PSERS BUDGET REPORT - FY2023-24

SECTION 1 - PSERS OVERVIEW

PSERS®

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PSERS Overview and Board of Trustees

Overview

Established on July 18, 1917, with operations commencing in 1919, the Pennsylvania Public School Employees Retirement System (PSERS, System, or Fund) provides retirement benefits to public school employees of the Commonwealth of Pennsylvania and administers post-employment healthcare benefits to PSERS retirees and dependents.

As of June 30, 2022, the System had approximately 248,000 active members. The annuitant membership was comprised of approximately 247,000 retirees and beneficiaries who collectively received average monthly pension benefit payments of over $542 million including healthcare premium assistance. The average yearly pension benefit paid to annuitants was $26,078. PSERS had 770 participating employers on June 30, 2022.

As reported in the latest Pension and Investments survey, published February 13, 2023, based on asset size, PSERS is the 34th largest plan among United States corporate and public pension plans, and the 16th largest state-sponsored public pension fund in the nation based on total plan assets. PSERS total plan net assets as of December 31, 2022 were approximately $69.7 billion. PSERS preliminary annualized investment rates of return for the one, three, five, and ten-year periods ended December 31, 2022 are -6.14 %, 6.82%, 6.72%, and 7.16%, respectively.

During fiscal year 2022, PSERS pension disbursements to retirees totaled $7.25 billion. Of this amount, nearly 91%, or $6.6 billion, was distributed to Pennsylvania residents representing PSERS significant impact on the Commonwealth's economy.

In addition to retirement benefits, PSERS administers the Premium Assistance Program that provides a health insurance premium subsidy of up to $100 per month for those retirees who qualify. At June 30, 2022, there are over 94,000 retirees who receive this benefit. PSERS also manages a health insurance program, PSERS Health Options Program, that is entirely funded through participating member premiums and provides Medicare Supplemental, Medicare Advantage, Prescription Drug, and Dental plans to over 124,000 annuitants and their dependents as of December 31, 2022.

Mission Statement

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

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

adopted June 20, 2008

PSERS Board of Trustees

as of March 11, 2023

PSERS Organizational Structure and Member Services

Organizational Structure of the Public School Employees' Retirement System

Executive Office

The Executive Director acts as the Chief Executive Officer with overall responsibility for the management of the Public School Employees Retirement System (PSERS) to achieve the objectives of the agency as established by the Board of Trustees (Board). The position's primary duty is to lead PSERS employees in meeting the agency mission by serving the members and stakeholders of the System to: provide timely and accurate payment of benefits; maintain a financially sound System; invest the assets of the System prudently; clearly communicate members' and employers' rights and responsibilities, and manage the resources of the System effectively. In this capacity, the position has responsibility for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds and services to the members of the System. It certifies expenditures of the Fund and oversees the performance of professional staff and external contractors for specialized services. The Executive Director also apprises and seeks approval from the Board for significant issues that will 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 internal investment professionals and outside professional investment advisors.

Chief Counsel's Office

This office provides legal services through a team of professionals in collaboration with PSERS Executive Director and the Board of Trustees. The legal staff is responsible for representing the System in all administrative hearings and other litigation matters and providing counsel in a wide variety of matters including the interpretation of the Retirement Code, form and legality of all System contracts, corporate governance issues and the structure and implementation of the System's varied financial investments.

Internal Audit Office

This office provides independent, objective assurance, and consulting activity designed to add value and improve PSERS operations. Objectives are accomplished by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The office provides a wide range of quality independent internal auditing services for the Audit/Compliance Committee of the PSERS Board and executive management. It performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches. The office also routinely monitors compliance with established laws, rules, regulations, policies and procedures.

Office of Financial Management

This office is directed by the Chief Financial Officer (CFO) 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 for PSERS Pension, Premium Assistance, HOP, and Defined Contribution Plans. The CFO also functions as the Chief Pension Actuary with oversight for the external actuary, the annual actuarial valuation and setting the employer contribution rate. The Office is also responsible for PSERS annuitant payroll and for managing actuarial functions. 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, financial reporting, treasury operations, taxation, actuarial and budgetary matters. The office is comprised of the CFO's Office, General and Public Market Accounting Division, Investment Accounting and Budget Division, Annuitant Accounting and Employer Accounting Division.

Organizational Structure (continued)

Deputy Executive Director and Director of Defined Contribution Investments

The position provides comprehensive leadership to assist the Executive Director to accomplish the agency mission by maintaining oversight of PSERS membership related benefit functions for both the agency's Defined Benefit (DB) and the Defined Contribution (DC) plans in addition to DC related investment contract management. This includes managerial responsibility for the following areas: member and employer communications; member retirement counseling; member and employer data administration; benefits determinations and processing; member appeals; knowledge management of benefit policies and procedures; health insurance retirement programs including premium assistance; third-party contractor administration, and defined contribution contract investment management.

Deputy Executive Director of Administration

The position provides comprehensive leadership to assist the Executive Director to accomplish the agency mission by maintaining oversight of PSERS administrative and information technology related services for the agency. This includes managerial responsibility for the following areas: information technology; human resources; physical security; facilities; contracting and procurement; business continuity; safety; records management; and mail, imaging, and printing services.

Bureau of Benefits Administration

The Bureau of Benefits Administration maintains account data, determines membership and benefits eligibility, and calculates benefits for Pennsylvania public school employees. This bureau provides these functions for all benefits provided by PSERS, except the PSERS Health Options and Premium Assistance Programs.

Bureau of Communications and Counseling

The bureau provides services to educate and inform annuitants, members, employers, staff and the public about the benefit related programs and services provided by PSERS, as well as the rights and duties of employers and members in relation to those benefits. Information communicated spans from very detailed and fact-specific explanations and instructions to more general explanations and educational materials.

Health Insurance Office

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

Organizational Structure (continued)

Information Technology Office

This office oversees the Bureau of Information Technology, the Project Management Office, and the Business Architecture Center. It is responsible for information technology planning and policy development, ensuring that information technology plans, projects and policies are aligned with, in support of, and prioritized according to agency strategic needs and requirements. Large information technology contracts and projects are managed by this office. This bureau is responsible for understanding, analyzing, documenting, and enabling PSERS processes, information systems, and the relationships among these components so that PSERS is able to: conduct its business consistently and according to established rules.

Information Security Office

This office is responsible strategic direction of the agency's information and data security protocols. Work includes monitoring of the agency's deployed information technology hardware; administering the agency cybersecurity insurance policy; consulting with all other agency units on information technology controls and risk management; and providing policy and procedural direction for ensuring an informed information and data security incident response program.

Bureau of Administration

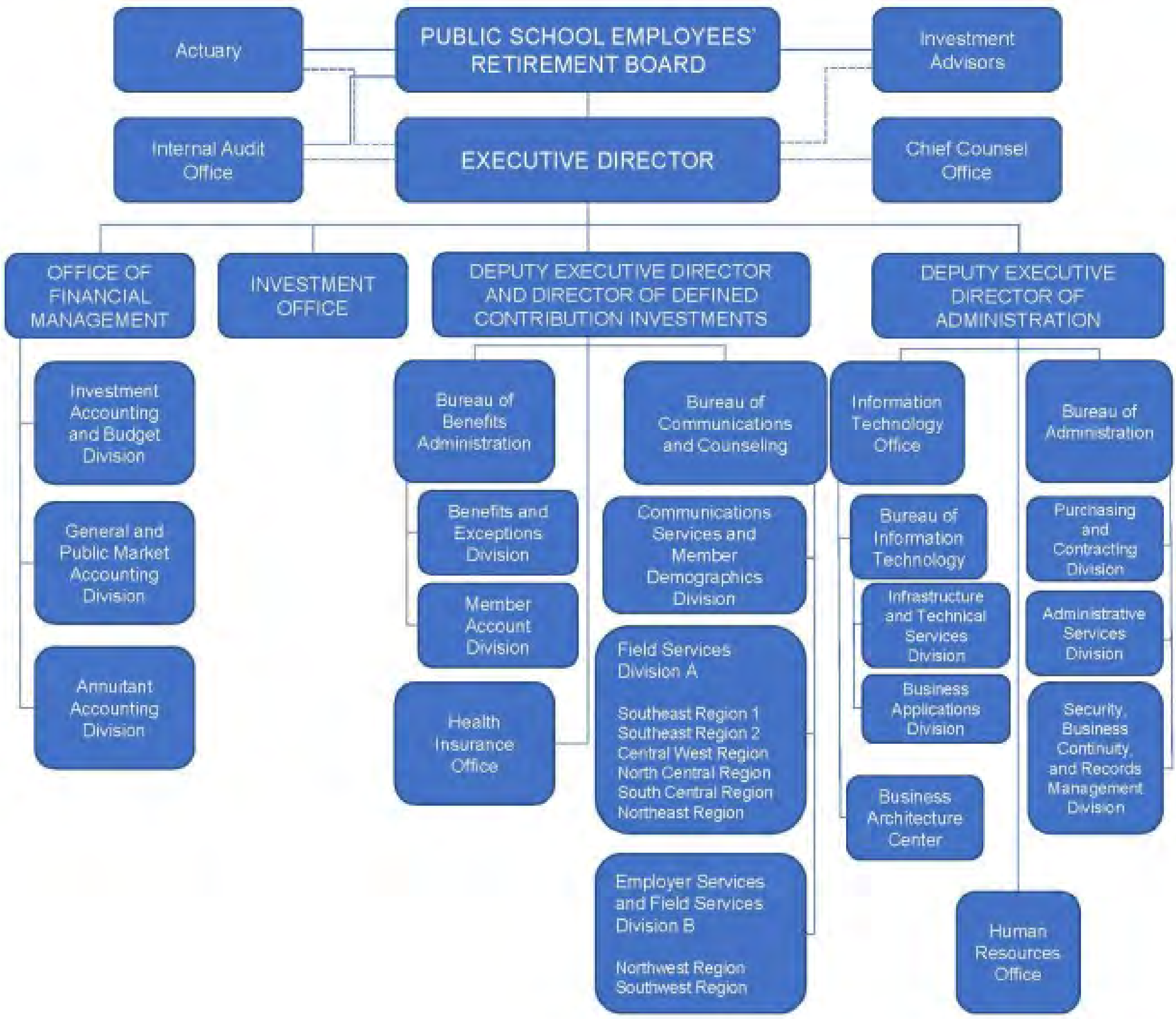
This bureau provides facilities, purchasing and contracting, policies and procedures, business continuity, records management, automotive, mail, imaging, and other administrative services necessary to support agency functions.

Human Resources Office

This office is responsible for supporting management and employees 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.

Chart 2.1

Organizational Chart of the Public School Employees Retirement System



PSERS REGIONAL OFFICES

Chart 2.2

Northwest
Franklin Penn Wood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
Kevin Moczan, Administrator

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

Northeast
417 Lackawanna Avenue, Suite 201
Scranton, PA 18503-2013
FAX: 1.570.614.0278
Toll-Free: 1.888.773.7748
John Kanavy, Administrator

Southwest
300 Cedar Ridge Drive, Suite 301
Pittsburgh, PA 15205-1159
FAX: 1.412.920.2015
Toll-Free: 1.888.773.7748
Jason Kosier Administrator

Centralwest
219 W. High Street
Ebensburg, PA 15931-1540
FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748
Brian Farester, Administrator

Southcentral
5 N 5th Street
Harrisburg, PA 17101-1905
FAX: 1.717.783.9606
Toll-Free: 1.888.773.7748
John Tucker, Administrator

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

PSERS

Summary of Various Member Service Statistics

There are only 382 staff serving the needs of over 500,000 members of the System and 770 employers. PSERS professionals are dedicated to fulfilling PSERS mission to serve our members. Below are highlights of some of the more common services that PSERS provides to its members.

Table 2.1

Benefits Processed (Major)	Fiscal Year 2021-22	Fiscal Year 2020-21
Initial Retirements (1-Step)	7,363	8,034
Initial Retirements (2-Step)	2,290	1,975
Final Retirements (2nd Step of 2-Step)	1,238	1,865
Purchases of Service and Corrections for Previously Unreported Service and/or Contributions not Withheld	6,416	4,335
Refunds	4,608	3,832
Death Benefits Processed	3,016	4,307
Account Verification - non retirements	16,156	11,990
TOTAL	**41,087**	**36,338**
Percent of Retirement Paid as 1 Step	76%	80%

Table 2.2

Other Member Services (Major)	Fiscal Year 2021-22	Fiscal Year 2020-21
Retirement Estimates	17,944	17,640
Phone Calls Answered	148,440	185,115
E-mails Received	111,176	64,944
E-mails Sent	104,750	55,605
General Information Sessions	40	—
General Information Attendees	3,259	—
Counseling Sessions	1,389	1,061
Counseling Attendees	6,971	6,485

Summary of Various Member Service Statistics (continued)

Table 2.3

Member Self Service Transactions Done by Members

	Calendar Year	
	2022	**2021**
Retirement Estimate	56,716	23,959
Nomination of Beneficiary	20,859	17,953
Address Change	21,895	13,403
Income Verification	16,739	16,242
W-4P	1,858	1,679
Apply for Multiple Service	84	57
Elect Class T-F	4	2
Elect Class T-H	114	91
Elect Class DC	271	244
Waive Membership	229	176
TOTAL	**118,769**	**73,806**

Table 2.4

Member Payment Services for Retirees and Beneficiaries

	Calendar Year	
	2022	**2021**
Monthly Benefit Payments by EFT	2,822,394	2,761,363
Monthly Benefit Payments by Check	83,310	103,539
Total Monthly Payments to Members	**2,905,704**	**2,864,902**
Non-recurring Payments to Members	45,531	46,839
W4-P Tax Withholding Forms Processed	3,092	2,410
EFT Forms Processed - Direct Deposit	9,387	11,452
ACH Rejects Researched and Reviewed (Direct Deposit Failures)	5,886	7,092
Member Payment Changes Processed	1,825	2,535
1099R-Paperless Delivery	78,428	68,139
1099R-Printed and Mailed	193,756	199,989
Total Forms 1099-R Produced	**272,184**	**268,128**

PSERS had nearly 240,000 members sign up for the MSS account. Of those, over 92% are receiving paperless delivery. This has resulted in annual savings of over $275,000 in postage, printing and paper since MSS went live in April 2018.

Economic Impact on Pennsylvania, Member Demographics, and Financial Information

Economic Impact on Pennsylvania, Member Demographics, and Financial Information

Economic Impact of Pension Benefits on Pennsylvania

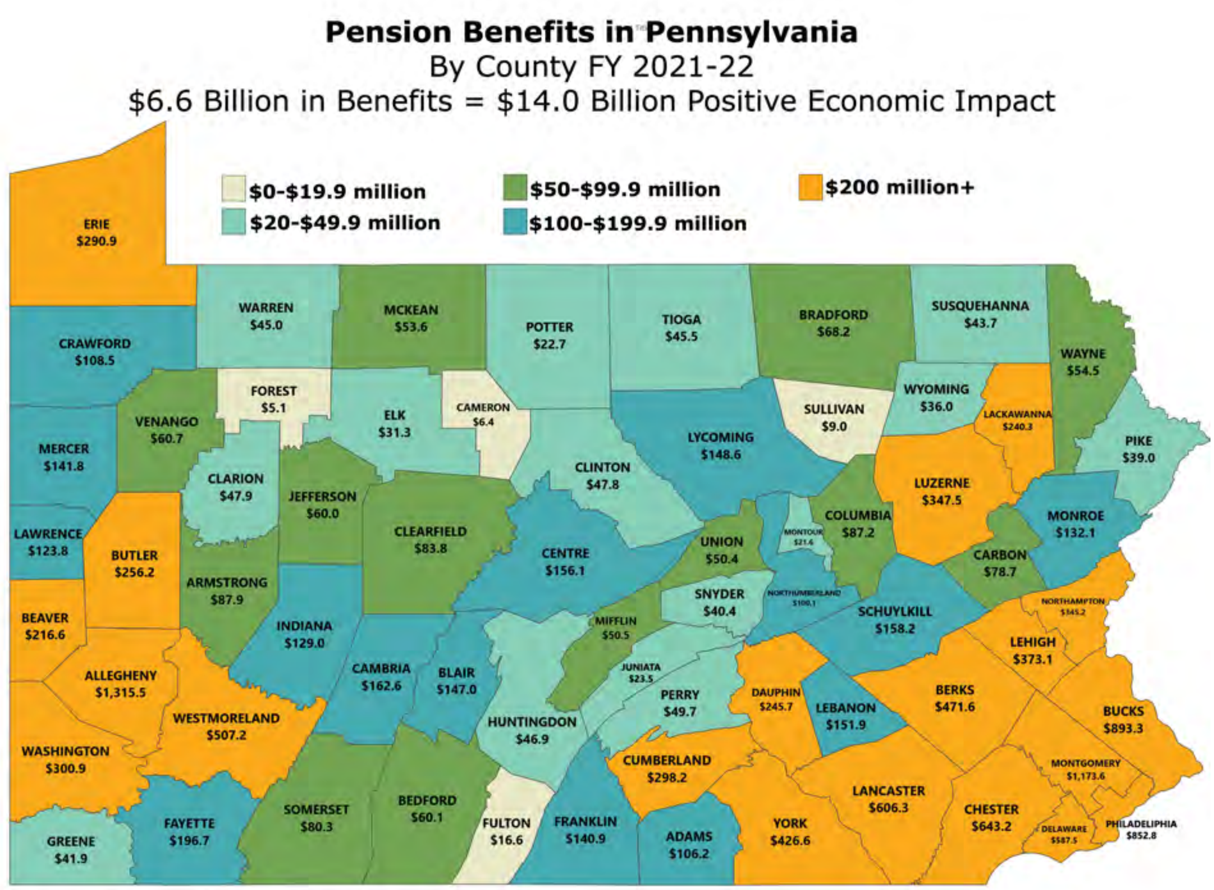
In Fiscal Year 2021-22, PSERS pension disbursements to retirees totaled approximately $7.25 billion. Of this amount, nearly 91%, or $6.6 billion, went directly into state and local economies. According to a study by Pensionomics for the National Institute on Retirement Security, this spending expands through the economy as the retiree's spending becomes another's income, multiplying the effect of the $6.6 billion into an economic impact of $14.0 billion throughout the Commonwealth. Estimates show that the impact of money from PSERS in Pennsylvania includes:*

- Support for over 55,000 jobs that paid $3.4 billion in wages and salaries.

- $1.2 billion in federal and local tax revenues.

Table 3.1
Top 10 Counties Based on Economic Impact from Benefit Disbursements (Dollars in Millions)

ALLEGHENY	$1,315.5
MONTGOMERY	1,173.6
BUCKS	893.3
PHILADELPHIA	852.8
CHESTER	643.2
LANCASTER	606.3
DELAWARE	587.5
WESTMORELAND	507.2
BERKS	471.6
YORK	426.6



Pensionomics The National Institute on Retirement Security, January 2023

Member Demographics and Financial Information (continued)

Table 3.2

Member by Type

Fiscal Year Ended June 30	Active Members	Annuitants, Beneficiaries, and Survivor Annuitants	Total Active/Retired Members	Ratio of Active/ Retired	Vestees	Total Membership
2022	248,393	246,901	495,294	1.01 to 1	26,836	522,130
2021	248,410	242,839	491,249	1.02	26,892	518,141
2020	256,306	239,614	495,920	1.07	25,903	521,823
2019	255,749	237,339	493,088	1.07	25,514	518,602
2018	256,362	233,288	489,650	1.10	25,117	514,767
Average ratio of active members to annuitants (Public Funds)				1.26*		

***Based on the October 2022 Public Fund Survey prepared by the National Association of State Retirement Administrators (NASRA).**

Member Demographics and Financial Information (continued)

Table 3.3

Profile of PSERS Annuitants, Beneficiaries, and Survivor Annuitants

Type of Member	Number of Members		Average Annual Benefit	
	6/30/2022	6/30/2021	6/30/2022	6/30/2021
Normal/Early Retirees	225,081	221,277	$26,842	$26,783
Survivor Annuitants	13,100	12,704	$15,982	$15,529
Disability Retirees	8,720	8,858	$21,526	$21,218
Total/Average Yearly Benefit	246,901	242,839	$26,078	$25,992

Age and Service Profile of All Active Members

	6/30/2022	6/30/2021
Average Age	45.4	45.5
Average Years of PSERS Service	12.1	12.1
Average Annual Compensation	$58,082	$56,663

	Class T-C Members		Class T-D Members	
	6/30/2022	6/30/2021	6/30/2022	6/30/2021
Number of Members	2,391	2,635	139,161	148,546
Average Age	54.8	54.4	49.5	49.2
Average Years of PSERS Service	23.2	22.7	18.1	17.4
Average Annual Compensation	$63,170	$59,759	$71,767	$68,659

	Class T-E Members		Class T-F Members	
	6/30/2022	6/30/2021	6/30/2022	6/30/2021
Number of Members	53,374	57,944	13,082	13,766
Average Age	42.0	41.2	40.6	39.9
Average Years of PSERS Service	5.5	4.6	6.1	5.1
Average Annual Compensation	$42,727	$38,989	$54,275	$50,590

	Class T-G Members		Class T-H Members	
	6/30/2022	6/30/2021	6/30/2022	6/30/2021
Number of Members	39,655	25,061	210	139
Average Age	37.1	36.4	36.8	35.8
Average Years of PSERS Service	1.1	0.9	2.1	1.6
Average Annual Compensation	$31,778	$29,558	$38,452	$33,252

	Class DC	
	6/30/2022	6/30/2021
Number of Members	520	319
Average Age	42.2	44
Average Years of PSERS Service	1.9	0.7
Average Annual Compensation	$36,140	$34,019

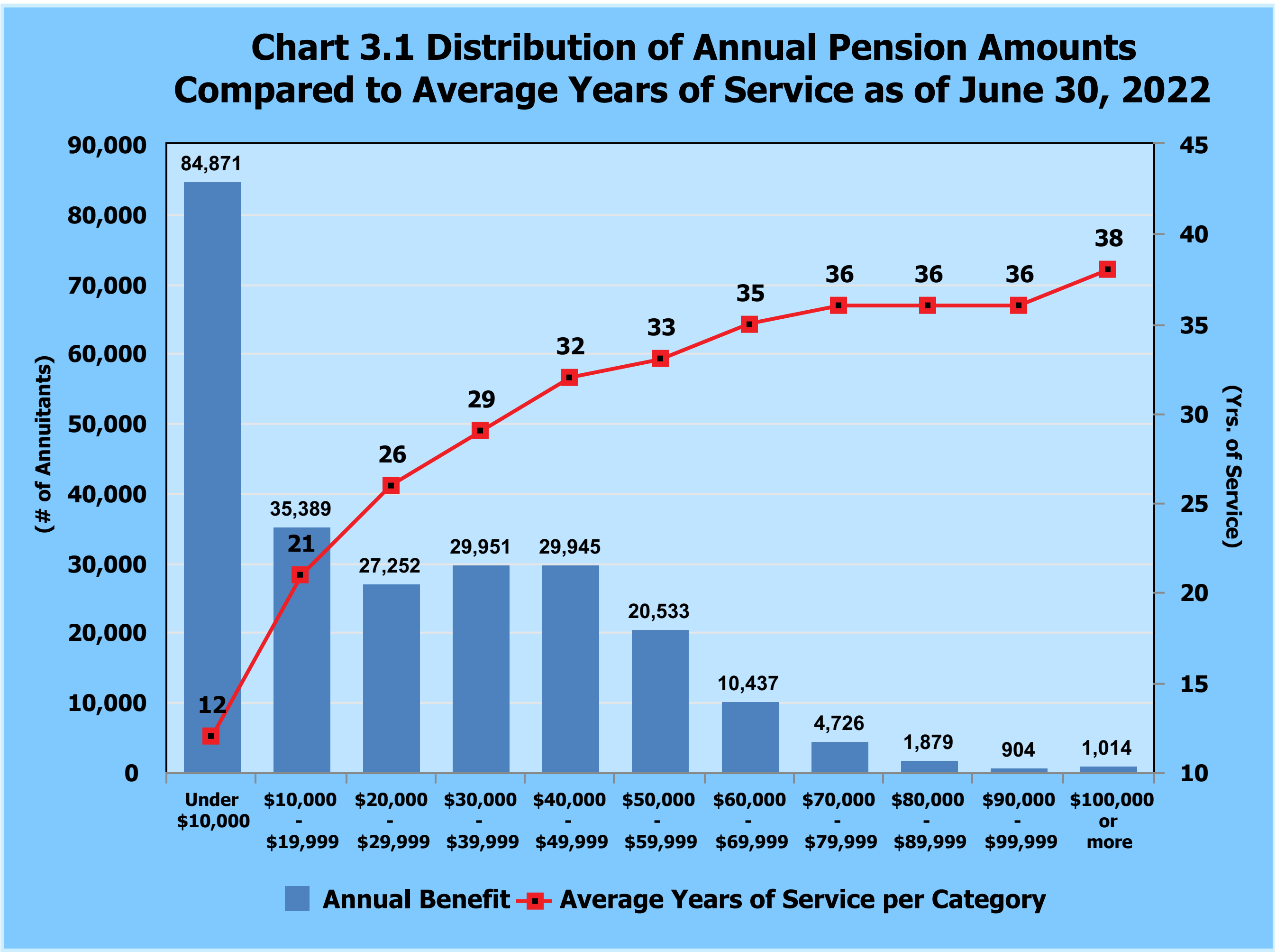
NOTE: See percentages of membership classes as referenced in Tab 5.

Member Demographics and Financial Information (continued)

Benefit Summary

The average PSERS retiree receives $26,078 annually, a benefit earned through a lengthy career averaging 23 years in public education.

- Nearly 72% of PSERS retirees receive less than $40,000 per year in benefits.
- Six-figure pensions are rare, with fewer than one-half of 1% of PSERS retirees receiving an annual benefit over $100,000. Retirees earning over six figures have spent an average of 38 years working in their careers and contributing to their retirement accounts.



Member Demographics and Financial Information (continued)

Table 3.4

PSERS Pension Plan Changes in Fiduciary Net Position
10 Year Cumulative Summary - FISCAL YEAR
(Dollar Amount in Millions)

	Cumulative 10 Year Total July 1, 2012 - June 30, 2022	
Balance of Net Position (07/01/2012)		**$48,534**
Member Contributions	$10,319	
Employer Contributions	36,228	
Net Investment Income	41,854	
Deductions - Benefits & Expenses	(66,407)	
Net Increase		**$21,994**
Balance of Net Position (06/30/2022)		**$70,528**

Table 3.5

External Cash Flow - Pension
Fiscal Years Ended June 30
(Dollar Amount in Thousands)

		--------------------Projected--------------------				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
Member Contributions	$1,134,000	$1,144,000	$1,146,000	$1,143,000	$1,141,000	$1,139,000
Employer Contributions	$4,998,000	$5,171,000	$5,050,000	$5,169,000	$5,315,000	$5,450,000
Total Contributions	**$6,132,000**	**$6,315,000**	**$6,196,000**	**$6,312,000**	**$6,456,000**	**$6,589,000**
Less:						
Benefits	$7,254,000	$7,401,000	$7,549,000	$7,697,000	$7,847,000	$7,998,000
Administrative expenses	$50,000	$51,000	$52,000	$53,000	$54,000	$55,000
Total Outflows	**$7,304,000**	**$7,452,000**	**$7,601,000**	**$7,750,000**	**$7,901,000**	**$8,053,000**
Negative External Cash Flow	**-$1,172,000**	**-$1,137,000**	**-$1,405,000**	**-$1,438,000**	**-$1,445,000**	**-$1,464,000**
End of Year Total Assets	**$70,528,000**	**$74,289,000**	**$78,038,000**	**$82,018,000**	**$86,271,000**	**$90,805,000**
Negative External Cash Flow (NECF) as a % of Total Assets	**-1.7 %**	**-1.5 %**	**-1.8 %**	**-1.8 %**	**-1.7 %**	**-1.6 %**
Average NECF as a % of Total Assets (Public Funds) *	**-2.2%**					

***Based on the October 2022 Public Fund Survey prepared by NASRA.**

Member Demographics and Financial Information (continued)

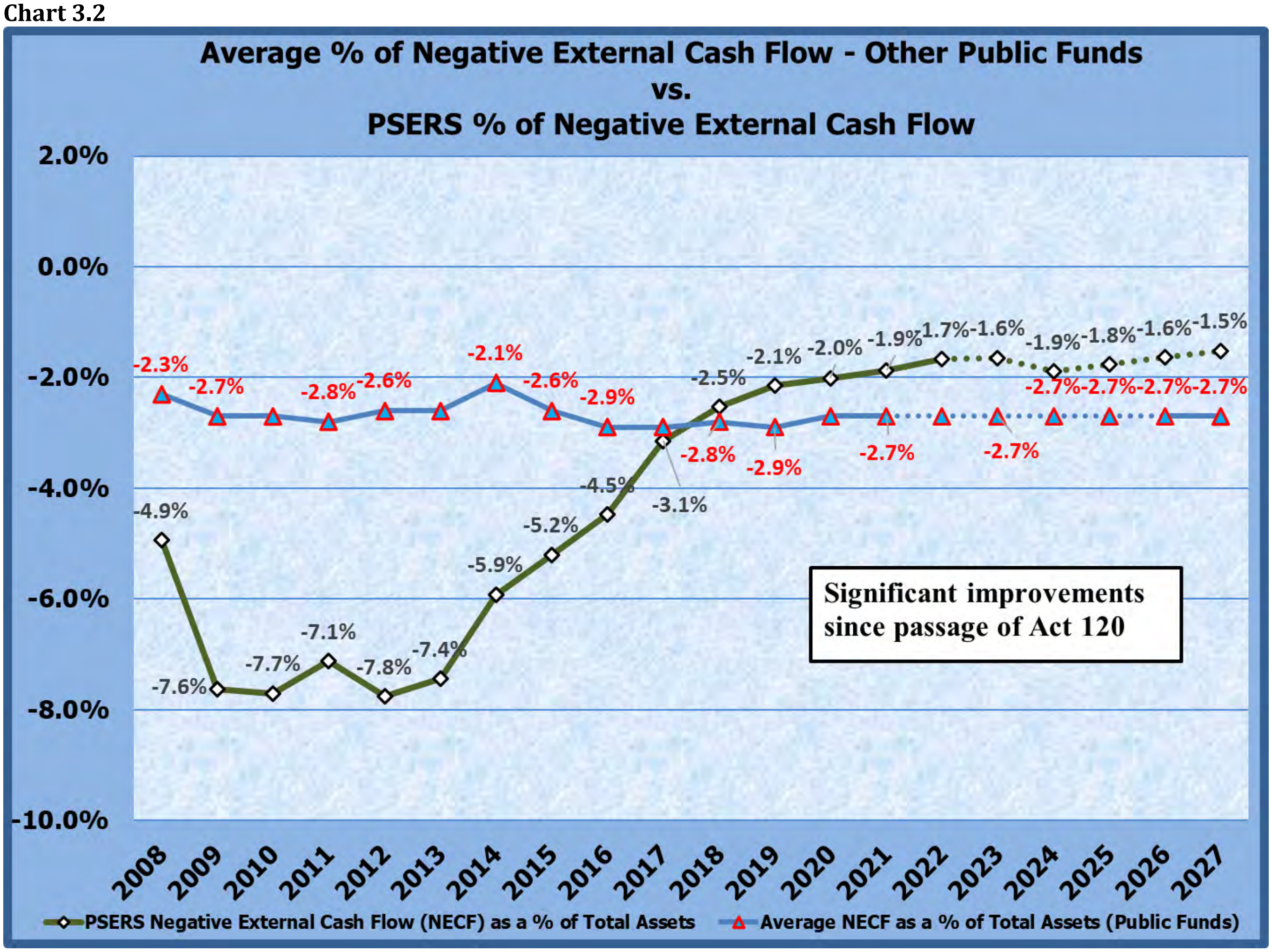
Negative External Cash Flow (NECF)

Using data from Table 3.4 on the previous page, the last 10 years of contributions and benefit payments resulted in a Negative External Cash Flow (NECF) of -$19.9 billion (comprised of total deductions less member and employer contributions) during that time period. In Table 3.5, PSERS Negative External Cash Flow percentage is -1.7% of total assets for FY2021-22, which was more favorable than the public fund average for the fifth year in a row. The negative annual external cash flow has improved significantly since fiscal year 2012 due to the implementation of Act 120 in 2010. Act 120 provided for increased employer contributions to the actuarially determined contribution levels. Due to receiving 100% of actuarially determined contributions for the sixth consecutive year in FY 2021-22, the system's cash flow shortfall has now stabilized and is more favorable than the public fund average going forward.

PSERS Negative External Cash Flow Projection (NECF)

In Chart 3.2, beginning in FY2017-18 PSERS NECF percentage of -2.5% is more favorable than the public fund percentage. If PSERS meets or exceeds its investment return assumptions, the Chart 3.2 total assets are projected to grow in excess of total liabilities and continue to pay down the unfunded liability.

Chart 3.2



Member Demographics and Financial Information (continued)

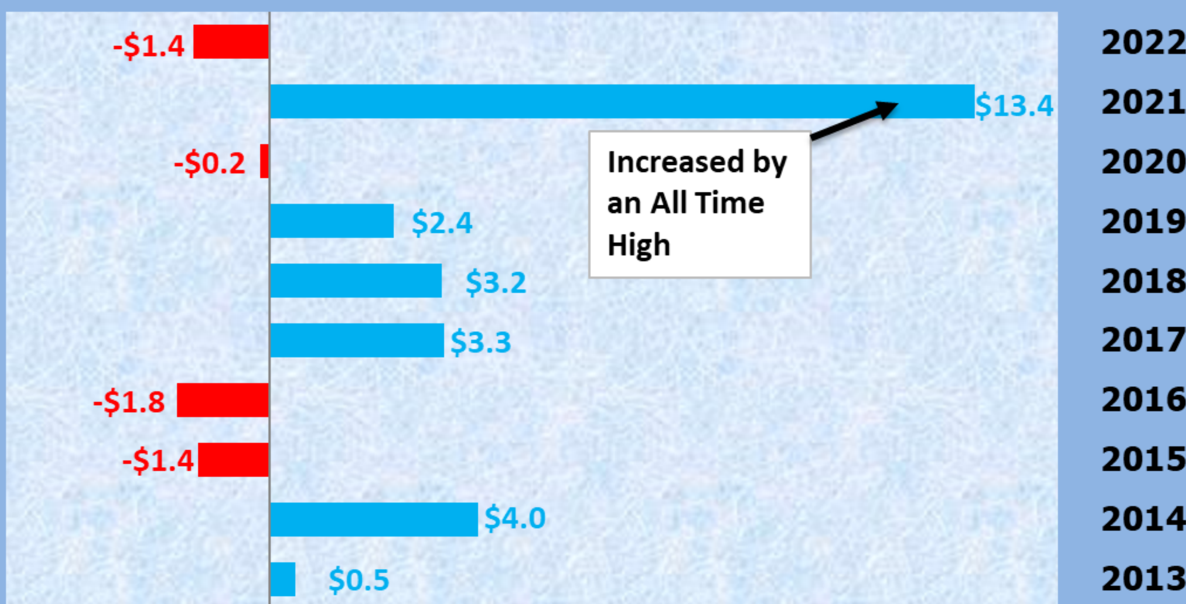
Member Demographics and Financial Information (continued)

PSERS Pension Fiduciary Net Position

As depicted in Chart 3.3, PSERS fiduciary net position decreased by $1.4 billion from $71.9 billion at June 30, 2021 to $70.5 billion at June 30, 2022.

The decrease was due in large part to deductions for benefits, administrative expenses, and net investment loss exceeding member and employer contributions.

Chart 3.3 Net Increase/Decrease to Fiduciary Net Position *
10 Year Trend (Fiscal Year Ended June 30)
(Dollar Amounts in Billions)

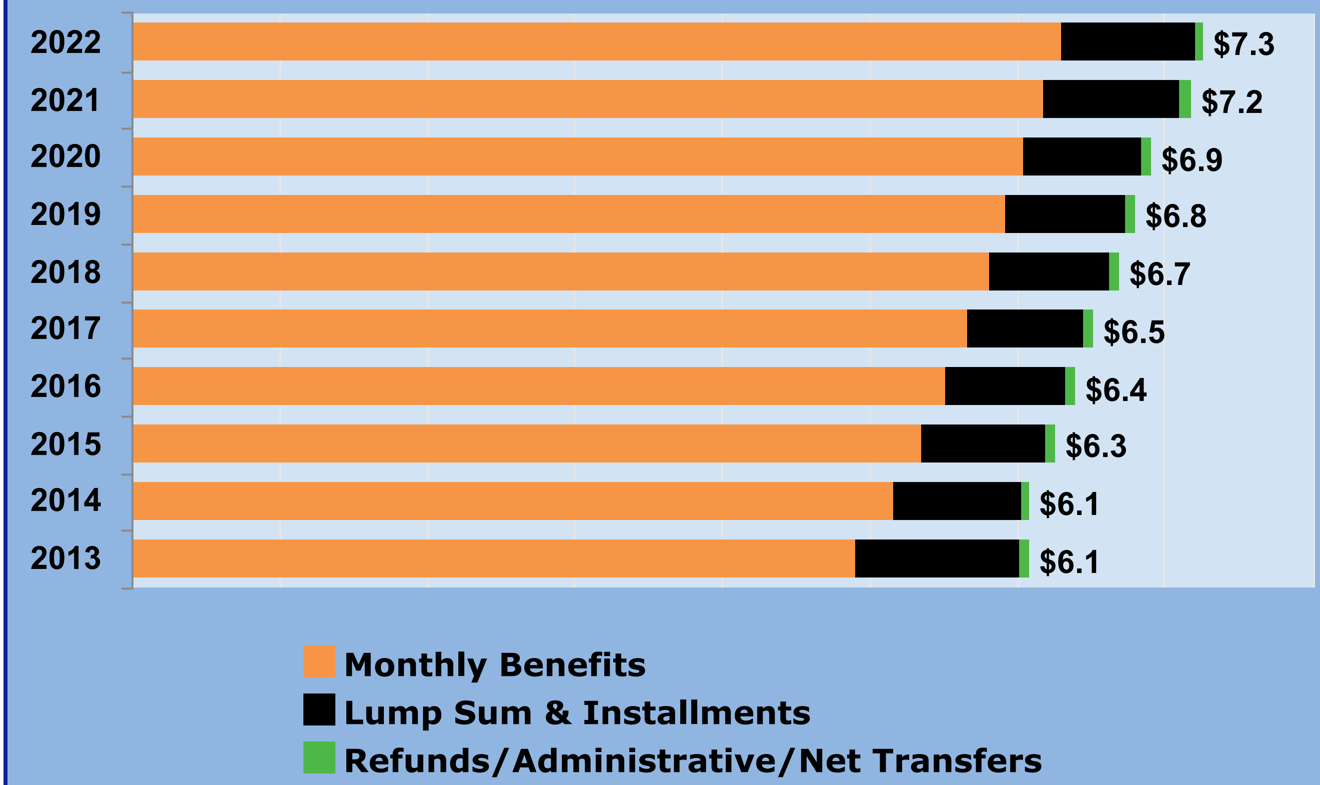


Member Demographics and Financial Information (continued)

PSERS Deductions from Pension Fiduciary Net Position

As depicted in Chart 3.4, the increase for FY2021-22 to FY2022-23 is mainly attributed to an ongoing rise in the average monthly benefit and an increase in the number of members receiving benefits.

Chart 3.4 Deductions from Pension Fiduciary Net Position*
10 Year Trend (Fiscal Year ended June 30)
($ Amounts in Billions)



***Does not include PSERS Postemployment Healthcare and DC Plans' Net Position.**

Statement of Fiduciary Net Position
As of December 31, 2022
Unaudited
(Dollar Amounts in Thousands)

			Postemployment Healthcare		
	Pension	**Defined Contribution**	**Premium Assistance**	**Health Options Program**	**Totals**
Assets:					
Receivables:					
Members	$ 381,859	$ 615	$ 1,480	$ 122	$ 384,076
Employers	1,332,181	473	29,726	—	1,362,380
Investment income	529,781	23	434	386	530,624
Investment proceeds	424,529	—	—	—	424,529
CMS Part D and prescriptions	—	—	—	68,551	68,551
Interfund receivable	2,883	—	—	—	2,883
Total Receivables	2,671,233	1,111	31,640	69,059	2,773,043
Investments, at fair value:					
Short-term	5,833,251	10,036	106,785	409,411	6,359,483
Fixed income	14,766,297	—	—	—	14,766,297
Common and preferred stock	19,575,982	—	—	—	19,575,982
Collective trust funds	2,751,819	127,980	—	—	2,879,799
Real estate	7,087,402	—	—	—	7,087,402
Alternative investments	17,526,236	—	—	—	17,526,236
Total Investments	67,540,987	138,016	106,785	409,411	68,195,199
Securities lending collateral pool	10,595,022	—	—	—	10,595,022
Capital assets (net of accumulated depreciation $44,394)	13,380	—	—	—	13,380
Miscellaneous	31,441	5	—	—	31,446
Total Assets	80,852,063	139,132	138,425	478,470	81,608,090
Liabilities:					
Accounts payable and accrued expenses	97,524	110	179	6,266	104,079
Benefits payable	264,330	—	117	35,780	300,227
HOP participant premium advances	—	—	—	34,406	34,406
Investment purchases and other payables	687,090	857	—	—	687,947
Obligations under securities lending	10,595,022	—	—	—	10,595,022
Interfund payable	—	619	2,264	—	2,883
Other liabilities	152,236	—	—	—	152,236
Total Liabilities	11,796,202	1,586	2,560	76,452	11,876,800
Net position restricted for pension, DC and postemployment healthcare benefits	$ 69,055,861	$ 137,546	$ 135,865	$ 402,018	$ 69,731,290

Statement of Changes in Fiduciary Net Position
Six Months Ended December 31, 2022
Unaudited
(Dollar Amounts in Thousands)

	Pension	Defined Contribution	Postemployment Healthcare: Premium Assistance	Postemployment Healthcare: Health Options Program	Totals
Additions:					
Contributions:					
Members	$ 561,366	$ 22,741	$ —	$ —	$ 584,107
Employers	2,520,001	17,601	55,961	—	2,593,563
Total contributions	3,081,367	40,342	55,961	—	3,177,670
HOP participant premiums	—	—	—	205,235	205,235
Centers for Medicare & Medicaid Services	—	—	—	31,516	31,516
Investment income:					
From investing activities:					
Net appreciation (depreciation) in fair value of investments	(1,556,631)	2,434	—	—	(1,554,197)
Short-term	103,676	84	1,686	2,288	107,734
Fixed income	377,794	—	—	—	377,794
Common and preferred stock	197,666	—	—	—	197,666
Collective trust funds	823	46	—	—	869
Real estate	105,007	—	—	—	105,007
Alternative investments	146,037	—	—	—	146,037
Total investment activity income	(625,628)	2,564	1,686	2,288	(619,090)
Investment expenses	(207,964)	(111)	—	—	(208,075)
Net income from investing activities	(833,592)	2,453	1,686	2,288	(827,165)
From securities lending activities:					
Securities lending income	168,202	—	—	—	168,202
Securities lending expense	(155,930)	—	—	—	(155,930)
Net income from securities lending activities	12,272	—	—	—	12,272
Total net investment income	(821,320)	2,453	1,686	2,288	(814,893)
Total Additions	2,260,047	42,795	57,647	239,039	2,599,528
Deductions:					
Benefits	3,684,477	—	56,721	206,473	3,947,671
Refunds of contributions	20,430	—	—	—	20,430
Distributions	—	2,995	—	—	2,995
Administrative expenses	27,521	1,225	537	20,337	49,620
Total Deductions	3,732,428	4,220	57,258	226,810	4,020,716
Net increase (decrease)	(1,472,381)	38,575	389	12,229	(1,421,188)
Net position restricted for pension, DC and postemployment healthcare benefits:					
Balance, beginning of year	70,528,242	98,971	135,476	389,789	71,152,478
Balance, end of period	$ 69,055,861	$ 137,546	$ 135,865	$ 402,018	$ 69,731,290

Actuarial Process and Pension Plan Funding

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

The Actuarial Process and Pension Plan Funding

Nearly all PSERS members are part of a defined benefit (DB) plan, meaning benefits are based on members' service and salary history. Act 5 of 2017 created two new hybrid defined benefit/defined contribution benefit options and a defined contribution only plan but did not go into effect until July 1, 2019. The following information highlights the actuarial process and funding for PSERS DB plan.

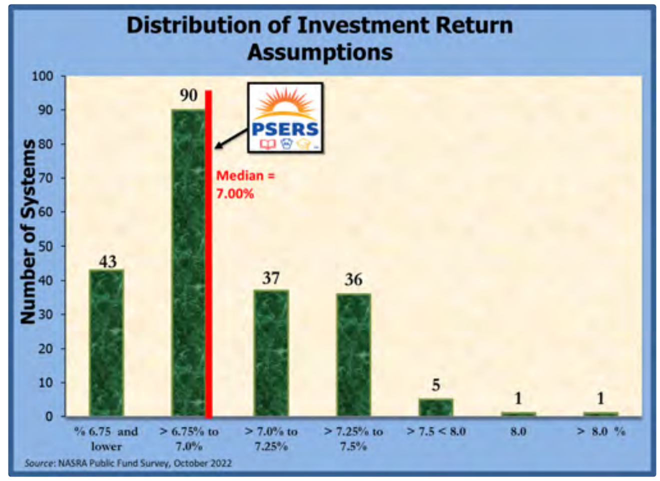
Actuarial Process

The actuarial process presumes that there will be a systematic flow of contributions at a specified level to pay for plan benefits and that the flow of contributions, together with investment earnings, will be sufficient to meet all benefit and expense requirements of the plan. Actuarial cost methods for funding PSERS pension plan are defined in the Public School Employees Retirement Code. The actuary for the pension plan and PSERS board and staff professionals review economic and demographic experience annually and, in more depth, over five- year periods. The actuary's periodic valuations test the validity of the underlying actuarial assumptions versus the actual experience of the plan. That experience is also used as a basis for formulating actuarial assumptions about what will occur in the future with respect to salary growth, investment returns, and demographic factors such as rates of retirement and death.

Actuarial Experience Study - June 30, 2020

Effective with the June 30, 2021 actuarial valuation, PSERS adopted several new demographic and economic assumptions as a result of the five-year Experience Study completed by PSERS actuary. PSERS investment rate of return assumption was changed from 7.25% to 7.00%, the salary growth assumption was changed from 5.00% to 4.50%, the inflation assumption was reduced from 2.75% to 2.50%, the payroll growth assumption was reduced from 3.50% to 3.25% and the rates of withdrawal, disability and retirement from employment among active members were updated and mortality rates were revised. Chart 4.1 displays PSERS 7.00% return assumption in comparison to other funds in the public pension universe.

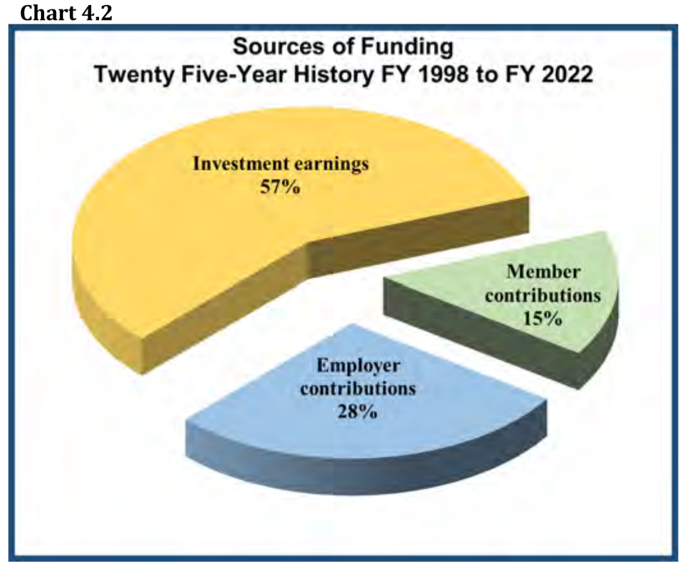
Chart 4.1



Funding

The plan is funded through three sources (1) employer contributions; (2) member contributions; and, (3) investment earnings. As depicted in Chart 4.2, for the twenty-five-year period ended June 30, 2022, investment earnings provided 57% of PSERS funding followed by 28% from employers while members contributed 15%.

Chart 4.2



The Actuarial Process and Pension Plan Funding (continued)

Employer Contributions

The Retirement Code vests PSERS Board with the authority to establish the employer contribution rate (ECR) based on the parameters in the Retirement Code. The Board in consultation with the actuary and PSERS staff establishes the employer contribution rate annually, as part of the annual actuarial valuation. The employer contribution rate, which is expressed as a percentage of payroll, is composed of three items: (1) the pension, (2) the defined contribution and (3) the healthcare premium assistance contributions.

The total contribution rate for the fiscal year ended June 30, 2022 was 34.94%. This rate consists of a 33.99% pension rate, 0.15% defined contribution estimated average rate plus the healthcare premium assistance contribution of 0.80%.

The total employer contribution rate for the fiscal year ending June 30 2023 is 35.26%. This rate consists of a 34.31% pension rate, 0.20% defined contribution estimated average rate plus the healthcare premium assistance contribution of 0.75%.

The FY2023-2024 employer contribution rate is 34.00%. This rate consists of a 33.09% pension rate, 0.27% defined contribution estimated average rate plus the healthcare premium assistance contribution of 0.64%. The Board of Trustees certified this rate, which was calculated in accordance with the provisions of PSERS Retirement Code, at their December 2022 meeting. This represents the first decrease in the ECR since the fiscal year ended June 30, 2009, when rates were being restricted due to Act 40. The very large increases that employers experienced prior to FY2017-2018 are now in the past. The FY2023-2024 rate is declining by 126 basis points or 3.57% of the FY2022-23 ECR. The ECR decrease was caused primarily by PSERS employers strong payroll growth and favorable demographic changes involving mortality and retirement experience.

The decline in the FY2023-2024 ECR is a one-year decline and ECR rates are expected to rise again slowly. Future increases, however, will start from the lower FY2023-24 base ECR of 34.00%. This means projected ECR increases are expected to remain lower than previous projections over the next few years.

For the fiscal year ended June 30, 2022, PSERS employer contributions totaled $5.141 billion, which includes $117 million for healthcare premium assistance and $25 million for defined contribution. For the fiscal year ending June 30, 2023, the estimate for total employer contributions is $5.103 billion, reflective of the 35.26% contribution rate. The contribution rate for the fiscal year ending June 30, 2024 is 34.00%, resulting in an employer contribution estimate of $4.994 billion.

Member Contributions

Most members of the Public School Employees Retirement System contribute between 7.5% and 10.8% of their pay depending on their class of membership to help fund their own retirement benefit. The average contribution rate payable by the members for the current year (FY2022-23) is 7.52%. This is in contrast to the majority of nonpublic (private) pension plans to which members do not contribute (Source: based on a query of private plan IRS Form 5500 filings). For these plans, the employers bear 100% of the costs of the benefit.

According to recent National Association of State Retirement Administrators (NASRA) data, PSERS member contribution rate is one of the highest among U.S. public pension plans that participate in Social Security.

The Actuarial Process and Pension Plan Funding (continued)

Member Contributions (continued)

Pursuant to Act 120, Class T-E and Class T-F members are subject to a shared risk employee contribution rate. Act 5 enhanced the shared risk program for T-E and T-F members and also added Class T-G and T-H members to the program. Under the shared risk program, eligible members benefit when investments of the Fund are doing well and share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E, T-F, T-G and T-H but can fluctuate by the shared risk increment every three years depending on the investment performance of PSERS. These members share a portion of the investment risk of the Fund. The member risk share measurement for the nine-year period ended June 30, 2020 determined that PSERS investment performance did not meet the shared risk target return, resulting in the statutorily prescribed increase in the shared risk contribution rate.

Membership Class T-E, Class T-F, Class T-G, and Class T-H member defined benefit contribution rates increased on July 1, 2021. The next member risk share measurement is for the ten-year period ended June 30, 2023 and may affect the Class T-E, Class T-F, Class T-G, and Class T-H member contributions starting on July 1, 2024. PSERS members contributed $1.134 billion of pension contributions for FY2022-23. Total member contributions are estimated to be $1.129 billion for the fiscal year ending June 30, 2023 and $1.133 billion for the fiscal year ending June 30, 2024.

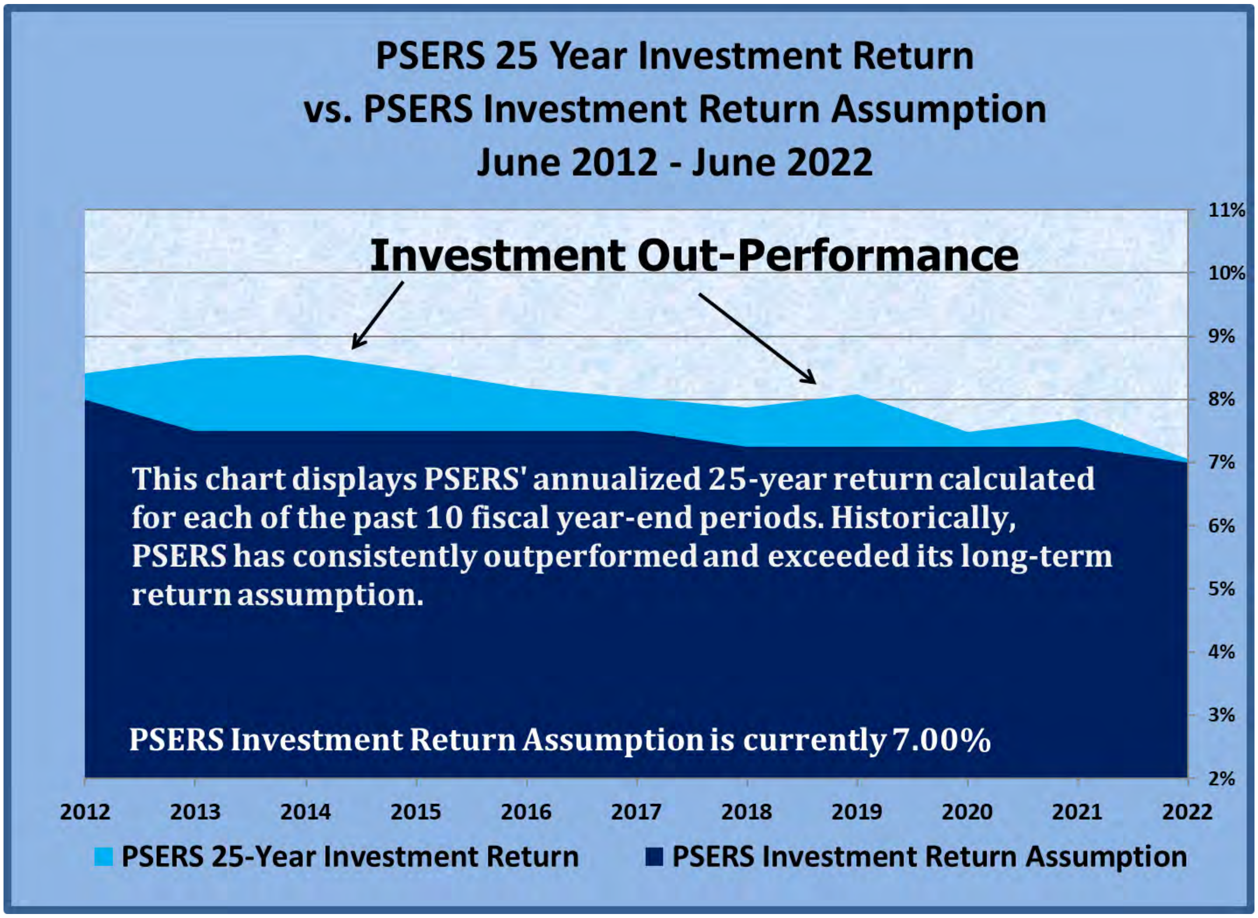
Investment Returns

PSERS investment rate of return for the fiscal year ended June 30, 2022 was 2.23%, net of fees. The investment rates of return (net of fees) for the fiscal years ended June 30, 2021 and 2020 were 24.58% and 1.12%, respectively. The preliminary annualized rates of investment return for the one, three, five, and ten-year periods ended December 31, 2022 are -6.14%, 6.82%, 6.72%, and 7.16%, respectively.

The Actuarial Process and Pension Plan Funding (continued)

PSERS 25-year return, as shown in Chart 4.3, has consistently outperformed the actuarial investment rate of return. Throughout much of the 1990's and 2000's, PSERS investment performance exceeded its investment rate of return assumption. However, the most recent 25-year period return through December 31, 2022 is 6.79% (preliminary), which is 21 bps below this assumption. Overall, long-term investment performance resulted in declining employer contribution rates and/or contribution rates lower than the annual normal cost of benefits.

Chart 4.3



Funded Status

PSERS funded status is measured by comparing the actuarial value of assets with the accrued liability. The accrued liability is the present value of benefits accumulated to date for both active and retired members.

Key Facts

As a result of legislated contribution increases under Act 120, PSERS reached a turning point effective with the June 30, 2018 actuarial valuation as PSERS funded ratio began to slowly improve after declining for many years.

- Funded Status: 61.6% as of June 30, 2022
- Funded Status: 59.6% as of June 30, 2021
- Funded Status: 59.2% as of June 30, 2020
- Funded Status: 58.1% as of June 30, 2019
- Funded Status: 56.5% as of June 30, 2018

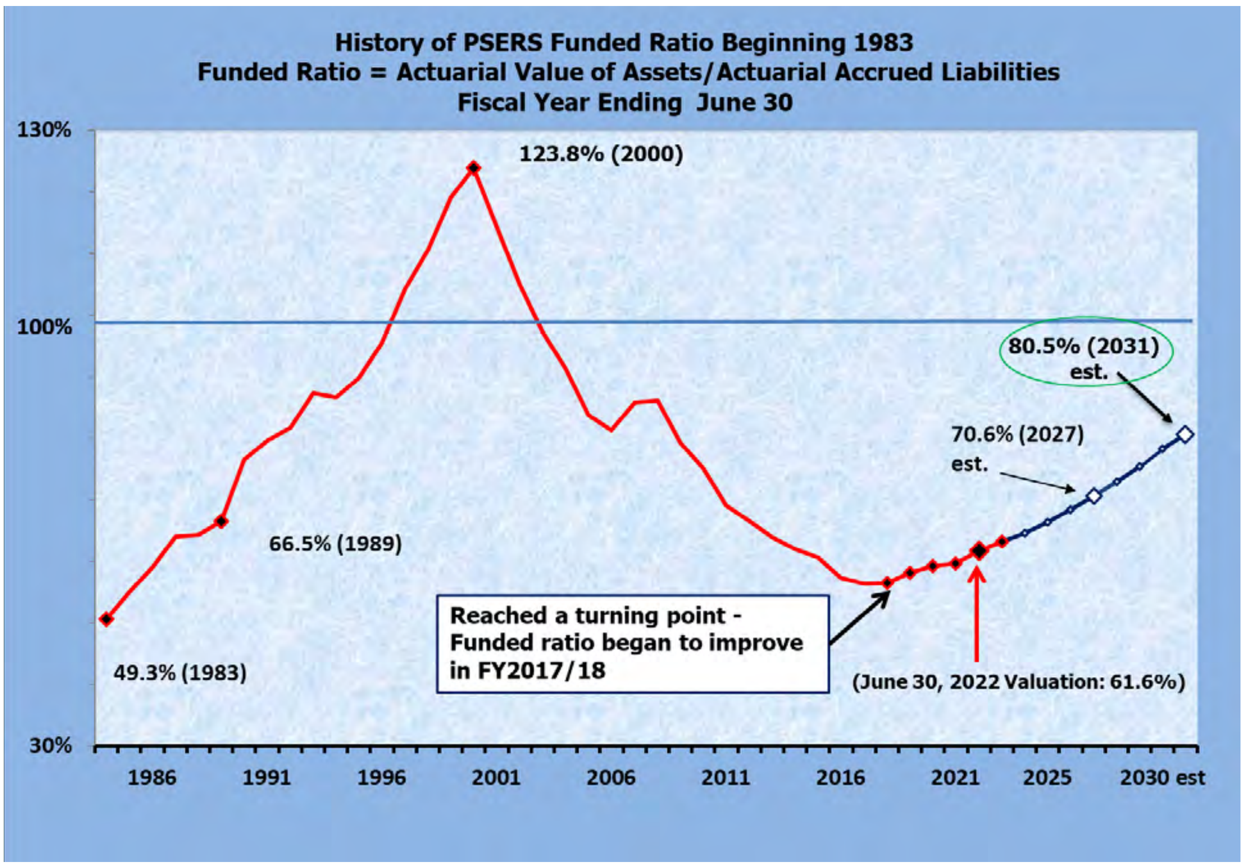
The increase in FY2021-22 is the fourth consecutive improvement in the funded ratio, on an actuarial basis.

The Actuarial Process and Pension Plan Funding (continued)

The decrease in the funded status from 2000 to 2017 as depicted in Chart 4.4 was the result of several factors including: the unfavorable investment markets from 2001 to FY2002-03 and FY2007-08 to FY2008-09; funding changes enacted in Act 38 of 2002 and Act 40 of 2003 which resulted in employers underfunding PSERS; benefit enhancements from Act 9 and Act 38; the adoption of new demographic and economic assumptions in FY2015-16; funding collars in Act 120 which continued the employer underfunding of the system; and actuarial liability losses.

A history of PSERS funded ratio beginning in 1983 and nine-year projection of PSERS funded status is shown in Chart 4.4. PSERS funded ratio began in FY2017-18 to slowly improve after declining for many years. Future projections now reflect a steadily increasing funded ratio reaching 80.5% in less than a decade.

Chart 4.4



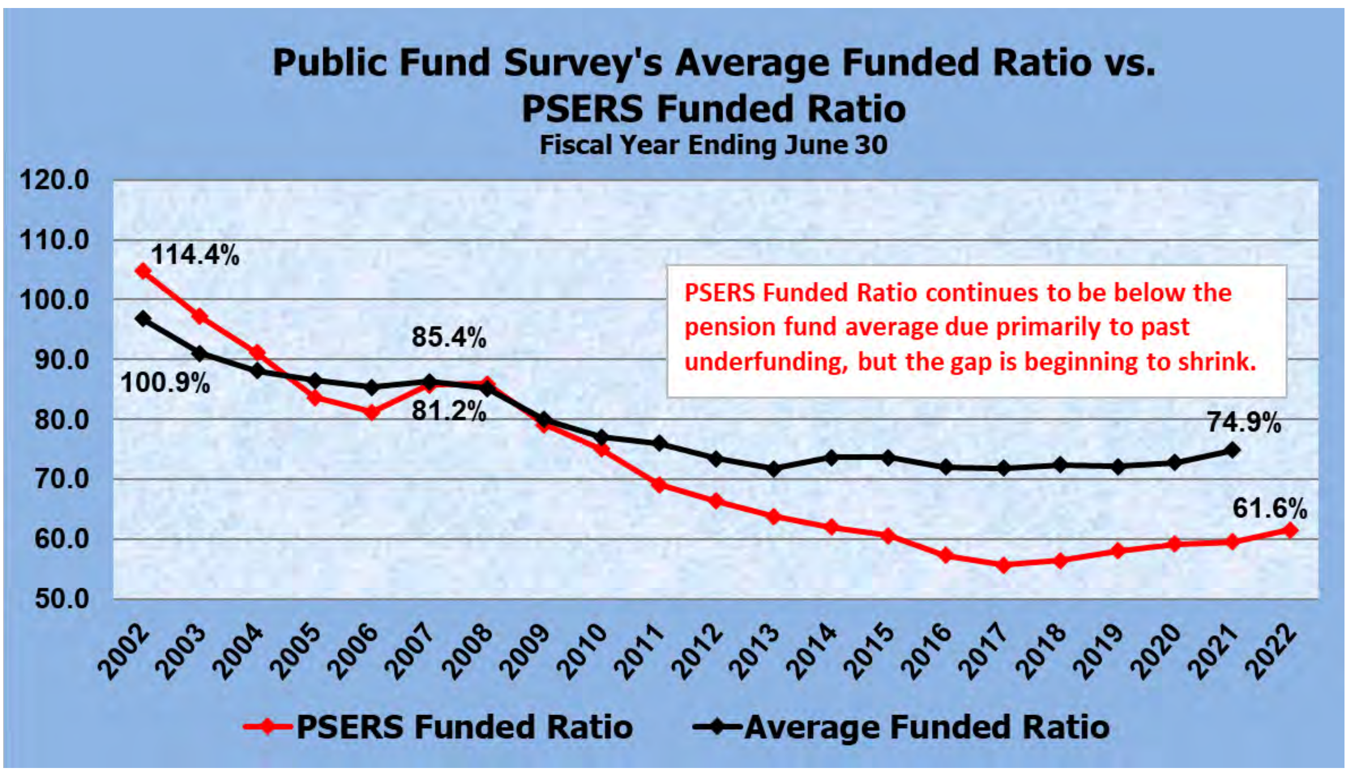
The Actuarial Process and Pension Plan Funding (continued)

A comparison of PSERS funded ratio to the public fund projected weighted average funding ratio provided by the National Association of State Retirement Administrators (NASRA) is shown in Chart 4.5 below. A lower than average funded ratio is an important factor because it signifies a smaller than average asset base. A smaller asset base means a greater percentage of the investment returns are being used to pay benefits, and results in a slower growth of assets. High employer contributions are required in order for assets to grow.

Besides market performance, other factors that affect a plan's funding level include contributions made relative to those that are required; changes in benefit levels; changes in actuarial assumptions, and rates of employee salary growth (Public Fund Survey, 2022).

Since July 1, 2016 PSERS employer contribution rate has provided 100% of the actuarially required contributions. This was the first major step needed for PSERS funded ratio to begin to improve. As noted previously, as a result of receiving 100% of the actuarially required contributions for the second consecutive year, PSERS funded ratio began to increase in FY2017-18 and has steadily improved through FY2021-22. The gap between PSERS funded ratio and the public fund average is shrinking.

Chart 4.5



The Actuarial Process and Pension Plan Funding (continued)

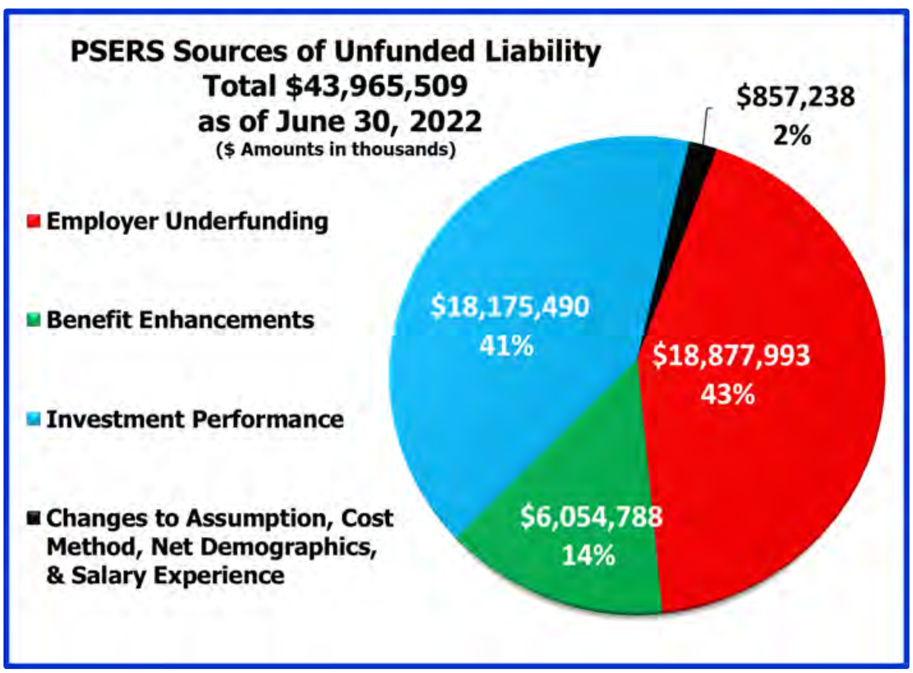
Sources of Unfunded Liability

The System's total funded ratio (for Pensions and Health Insurance combined) is 61.6% as of June 30, 2022. This funded ratio is based on an actuarial value of assets of $70.65 billion and a total accrued liability of $114.61 billion which equates to a $43.96 billion unfunded liability. Strong payroll growth among PSERS employers and favorable demographic changes including mortality and retirement experience, coupled with sustained actuarial ECR funding, have contributed to a $1.5 billion decrease in the System's long-term unfunded actuarial liability in FY2021-22, the largest decline since FY2006-07. Chart 4.6 depicts the sources of the unfunded liability. The largest sources of unfunded liability in order of magnitude are employer funding deferrals (43%), investment performance (41%), and benefit enhancements (14%), which include Act 9, cost of living increases and early retirement incentives that were not prefunded.

Throughout the 1990's and early 2000's, PSERS outstanding investment performance compensated for unfunded benefit enhancements and employer funding deferrals. The Great Recession of 2008-2009 had a negative impact upon the System's long-term investment performance and eliminated most of the significant investment out-performance. Without the significant investment out-performance to compensate, the employer funding deferrals and benefit enhancements have significantly increased PSERS unfunded liability.

Approximately 57% of PSERS June 30, 2022 unfunded liability is due to employer funding deferrals and benefit enhancements.

Chart 4.6



The Actuarial Process and Pension Plan Funding (continued)

GASB 68 and 75 Pension and Healthcare Reporting for Employers

In June 2022, PSERS sent information to its employers to assist them in complying with GASB Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The information sent to employers included a memo explaining PSERS role, descriptions of the material provided, and the employers responsibilities. In addition to the memo, PSERS provided a variety of schedules audited by PSERS independent public accountants as well as unaudited schedules. PSERS strives to incorporate all the information necessary for employers to comply with GASB 68 and 75 reporting requirements in these audited and unaudited schedules. Additionally, PSERS continues to make itself available to assist employers and their auditors should they have any additional requests in order to comply with GASB 68 and 75.

Employer Contribution Rate

Employer Contribution Rate

PSERS undergoes an annual independent actuarial valuation to calculate the actuarial assets and liabilities of the pension fund. Based on the actuarial valuation process, the actuary in consultation with PSERS board and staff professionals, develops the recommended Employer Contribution Rate (ECR) that determines the employer contributions to the pension plan, defined contribution plan, and healthcare premium assistance. The valuation process also measures the progress of the pension system toward funding pensions for its active and retired members.

Employer Contribution Rate Statistics

• Highest historical ECR (FY2022-23)	35.26 %
• Lowest historical ECR (FY2001-02)	1.09 %
• Ten yr. avg. ECR (2013-14 to 2022-23)	29.92 %
• Twenty yr. avg. ECR (2003-04 to 2022-23)	18.08 %
• Thirty yr. avg. ECR (1993-94 to 2022-23)	14.39 %
• Adopted ECR {FY2023-24}	34.00 %

Act 120 of 2010

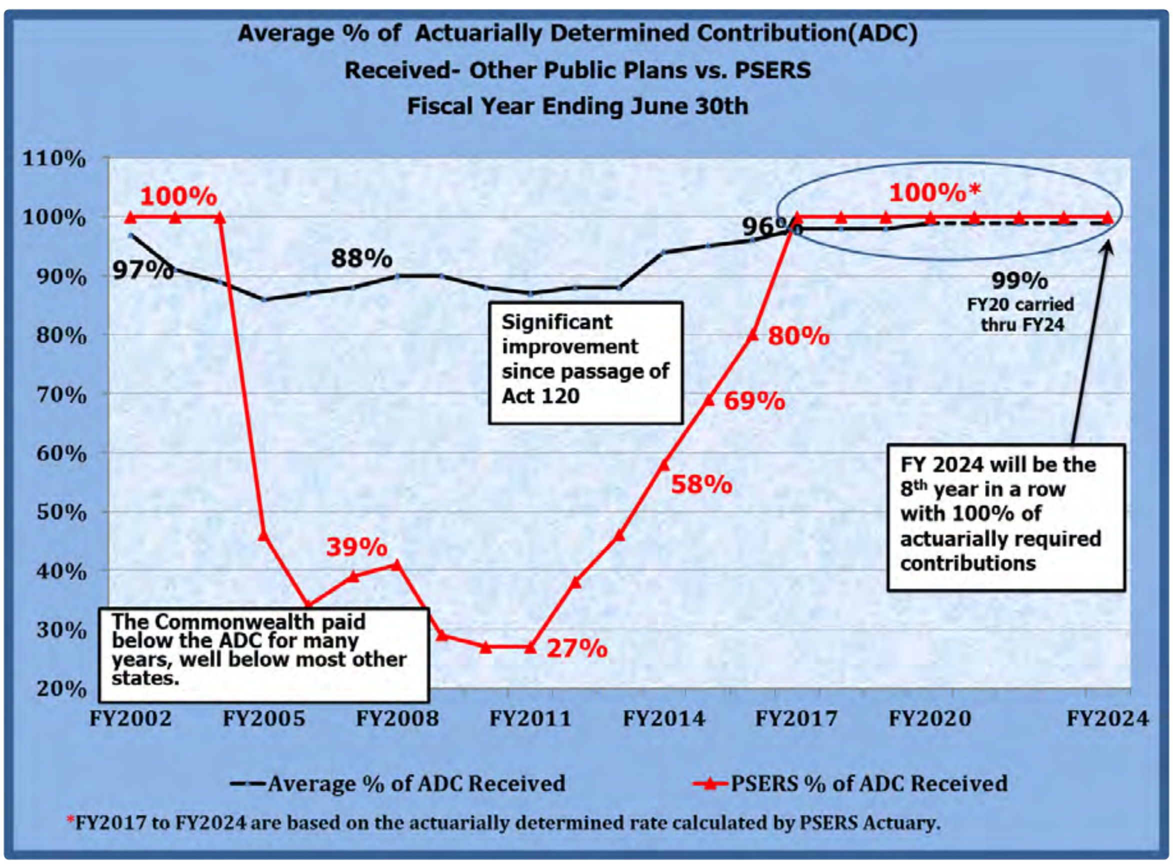
Progress on Funding Issue

PSERS is now in the 12th year under Act 120 of 2010. Act 120 provided historic pension reform and made dramatic progress toward addressing funding issues at PSERS. The legislation included actuarial and funding changes to PSERS and benefit reductions for individuals who became new members of PSERS on or after July 1, 2011.

As depicted in Chart 5.1, the gradual rate increases under Act 120 raised PSERS employer contributions to the 100% annual required contribution (ARC) goal, now referred to as the actuarially determined contributions (ADC) starting in FY2016-17.

An ADC includes both the employer's normal cost and the amount required to amortize the unfunded actuarial accrued liability (UAAL) in an actuarially sound manner. PSERS Board certified an employer contribution rate of 34.00% for FY2023-24 in compliance with Act 120 and Act 5 of 2017.

Chart 5.1



Employer Contribution Rate (continued)

This will be the eighth consecutive year PSERS contribution rate provides 100% of the actuarially determined contributions based on sound actuarial practices and principles and now exceeds the average ADC percentage of 99% for public funds based on the October 2022 Public Fund Survey prepared by NASRA. FY2023-24 is also the first decline in Employer Contribution Rate in over a decade.

Impact of Benefit Reduction for New Members on or after July 1, 2011

For school employees who became new members of PSERS on or after July 1, 2011 through June 30, 2019, there are two membership classes with “shared risk” elements: Class T-E and T-F. As of June 30, 2022, T-E and T-F members now total over 66,000 and account for 27% of the total active membership.

Class T-E

- Pension multiplier is 2%
- Effective July 1, 2011 employee contribution base rate is 7.5% (base rate) with “shared risk” contribution levels between 7.5% and 9.5%

Class T-F

- Pension multiplier is 2.5%
- Effective July 1, 2011 employee contribution base rate is 10.3% (base rate) with “shared risk” contribution levels between 10.3% and 12.3%

As of June 30, 2022, 53,374 or 80% of new members remained in Class T-E and 13,082 or 20% of new members elected Class T-F. As indicated, Class T-F members maintain the higher 2.5% pension multiplier but fully pay for the higher benefit by contributing a higher member contribution rate than Class T-E members.

Impact of Benefit Reduction for New Members on or after July 1, 2019

For school employees who became new members of PSERS on or after July 1, 2019 through present, there are two membership classes with shared risk elements: Class T-G and T-H or DC. As of June 30, 2022, T-G and T-H members now total over 40,000 and account for 16% of the total active membership. Class DC members now total 520.

Class T-G

- Pension multiplier is 1.25%
- Effective July 1, 2019 employee contribution base rate is 8.25% (base DB rate of 5.5% plus DC rate of 2.75%) with “shared risk” contribution levels between 8.25% and 11.25%

Class T-H

- Pension multiplier is 1.00%
- Effective July 1, 2019 employee contribution base rate is 7.5% (base DB rate of 4.5% plus DC rate of 3.0%) with “shared risk” contribution levels between 7.5% and 10.5%

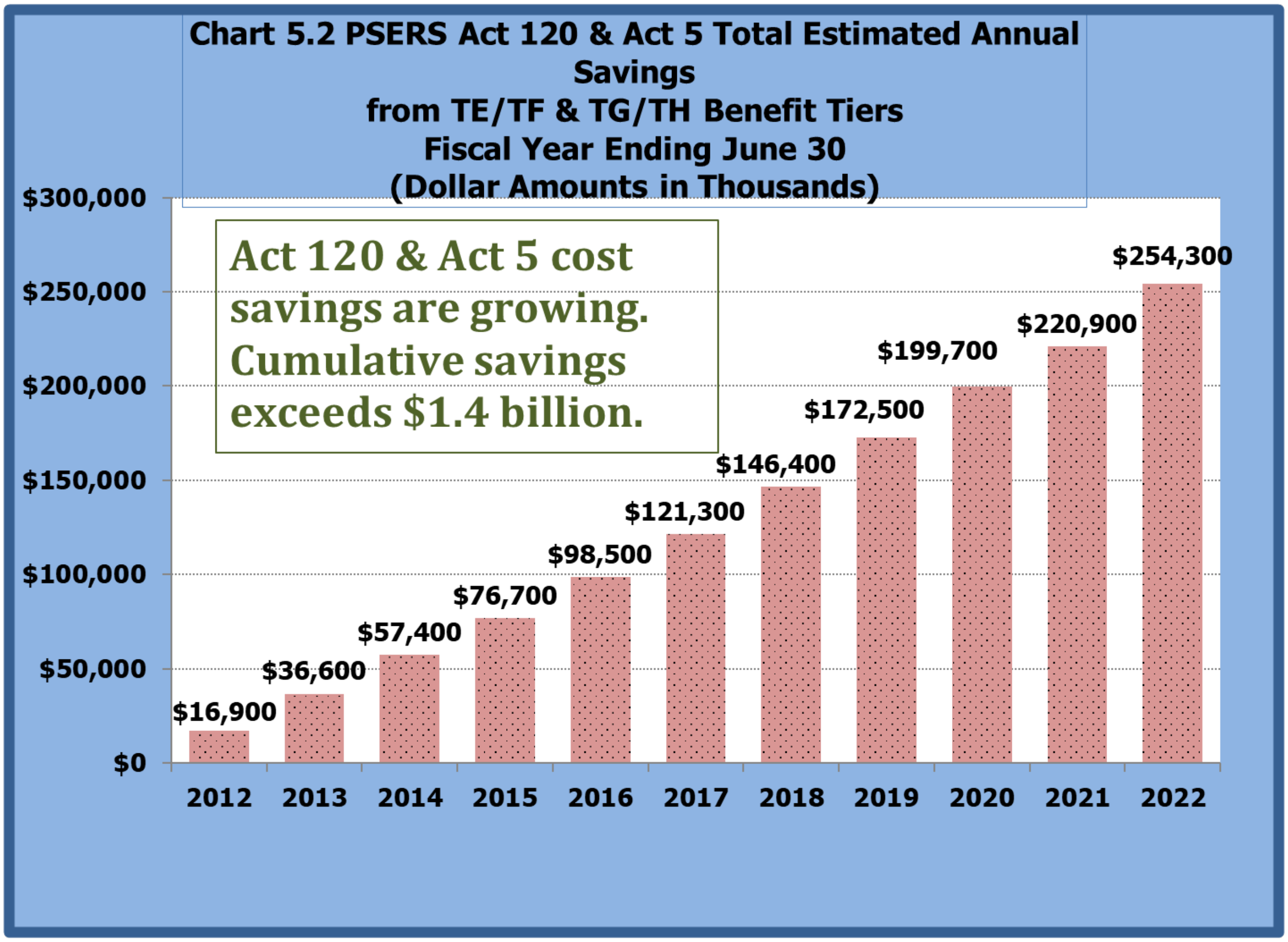
Class DC

- Effective July 1, 2019 employee contribution rate is 7.5%

As of June 30, 2022, 39,655 or 99% of new members remained in Class T-G and 210 or 1% of new members elected Class T-H. As indicated, Class T-G members maintain the higher 1.25% pension multiplier but fully pay for the higher benefit by contributing a higher member contribution rate than Class T-H members.

Employer Contribution Rate (continued)

The total estimated savings of the T-E/T-F and T-G/T-H Benefit Tiers is illustrated in Chart 5.2. As the membership of these classes grew through FY2021-22, the annual savings from the low T-E/T-F and T-G/T-H cost structure also increased and allowed a greater portion of employer contributions to go towards paying the unfunded liability. Class T-E and T-F closed to new members after June 30, 2019. Cumulative estimated savings through June 30, 2022 are $1.401 billion. The average member benefit for Act 120 members is approximately 32% lower than the benefit for pre - Act 120 members.



Funding Changes - Employer Contributions

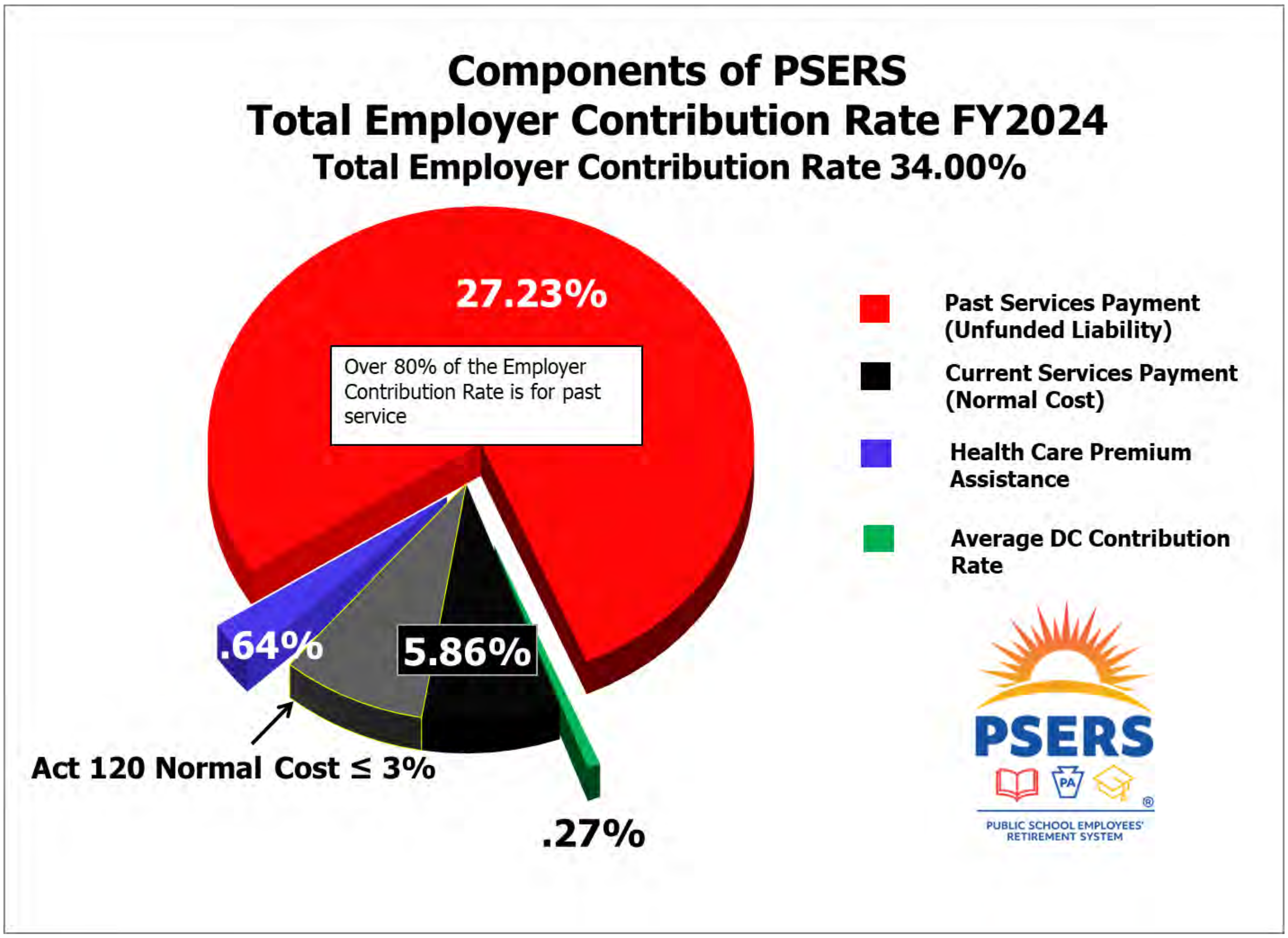
Act 120 of 2010 also suppressed the employer contribution rate by using rate caps to keep the rate from rising too high, too fast for budgetary purposes. The rate caps limited the amount the pension component of the employer contribution rate could increase over the prior year's rates. Effective with FY2016-17 the rate caps were no longer in place. PSERS Board has approved a total employer contribution rate of 34.00% for FY2023-24 which represents a decrease of 3.57% from the FY2022-23 rate of 35.26%. This is the first decrease in the ECR since FY2008-09 when rates were being restricted due to Act 40.

Employer Contribution Rate (continued)

Employer Contribution Rate

Chart 5.3 displays the components of PSERS certified employer contribution rate of 34.00% in FY2023-24. The majority of the rate, over 80%, is dedicated toward paying the cost of past service. The employers' cost for current service is a much smaller portion of the contribution rate and is projected to decrease each year as more post Act 120/Act 5 members join the System and pre-Act 120 members retire. The cost structure of PSERS members since Act 120 is lower than pre-Act 120 and the shared risk provisions shift a portion of the investment risk to active members. New members after June 30, 2019 fall under Act 5. Act 5 continues the low cost of current benefits created by Act 120 and shifts additional investment risks to members in the future as the defined contribution plan of Act 5 grows.

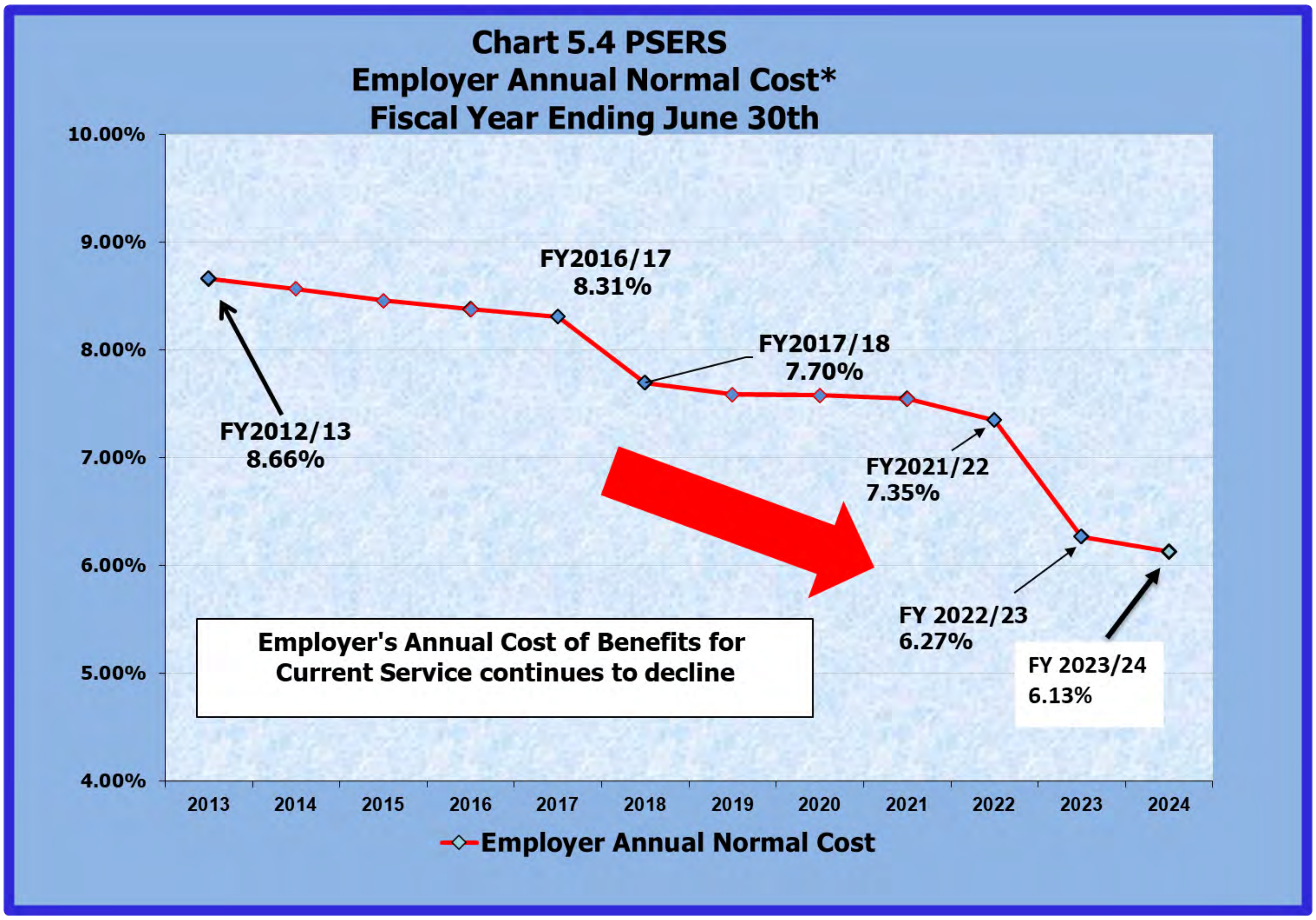
Chart 5.3



Employer Contribution Rate (continued)

Act 120 Employer Costs

As Chart 5.4 depicts, the employer normal cost decreases over time as Act 120 and Act 5 members replace retiring pre-Act 120 members. The employer normal cost of current benefits earned by Act 120 and Act 5 members is less than 3% of payroll which is less than 65% of the normal cost for pre-Act 120 members. This represents a significant cost reduction for the employers. Chart 5.4 projects the employer normal cost to be 6.13% in FY2023-24 which is a 29% reduction from the 8.66% normal cost in FY2012-13. The substantial decrease from 7.35% in FY2021-22 to 6.27% in FY2022-23 is mainly due to the continued migration to lower cost members and from the new actuarial assumptions adopted by the Board.



***Includes average employer DC contribution rate for FY2019/20 and thereafter.**

Employer Contribution Rate (continued)

The Commonwealth's Department of Education School Employees Retirement Appropriation

The Commonwealth provides for its share of contributions to PSERS within the Department of Education budget. On average, the Commonwealth pays 55% of total employer contributions and employers pay for 45%.

Table 5.1 illustrates the actual amount of the Commonwealth's Appropriation for FY2022-23 and the projected amounts for FY2023-24 through FY2026-27.

As depicted, the Commonwealth's share of contributions is expected to decrease next fiscal year due to the decline in the ECR from 35.26% in FY2022-23 to 34.00% in FY2023-24. The contributions are starting to level out as the projected employer contribution rate increases in the future are less than current levels of inflation.

Table 5.1

Commonwealth's Department of Education School Employees Retirement Appropriation

(Dollar Amounts in Billions)

		--------------------Projected--------------------			
	2022-23	**2023-24**	**2024-25**	**2025-26**	**2026-27**
School Employees Retirement	$2.987	$2.971	$3.042	$3.165	$3.283

Act 5 of 2017

On June 12, 2017, Act 5 of 2017 was signed into law. This pension legislation represents a substantial change to PSERS operations and made significant changes to PSERS benefit structure for future members. School employees who become new members of PSERS on July 1, 2019 and thereafter must choose one of three new retirement plan options for their retirement benefits. The new membership classes include two with a defined benefit and a defined contribution component and one membership class with only a defined contribution component. The current stand-alone defined benefit plan is no longer available to new members.

Act 5 does not affect already retired members or those whose retirement date was prior to June 12, 2017. Class T-C, Class T-D, Class T-E, and Class T-F members active on July 1, 2019 had a one time option to elect prospectively into one of the new membership classes; only 10 members made such election.

Act 5 allows an actuarially neutral Option 4 "lump sum" withdrawal of member contributions and interest for Class T-E and Class T-F members whose retirement date is on or after June 12, 2017, and expanded the "shared risk" program.

Legislative Pension Proposal Assistance

Throughout 2022, PSERS professionals were actively engaged in providing actuarial data, legislative analyses and related technical information to members of the General Assembly and Executive Branch Officials on a range of pension policy proposals while remaining policy neutral.

PSERS will continue to cooperate with the General Assembly in its role as a technical expert in providing fact-based information to support efforts in determining effective pension policy. As in the past, PSERS will assist in drafting technically correct provisions and providing input on funding, operational, and legal aspects of various proposals, while remaining policy neutral on plan design elements of legislative proposals.

Employer Contribution Rate (continued)

Recap

At its December 2022 meeting, PSERS Board of Trustees certified an annual contribution rate of 34.00% for FY2023-24 which continues to put PSERS on the path towards full funding. The FY2023-24 ECR represents the first decline in the ECR since FY 2008-09. For the eighth consecutive year, the Commonwealth's and school districts' employer contribution rate provides 100% of the actuarially determined contributions based on sound actuarial practices and principles. Contribution rates began to level off after FY2017-18 which has reduced budgetary pressure on the Commonwealth and school districts in FY2021-22 and beyond. The Pennsylvania Independent Fiscal Office (IFO) has recognized the Commonwealth's progress on its pension funding issues in its Economic and Budget Outlook published in November 2022. As shown in Chart 5.5, pensions share of the Commonwealth's General Fund expenditures has leveled off and is no longer a major driver of General Fund expenditure growth. As displayed in Chart 5.6, the anticipated growth in

PSERS Employer Contribution Rate is expected to be at less than half of inflationary levels for the next several years.

PSERS reached a Turning Point under Act 120

Effective in FY2017-18, PSERS actuarial funded ratio began to slowly improve after declining steadily since FY2000-01. On a market value basis, PSERS funded ratio increased from 50.14% at June 30, 2016 to 61.70% at June 30, 2022 due primarily to PSERS receiving the full actuarially determined contributions in each of the past six years and positive investment returns. As a result of these funding improvements, bond rating agencies have stated that the pension contribution increases borne by school employers and the Commonwealth have made a positive impact upon their ratings. This is very significant as the bond rating agencies' outlooks impact the Commonwealth's borrowing costs. In affirming its positive outlook on the Commonwealth's general obligation bonds in August 2022, Fitch Ratings, Inc. noted that "The Commonwealth's long-term liability burden is low, with pension obligations on a sustainable trajectory given Pennsylvania's ongoing statutory commitment to full actuarially determined contributions." In a February 21, 2023 article, the Pew Charitable Trusts noted that the implementations of Act 120 of 2010 and Act 5 of 2017 have positively impacted the Commonwealth's pension plans. The article states that "Overall, the changes made in Pennsylvania have put in place many prerequisites for long-term success, including a funding plan designed to pay down pension debt and the fiscal discipline to stick with it. The state also introduced a benefit plan design that will help ensure that employer costs stay predictable for new workers while maintaining a path to retirement security for the entire workforce. In addition, the changes incorporate efforts to manage the pension funds in a more cost-effective, responsible, and transparent fashion, with a needed emphasis on reducing fees and measuring risk through regular stress testing."

A major funding milestone was also reached during FY2016-17 as employers funded 100% of the actuarially determined contributions to PSERS for the first time in fifteen years. FY2023-24 will be the eighth year in a row that PSERS will receive the full actuarially determined contributions. These contributions are making a positive difference as PSERS funded ratio in FY2021-22 increased by a considerable amount for the fourth consecutive year following a period of general decline since FY1999-00.

Full actuarial funding from employers, along with member contributions and investment income are all necessary sources of funds that continue to pay down the unfunded liability of the System. While a challenging pension funding environment remains for school employers and the Commonwealth due to legacy debt issues, all of the sources of funding are now in place to bring PSERS back to fully funded status in an actuarially sound manner.

Chart 5.5

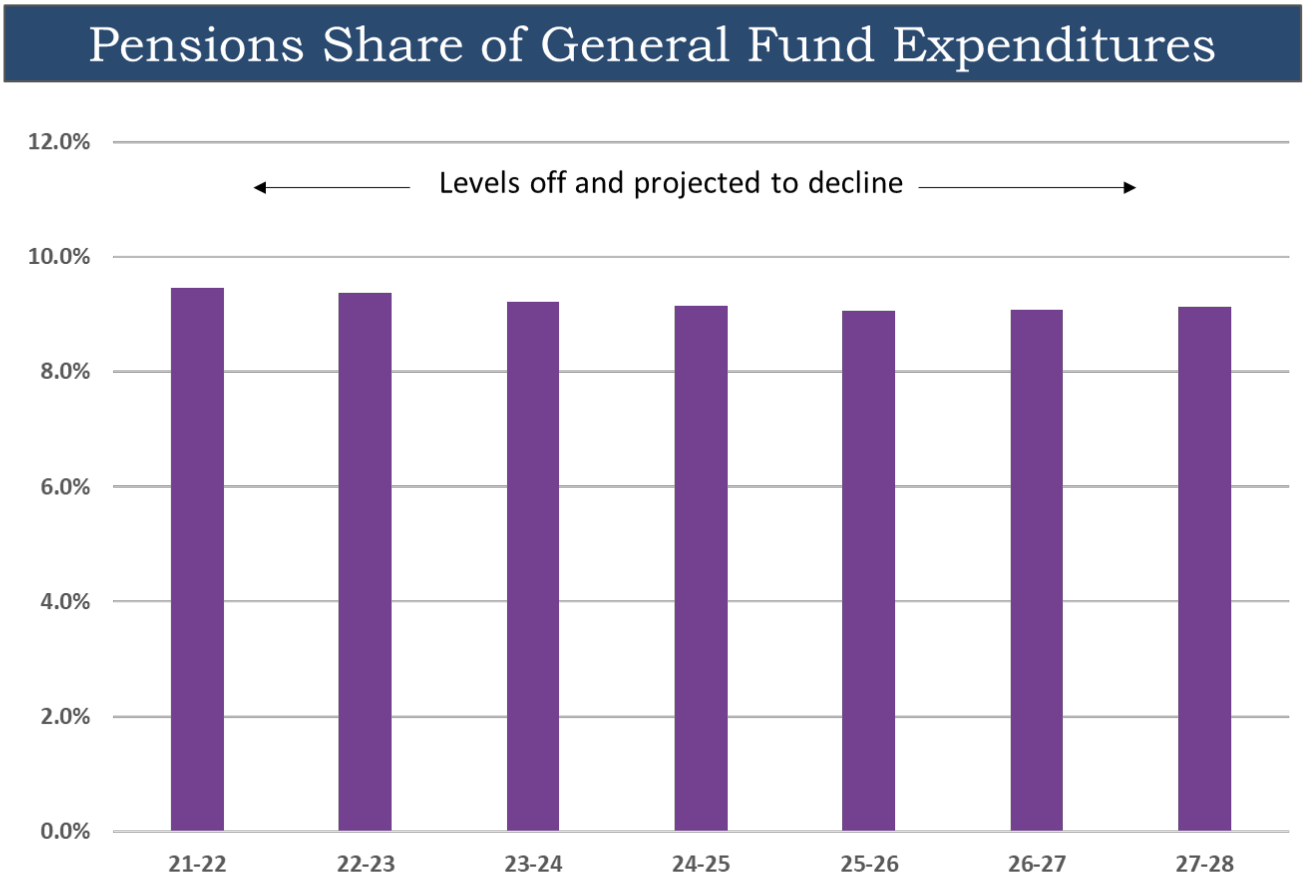


Chart 5.6