they have accrued.

Due to the system enhancements to enable better and more frequent reporting by employers, all active and inactive members were provided an up-to-date Statement of Account by December 31, 2009. Employers continue to be timely in their reporting which enables PSERS to provide members with a current Statement of Account before the close of each calendar year.

With all of these improvements in place, the next frontier being addressed is reviewing member accounts at periodic milestones and event triggers to ensure each detail of a member's account is accurately portrayed throughout a member's career. Through these kinds of optimizations and enhancements, PSERS is committed to continuing to improve upon the services it provides to members and employers.

Health Options Program (HOP) Initiatives

The Board authorized an open enrollment for 2011 allowing all PSERS annuitants, survivor annuitants, and the spouse or dependents of annuitants or survivor annuitants to enroll in HOP without a qualifying event. The open enrollment period is from October 1, 2010 to November 15, 2010 for benefit coverage effective January 1, 2011. HOP conducted over 130 open enrollment meetings for 17,000 members across the Commonwealth and in states with large concentrations of PSERS retirees. The meetings informed members about the benefit plans for 2011 and the impact of the Patient Protection and Affordable Care Act on their coverage. The last time the Board authorized an open enrollment was for the 2006 plan year when prescription drug coverage was added to Medicare.

The Board also expanded the number of Medicare Advantage and companion pre-65 managed care plans available through HOP. For the 2011 plan year, the following organizations offer plans to HOP participants: Aetna, Capital Blue Cross/Keystone – Central, Geisinger, Highmark, Independence Blue Cross/Keystone – East, and UPMC. HOP participants may also enroll in the HOP Medical Plan (a supplement to original Medicare), a companion pre-65 Medical Plan, and one of two Medicare prescription drug plans.

The Board continues to expand the capabilities of the HOPbenefits.com website. HOP members and PSERS retirees turning age 65 may access their personalized statement online. Members enrolled in the HOP Medical Plan may also access their personal health information, view claim submissions and payments, and make inquiries online.

Financial Highlights

The fair value of the System's net assets totaled \$45.8 billion as of June 30, 2010. The System is the 17th largest state-sponsored public defined benefit pension fund in the nation and the 27th 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 2010 PSERS provided \$5.3 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 2010, the appropriation was \$43.2 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.

Introductory Section

The results of PSERS' latest published actuarial valuation (as of June 30, 2009) 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 79.2%. 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 69% of total revenues over the twenty-year period from FY 1991 to FY 2010. During FY 2010, net investment income was \$6.1 billion. The investment portfolio, which is one part of the System's net assets, totaled \$46.5 billion, at fair value, as of June 30, 2010. For FY 2010, the time-weighted rate of return on the System's investments was 14.59%.

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 15.0% in any one year is no greater than 2.5% (or two standard deviations below the expected return). Additional information on the System's investments is contained in the Investment Section of this report.

Federal and State Tax Status

The System 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) announced and initiated a renewed focus on the tax qualification of public pension funds in 2008. PSERS is working proactively in conjunction with the State Employees' Retirement System to address this 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.

GASB Pension Accounting and Financial Reporting Project (Pension Project)

In 2006 the GASB began a multi-year project to reexamine the current pension accounting standards as detailed in GASB Statements 25 and 27. In March 2009, the GASB issued an Invitation to Comment (ITC) on possible changes to the pension accounting standards. The ITC discussed two alternative approaches that the standards might follow. The first approach was similar to the current standards and the second was based on a market value approach similar to private sector pension accounting.

On June 16, 2010, the GASB issued its Preliminary Views (PV) on proposed changes to accounting and financial reporting standards for state and local government employers that sponsor defined benefit pension plans. The PV is an intermediate step in the GASB Pension Project and reflects the GASB's expectation of significant discussion related to the proposed changes. In the PV, the GASB proposed a middle approach which combines elements of the two alternatives described in the ITC.

The proposed standards in the PV would have a significant impact on pension accounting and financial reporting by employers and would separate the accounting standards from the standards used to determine funding requirements. PSERS provided comments to the GASB on the PV in September 2010 and has collaborated with constituent groups that have also provided comments to the GASB.

Once the GASB reviews the input received in response to the PV, it will issue an Exposure Draft of a new standard on pension accounting which will be followed by the issuance of the new accounting standard that could be effective in 2013. PSERS will continue to monitor the GASB Pension Project very closely to gauge the future impact on its financial governance.

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, 2009. 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.

Introductory Section

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for 27 consecutive years from FY 1983 to FY 2009. 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 2010 certificate.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2009. 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.

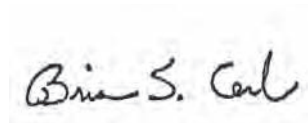
Acknowledgements

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
As of June 30, 2010**



Seated, front row: Stacey Connors, designee for Honorable Patrick M. Browne; Sally J. Turley, Vice-Chairman; Melva S. Vogler, Board Chairman and Patricia A. Tozer

Standing, second row: Honorable Robert M. McCord; Honorable Glen R. Grell; Thomas J. Gentzel; Glen S. Galante; Richard N. Rose; Hal Moss; John Raymond, designee for Honorable Shirley M. Kitchen; James M. Sando and Jeffrey B. Clay, PSERS' Executive Director, Board Secretary

Not pictured: Honorable Thomas E. Gluck, Acting Secretary of Education; Honorable Dwight Evans and Tina Byles-Williams

PSERS Board of Trustees

As of June 30, 2010

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

Mr. Thomas E. Gluck, Acting

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Robert M. McCord

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 12/31/12)

Ms. Tina Byles-Williams (term expires 12/31/11)

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

Mr. Glen S. Galante (term expires 12/31/12)

Mr. James M. Sando (term expires 12/31/10)

Ms. Melva S. Vogler (term expires 12/31/11)

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

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

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

Mrs. Sally J. Turley (term expires 12/31/10)

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 12/31/11)

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 11/30/10)

Honorable Glen R. Grell (term expires 11/30/10)

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

Honorable Shirley M. Kitchen (term expires 11/30/12)

Honorable Patrick M. Browne (term expires 11/30/10)

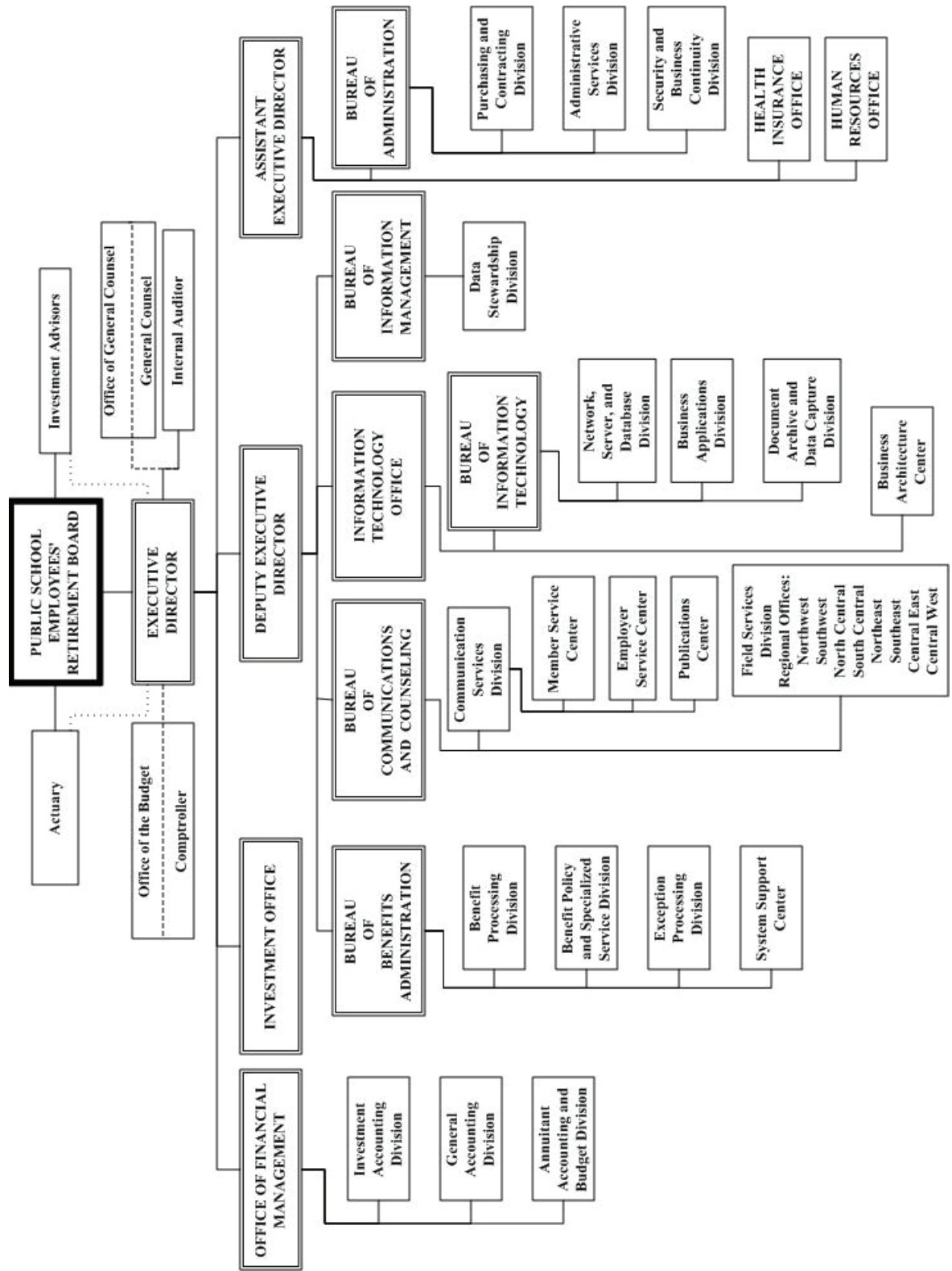
2010 Board Committees

As of June 30, 2010

<p>Appeals / Member Services</p> <p>Ms. Tozer, Chair Mr. Gentzel Senator Kitchen Mr. Moss Mr. Rose Mr. Sando Mrs. Turley</p>	<p>Audit/Budget</p> <p>Mr. Galante, Chair Representative Evans Mr. Gentzel Representative Grell Treasurer McCord Mr. Rose</p>	<p>Bylaws / Policy</p> <p>Representative Grell, Chair Representative Evans Senator Browne Mr. Moss Mr. Sando Mrs. Turley</p>
<p>Corporate Governance</p> <p>Mr. Sando, Chair Senator Browne Ms. Byles-Williams Mr. Galante Treasurer McCord Mr. Rose</p>	<p>Elections</p> <p>Mr. Moss, Chair Representative Evans Ms. Byles-Williams Senator Kitchen Mr. Gluck Ms. Tozer</p>	<p>Finance</p> <p>Mr. Rose, Chair</p> <p>Committee is comprised of all Board Members</p>
<p>Health Care</p> <p>Mrs. Turley, Chair Representative Evans Mr. Galante Mr. Gentzel Representative Grell Ms. Tozer</p>	<p>Personnel</p> <p>Mr. Gentzel, Chair Senator Browne Treasurer McCord Mr. Rose Mr. Sando Mrs. Turley</p>	<p>Technology Steering</p> <p>Treasurer McCord, Chair Ms. Byles-Williams Mr. Galante Mr. Gluck Senator Kitchen Mr. Moss</p>

NOTE: The chair of the Board of Trustees is a voting ex-Officio member of all Committees

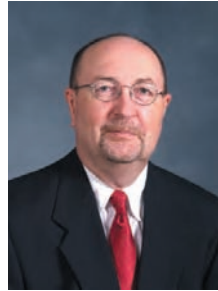
Organizational Chart of the Public School Employees' Retirement System



Administrative Staff



Alan H. Van Noord
Chief Investment Officer



Jeffrey B. Clay
Executive Director



Terrill J. Savidge
Deputy Executive Director



Gerald Gornish
Chief Counsel



Brian S. Carl
Chief Financial Officer



Joseph E. Wasiak
Assistant Executive Director



Richard R. Spinks
Chief Technology Officer



James F. Noone
Director of Administration



Ginger L. Bucher
Director of Benefits
Administration



Eugene W. Robison
Director of Communications
and Counseling



Deborah L. Garraway
Director of Information
Management



Mary E. Geesey
Director of Information
Technology



Maribel La Luz
Director of Human
Resources



Donald J. Halke, II
Internal Auditor



Mark F. Schafer
Director of Health
Insurance



Frank Ryder
Director of Government
Relations



Evelyn M. Tatkovski
Press Secretary

PSERS REGIONAL OFFICES

NORTHWEST

Suite C, Penn Wood Center
 464 Allegheny Boulevard
 Franklin, PA 16323-6210
 Local (814) 437-9845
 FAX (814) 437-5826
 Toll Free 1-888-773-7748 ext. 5175

NORTHCENTRAL

Suite 201
 300 Bellefonte Avenue
 Lock Haven, PA 17745-1903
 Local (570) 893-4410
 FAX (570) 893-4414
 Toll Free 1-888-773-7748 ext. 5275

NORTHEAST

Suite 201
 417 Lackawanna Avenue
 Scranton, PA 18503-2013
 Local (570) 614-0269
 FAX (570) 614-0278
 Toll Free 1-888-773-7748 ext. 5375

SOUTHWEST

Suite 208, 900 Sarah Street
 Pittsburgh, PA 15203-1106
 Local (412) 488-2031
 FAX (412) 488-2338
 Toll Free 1-888-773-7748 ext. 5775

SOUTHEAST

Suite 500, 605 Louis Drive
 Warminster, PA 18974-2825
 Local (215) 443-3495
 FAX (215) 443-3487
 Toll Free 1-888-773-7748 ext. 5575

CENTRALWEST

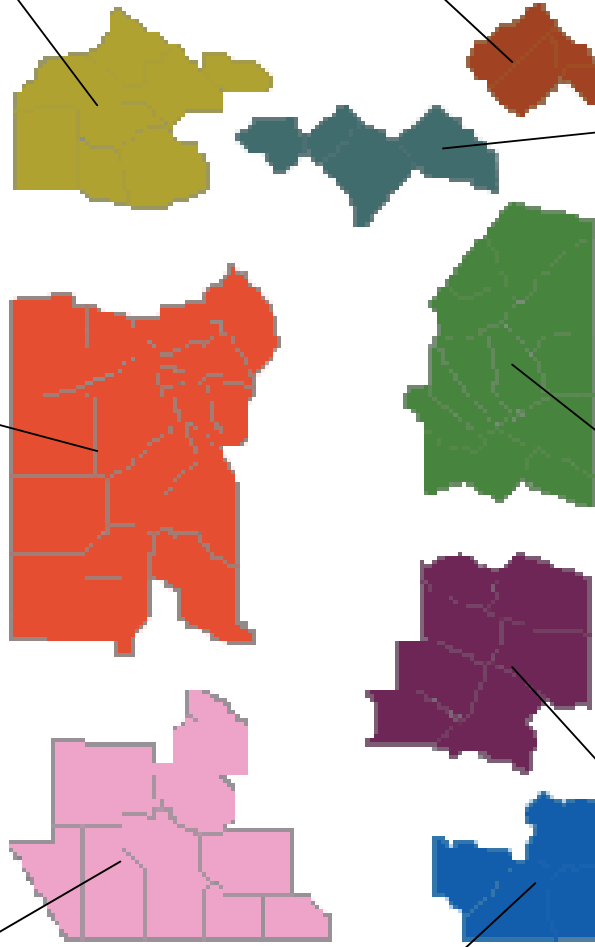
219 West High Street
 Ebensburg, PA 15931-1540
 Local (814) 419-1180
 FAX (814) 419-1189
 Toll Free 1-888-773-7748 ext. 5875

SOUTHCENTRAL

Suite 101, Three Crossgate Drive
 Mechanicsburg, PA 17050-2459
 Local (717) 795-9270
 FAX (717) 795-9281
 Toll Free 1-888-773-7748 ext. 5675

CENTRALEAST

Suite 103, 110 West Arch Street
 Fleetwood, PA 19522-1321
 Local (610) 944-9113
 FAX (610) 944-9275
 Toll Free 1-888-773-7748 ext. 5475



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 Capital complex. Regional field offices are also maintained in Ebensburg, Fleetwood, Franklin, Lock Haven, Mechanicsburg, Pittsburgh, Warminster and Scranton.

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.