

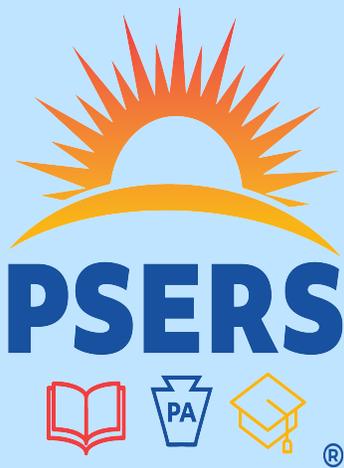
PSERS BUDGET REPORT - FY2022-2023



PA State Dog:
Great Dane

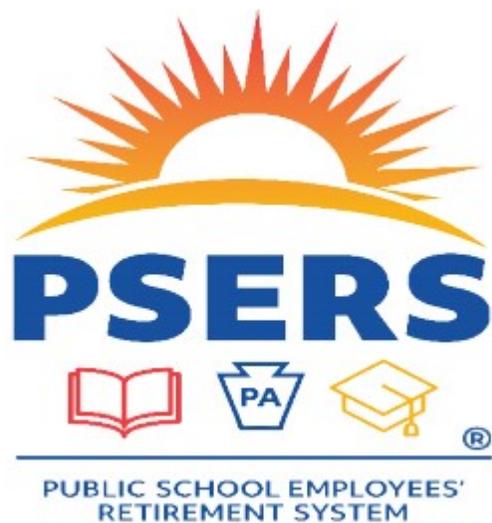
SECTION 1 - PSERS OVERVIEW

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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, 2021, the System had approximately 248,000 active members. The annuitant membership was comprised of approximately 243,000 retirees and beneficiaries who collectively received average monthly pension benefit payments of over \$531 million including healthcare premium assistance. The average yearly pension benefit paid to annuitants was \$25,992. PSERS had 769 participating employers on June 30, 2021.

As reported in the latest Pension and Investments survey, published February 14, 2022, based on asset size, PSERS is the 37th 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

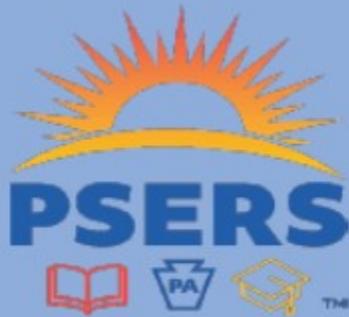
31, 2021 were approximately \$75.1 billion. PSERS preliminary investment rate of return for the one-year period ended December 31, 2021 was 19.30%, net of fees.

During fiscal year 2021, PSERS pension disbursements to retirees totaled \$7.1 billion. Of this amount, nearly 94%, or \$6.7 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, 2021, 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 121,000 annuitants and their dependents as of December 31, 2021.



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 February 28, 2022

Christopher Santa Maria, Chairman

Honorable Francis X. Ryan, Vice Chairman

House of Representatives

Honorable Matt D. Bradford

House of Representatives

Honorable Patrick M. Browne

Senate of Pennsylvania

Jason M. Davis

Eric O. DiTullio

Honorable Stacy Garrity

Treasurer of Pennsylvania

Susan C. Lemmo

Nathan G. Mains

Honorable Katie J. Muth

Senate of Pennsylvania

Ann Monaghan

Noe Ortega

Secretary of Education

Joseph M. Torsella

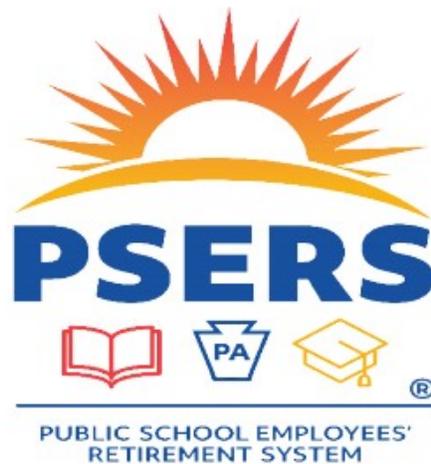
Governor's Appointee

Richard W. Vague

Secretary of Banking and Securities

Melva S. Vogler

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 Auditor's 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.

Organizational Structure (continued)

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 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.

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; board of trustees administration; third party contract administration; 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.

Organizational Structure (continued)

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.

Information Technology Office

This office oversees the Bureau of Information Technology and the Business Architecture Center. It is responsible for strategic information technology planning and policy development, ensuring that information technology plans, projects and policies are aligned with, in support of, and prioritized according to agency needs and requirements as well as those Commonwealth needs and requirements that are consistent with agency needs, and for communicating such to the agency's IT staff. Large information technology contracts and projects are managed by this office. This bureau is responsible for understanding, analyzing, documenting, and improving 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; understand each component, its relationship to each of the other components and to PSERS mission, vision, values and goals; fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others; more effectively identify inefficient, duplicate, or suspect processes, technologies; and account for its processes, information systems and technologies.

Bureau of Administration

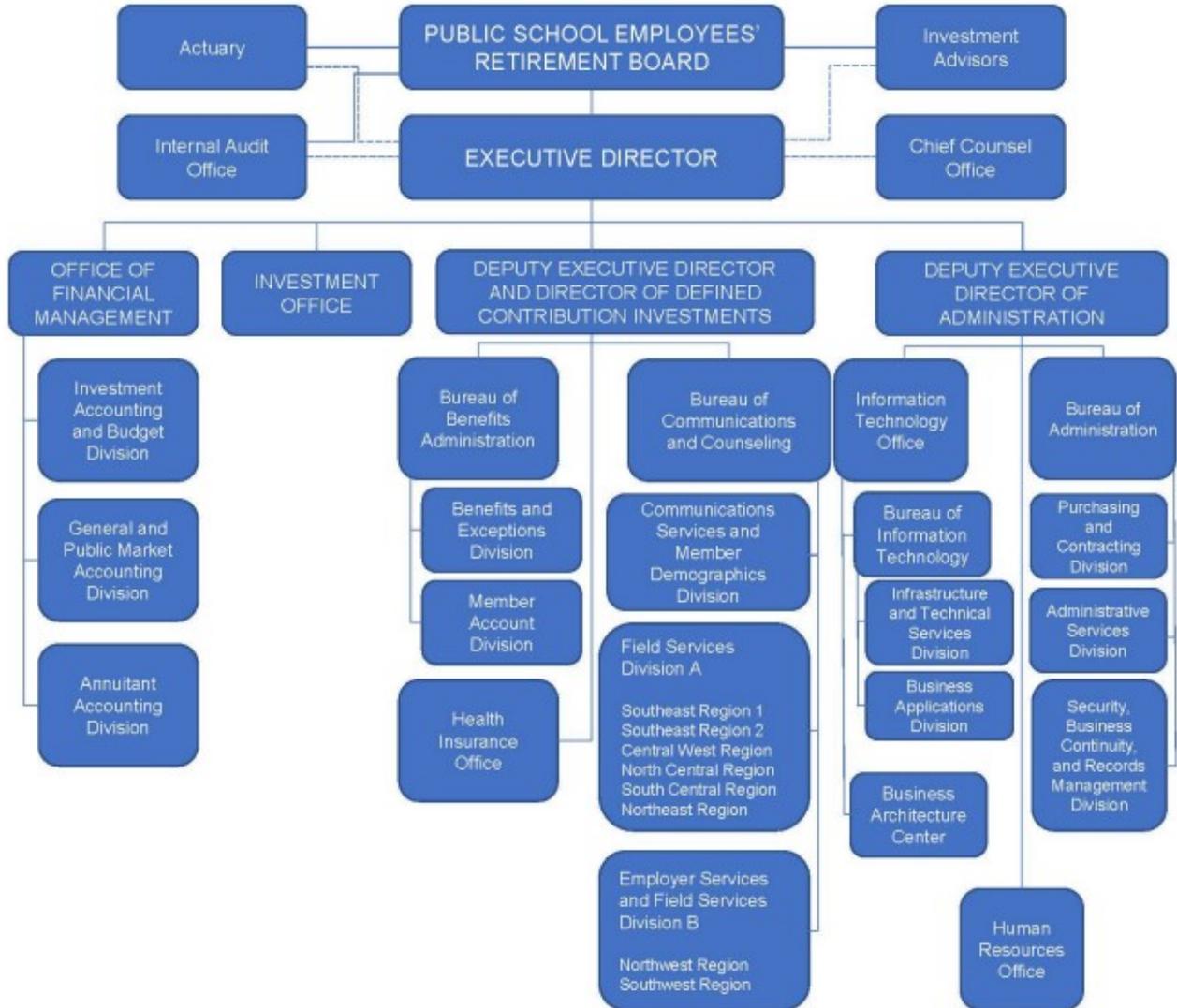
This bureau provides facilities, purchasing and contracting, policies and procedures, business continuity, records management, automotive, mail, imaging, and other administrative services necessary to support agency functions.

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
 Local: 1.814.437.9845
 FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
 Donald Gregory, Administrator

Northcentral

300 Bellefonte Avenue, Suite 201
 Lock Haven, PA 17745-1903
 Local: 1.570.893.4410
 FAX: 1.570.893.4414
Toll-Free: 1.888.773.7748
 Jeremy Wible, Administrator

Northeast

417 Lackawanna Avenue, Suite 201
 Scranton, PA 18503-2013
 Local: 1.570.614.0269
 FAX: 1.570.614.0278
Toll-Free: 1.888.773.7748
 Paul Kanavy, Administrator



Southwest

300 Cedar Ridge Drive, Suite 301
 Pittsburgh, PA 15205-1159
 Local: 1.412.920.2014
 FAX: 1.412.920.2015
Toll-Free: 1.888.773.7748
 Russell Miller, Administrator

Centralwest

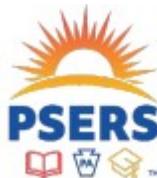
219 W. High Street
 Ebensburg, PA 15931-1540
 Local: 1.814.419.1180
 FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748
 Brian Farester, Administrator

Southcentral

5 N 5th Street
 Harrisburg, PA 17101-1905
 Local: 1.717.720.6335
 FAX: 1.717.783.9606
 Toll-Free: 1.888.773.7748
 John Tucker, Administrator

Southeast

605 Louis Drive, Suite 500
 Warminster, PA 18974-2830
 Local: 1.215.443.3495
 FAX: 1.215.443.3487
Toll-Free: 1.888.773.7748
 Joshua Catalfu, Administrator
 Linda Visco, Administrator



Section 1 - PSERS Overview

Summary of Various Member Service Statistics

PSERS operates very efficiently. There are only 365 staff serving the needs of over 500,000 members of the System and 769 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)	<u>Fiscal Year</u>	
	<u>2020-21</u>	<u>2019-20</u>
Initial Retirements (1-Step)	8,034	7,403
Initial Retirements (2-Step)	1,975	1,276
Final Retirements (2nd Step of 2-Step)	1,865	1,178
Purchases of Service and Corrections for Previously Unreported Service and/or Contributions not Withheld	4,335	3,029
Refunds	3,832	4,343
Death Benefits Processed	4,307	3,378
Account Verification - non retirements	11,990	12,390
TOTAL	36,338	32,997
Percent of Retirement Paid as 1 Step	80%	85%

Table 2.2

Other Member Services (Major)	<u>Fiscal Year</u>	
	<u>2020-21</u>	<u>2019-20</u>
Retirement Estimates	17,640	15,213
Phone Calls Answered	185,115	159,758
E-mails Received	64,944	69,718
E-mails Sent	55,605	61,251
General Information Sessions	—	154
General Information Attendees	—	9,057
Exit Counseling Sessions	1,061	1,214
Exit Counseling Attendees	6,485	5,970

Section 1 - PSERS Overview

Summary of Various Member Service Statistics (continued)

Table 2.3

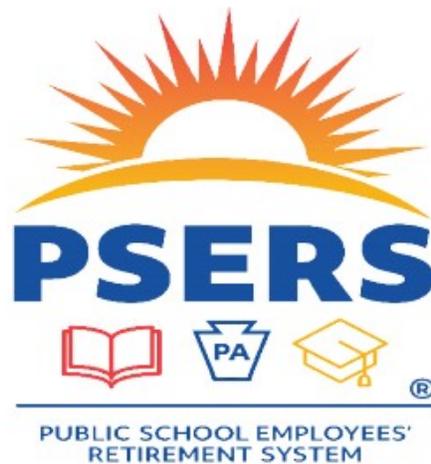
Member Self Service Transactions Done by Members	Calendar Year	
	2021	2020
Retirement Estimate	23,959	26,706
Nomination of Beneficiary	17,953	19,318
Address Change	13,403	10,862
Income Verification	16,242	14,749
W-4P	1,679	1,413
Apply for Multiple Service	57	44
Elect Class T-F	2	11
Elect Class T-H	91	79
Elect Class DC	244	160
Waive Membership	176	129
TOTAL	73,806	73,471

Table 2.4

Member Payment Services for Retirees and Beneficiaries	Calendar Year	
	2021	2020
Monthly Payments to Members	2,864,902	2,823,743
Non-recurring Payments to Members	46,839	46,924
W4-P Tax Withholding Forms Processed	2,410	3,168
EFT Forms Processed - Direct Deposit	11,452	7,618
ACH Rejects Researched and Reviewed (Direct Deposit Failures)	7,092	4,797
Member Payment Changes Processed	2,535	2,170
1099R-Paperless Delivery	68,139	58,151
1099R-Printed for Mailing	199,989	208,437
Total Forms 1099-R Produced	268,128	266,588

PSERS had over 200,000 members sign up for the MSS account. Of those, nearly 94% opted for paperless delivery. This has resulted in annual savings of over \$225,000 in postage, printing and paper since MSS went live in April 2018.

Economic Impact on Pennsylvania, Member Demographics, and Financial Information



Section 1 - PSERS Overview

Economic Impact on Pennsylvania, Member Demographics, and Financial Information

Economic Impact of Pension Benefits on Pennsylvania

In Fiscal Year 2020-21, PSERS pension disbursements to retirees totaled approximately \$7.1 billion. Of this amount, nearly 94%, or \$6.7 billion, went directly into state and local economies. According to a study by the Pensionomics for 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 \$6.7 billion into an economic impact of \$14.6 billion throughout the Commonwealth. Estimates show that the impact of money from PSERS in Pennsylvania includes:*

- Support for over 66,000 jobs that paid \$3.9 billion in wages and salaries.
- \$1.6 billion in federal and local tax revenues.

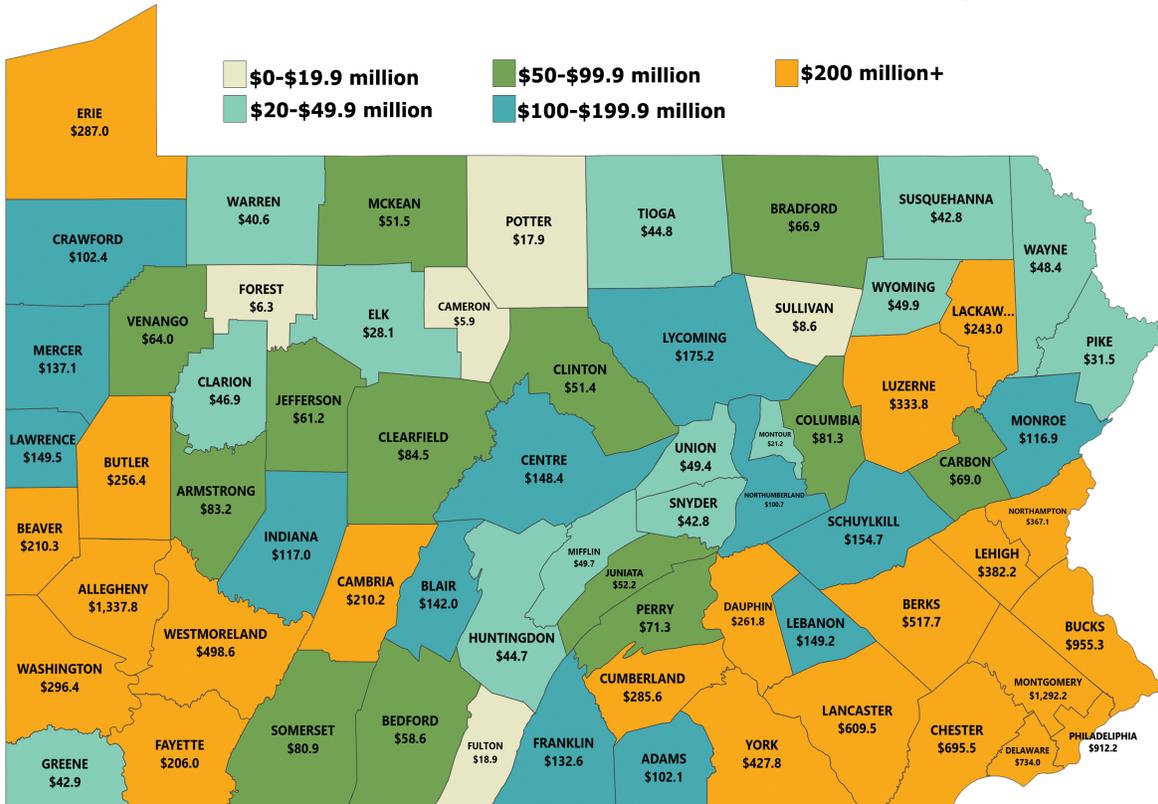
Table 3.1
Top 10 Counties Based on Economic Impact from Benefit Disbursements
(Dollars in Millions)

ALLEGHENY	\$	1,337.8
MONTGOMERY		1,292.2
BUCKS		955.3
PHILADELPHIA		912.2
DELAWARE		734.0
CHESTER		695.5
LANCASTER		609.5
BERKS		517.7
WESTMORELAND		498.6
YORK		427.8

Pension Benefits in Pennsylvania

By County FY 2020-21

\$6.7 Billion in Benefits = \$14.6 Billion Positive Economic Impact



Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

Table 3.2

Member by Type

<u>Fiscal Year Ended June 30</u>	<u>Active Members</u>	<u>Annuitants, Beneficiaries, and Survivor Annuitants</u>	<u>Total Active/Retired Members</u>	<u>Ratio of Active/ Retired</u>	<u>Vestees</u>	<u>Total Membership</u>
2021	248,145	242,839	490,984	1.02 to 1	26,892	517,876
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
2017	255,945	230,014	485,959	1.13	24,515	510,474
Average ratio of active members to annuitants (Public Funds)				1.30*		

*Based on the November 2021 Public Fund Survey prepared by the National Association of State Retirement Administrators (NASRA).

Section 1 - PSERS Overview

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	
	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Normal/Early Retirees	221,277	218,478	\$26,783	\$26,541
Survivor Annuitants	12,704	12,072	15,529	15,098
Disability Retirees	8,858	9,064	21,218	20,954
Total/Average Yearly Benefit	242,839	239,614	63,530	62,593

Age and Service Profile of All Active Members

	<u>6/30/2021</u>	<u>6/30/2020</u>
Average Age	45.5	45.5
Average Years of PSERS Service	12.1	11.8
Average Annual Compensation	\$56,663	\$54,535

Class T-C Members

Class T-D Members

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Number of Members	2,635	2,845	148,546	158,971
Average Age	54.4	54.1	49.2	48.9
Average Years of PSERS Service	22.7	22.1	17.4	16.7
Average Annual Compensation	\$59,759	\$58,049	\$68,659	\$65,821

Class T-E Members

Class T-F Members

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Number of Members	57,944	64,658	13,766	14,559
Average Age	41.2	40.4	39.9	39.2
Average Years of PSERS Service	4.6	3.6	5.1	4.1
Average Annual Compensation	\$38,989	\$35,219	\$50,590	\$43,836

Class T-G Members

Class T-H Members

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Number of Members	25,061	15,122	139	91
Average Age	36.4	36.6	35.8	35.3
Average Years of PSERS Service	0.9	0.4	1.6	0.5
Average Annual Compensation	\$29,558	\$25,376	\$33,252	\$29,308

Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

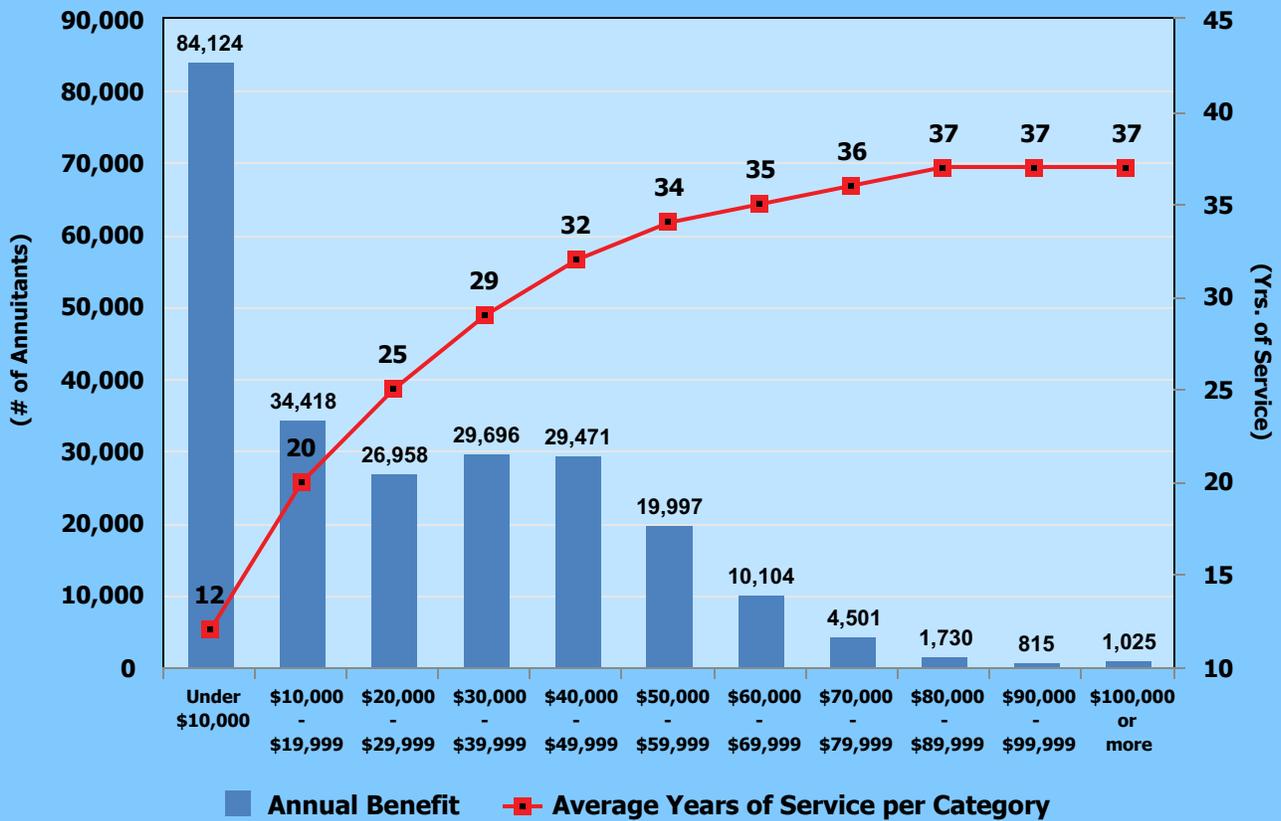
Benefit Summary

The average PSERS retiree receives \$25,992 annually, a benefit earned through a lengthy career in education.

receiving an annual benefit over \$100,000. Retirees earning over six figures have spent an average of 37 years working in their careers and contributing to their retirement accounts.

- Over 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

Chart 3.1 Distribution of Annual Pension Amounts Compared to Average Years of Service as of June 30, 2021



Section 1 - PSERS Overview

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, 2011 - June 30, 2021
Balance of Net Position (07/01/2011)	\$51,200
Member Contributions	\$10,138
Employer Contributions	32,235
Net Investment Income	43,214
Deductions - Benefits & Expenses	(64,820)
Net Increase	\$20,767
Balance of Net Position (06/30/2021)	\$71,967

Table 3.5

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

	-----Projected-----					
	2021	2022	2023	2024	2025	2026
Member Contributions	\$1,081,000	\$1,114,000	\$1,130,000	\$1,141,000	\$1,151,000	\$1,161,000
Employer Contributions	\$4,759,000	\$4,964,000	\$5,110,000	\$5,255,000	\$5,401,000	\$5,569,000
Total Contributions	\$5,840,000	\$6,078,000	\$6,240,000	\$6,396,000	\$6,552,000	\$6,730,000
Less:						
Benefits	\$7,134,000	\$7,291,000	\$7,453,000	\$7,620,000	\$7,792,000	\$7,968,000
Administrative expenses	\$50,000	\$51,000	\$52,000	\$53,000	\$54,000	\$55,000
Total Outflows	\$7,184,000	\$7,342,000	\$7,505,000	\$7,673,000	\$7,846,000	\$8,023,000
Negative External Cash Flow	-\$1,344,000	-\$1,264,000	-\$1,265,000	-\$1,277,000	-\$1,294,000	-\$1,293,000
End of Year Total Assets	\$71,967,000	\$75,698,000	\$79,691,000	\$83,953,000	\$88,498,000	\$93,365,000
Negative External Cash Flow (NECF) as a % of Total Assets	-1.9%	-1.7%	-1.6%	-1.5%	-1.5%	-1.4%
Average NECF as a % of Total Assets (Public Funds)	-2.7%					

*Based on the November 2021 Public Fund Survey prepared by NASRA.

Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

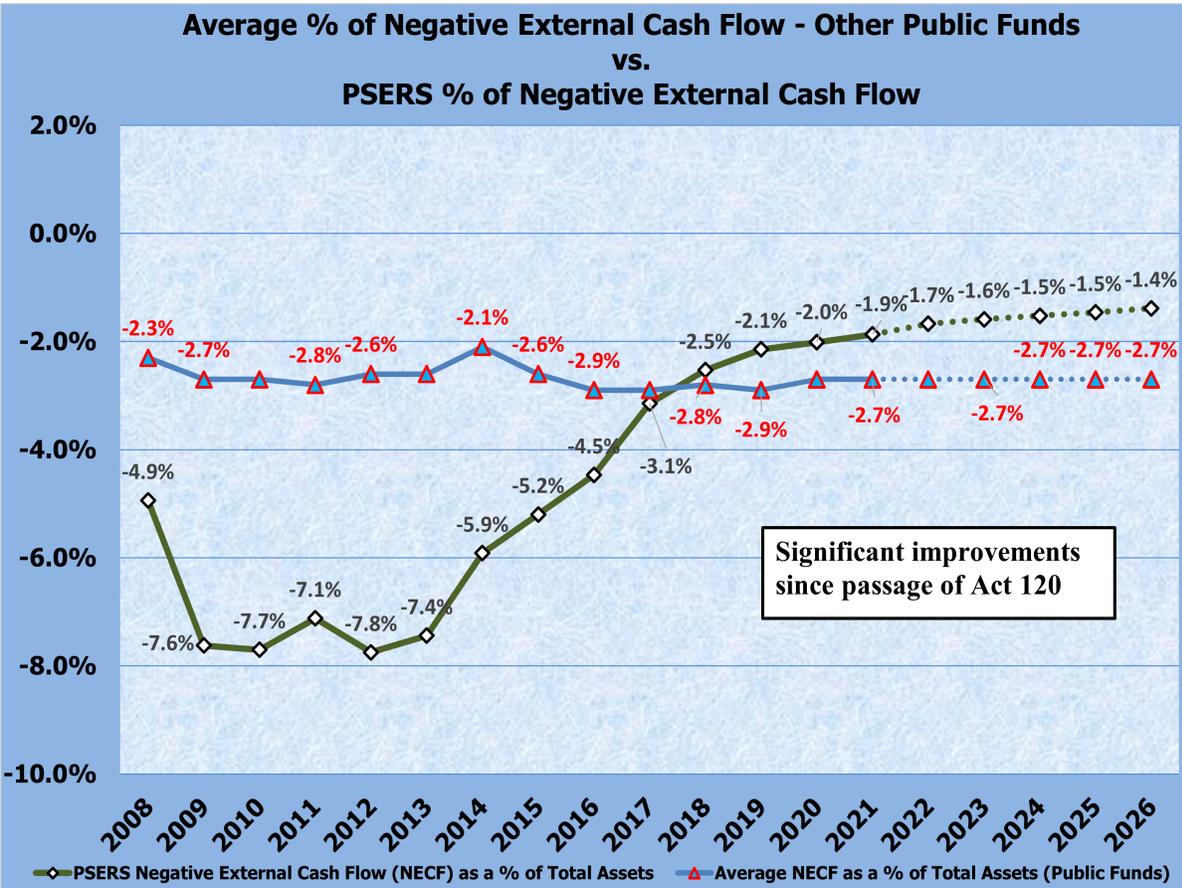
Negative External Cash Flow (NECF)

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 -\$22.4 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 -1.9% of total assets for FY2020-21, which was more favorable than the public fund average for the fourth 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 required contribution levels. Due to receiving 100% of actuarially required contributions for the fifth consecutive year, the system's cash flow shortfall is now more favorable than the public fund average and will continue to improve over the next several years.

PSERS Negative External Cash Flow Projection (NECF)

In Chart 3.2, beginning in FY2018 PSERS projected 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



Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

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

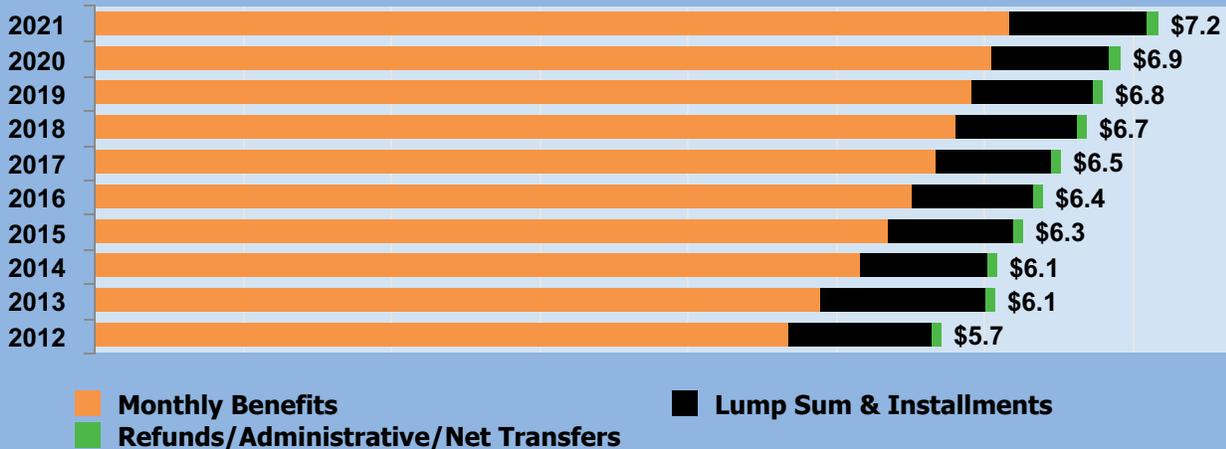


PSERS Pension Fiduciary Net Position

As depicted in Chart 3.3, PSERS fiduciary net position increased by \$13.4 billion from \$58.6 billion at June 30, 2020 to \$72.0 billion at June 30, 2021. The increase was due in large part to record

net investment income plus member and employer contributions exceeding deductions for benefit and administrative expenses.

**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.

PSERS Deductions from Pension Fiduciary Net Position

As depicted in Chart 3.4, the increase for FY2020 to FY2021 is mainly attributed to an ongoing rise in

the average monthly benefit and an increase in pension lump sum rollover payments.

Section 1 - PSERS Overview

Statement of Fiduciary Net Position December 31, 2021 Unaudited (Dollar Amounts in Thousands)

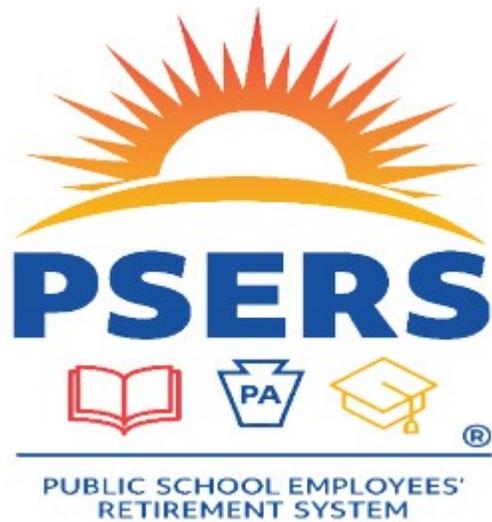
	Postemployment Healthcare				Totals
	Pension	Defined Contribution	Premium Assistance	Health Options Program	
Assets:					
Receivables:					
Members	\$ 364,577	\$ 314	\$ 1,672	\$ 153	\$ 366,716
Employers	1,321,051	246	31,922	—	1,353,219
Investment income	785,882	3	67	16	785,968
Investment proceeds	289,980	—	—	—	289,980
CMS Part D and prescriptions	—	—	—	85,777	85,777
Interfund receivable	3,320	—	—	—	3,320
Total Receivables	2,764,810	563	33,661	85,946	2,884,980
Investments, at fair value:					
Short-term	10,298,065	7,765	101,656	371,844	10,779,330
Fixed income	13,865,982	—	—	—	13,865,982
Common and preferred stock	18,698,614	—	—	—	18,698,614
Collective trust funds	5,967,502	80,821	—	—	6,048,323
Real estate	6,264,825	—	—	—	6,264,825
Alternative investments	17,377,699	—	—	—	17,377,699
Total Investments	72,472,687	88,586	101,656	371,844	73,034,773
Securities lending collateral pool	8,947,388	—	—	—	8,947,388
Capital assets (net of accumulated depreciation \$38,657)	15,736	—	—	—	15,736
Miscellaneous	36,203	6	—	—	36,209
Total Assets	84,236,824	89,155	135,317	457,790	84,919,086
Liabilities:					
Accounts payable and accrued expenses	182,806	77	197	2,736	185,816
Benefits payable	182,111	—	170	35,174	217,455
HOP participant premium advances	—	—	—	33,747	33,747
Investment purchases and other payables	229,443	593	—	—	230,036
Obligations under securities lending	8,947,388	—	—	—	8,947,388
Interfund payable	—	545	2,775	—	3,320
Other liabilities	166,942	—	—	—	166,942
Total Liabilities	9,708,690	1,215	3,142	71,657	9,784,704
Net position restricted for pension, DC and postemployment healthcare benefits	\$ 74,528,134	\$ 87,940	\$ 132,175	\$ 386,133	\$ 75,134,382

Section 1 - PSERS Overview

Statement of Changes in Fiduciary Net Position December 31, 2021 Unaudited (Dollar Amounts in Thousands)

	Pension	Defined Contribution	Premium Assistance	Postemployment Healthcare Health Options Program	Totals
Additions:					
Contributions:					
Members	\$ 542,624	\$ 13,828	\$ —	\$ —	\$ 556,452
Employers	2,410,506	10,820	57,225	—	2,478,551
Total contributions	2,953,130	24,648	57,225	—	3,035,003
HOP participant premiums	—	—	—	205,239	205,239
Centers for Medicare & Medicaid Services	—	—	—	33,852	33,852
Investment income:					
From investing activities:					
Net appreciation (depreciation) in fair value of investments	2,392,391	3,047	(178)	—	2,395,260
Short-term	4,838	6	273	92	5,209
Fixed income	240,113	—	—	—	240,113
Common and preferred stock	212,750	—	—	—	212,750
Collective trust funds	—	—	—	—	—
Real estate	255,773	—	—	—	255,773
Alternative investments	360,726	—	—	—	360,726
Total investment activity income	3,466,591	3,053	95	92	3,469,831
Investment expenses	(313,182)	(67)	—	—	(313,249)
Net income from investing activities	3,153,409	2,986	95	92	3,156,582
From securities lending activities:					
Securities lending income	16,648	—	—	—	16,648
Securities lending expense	(4,325)	—	—	—	(4,325)
Net income from securities lending activities	12,323	—	—	—	12,323
Total net investment income	3,165,732	2,986	95	92	3,168,905
Total Additions	6,118,862	27,634	57,320	239,183	6,442,999
Deductions:					
Benefits	3,512,325	—	57,132	203,495	3,772,952
Refunds of contributions	15,216	957	—	—	16,173
Administrative expenses	30,539	1,013	528	20,231	52,311
Total Deductions	3,558,080	1,970	57,660	223,726	3,841,436
Net increase (decrease)	2,560,782	25,664	(340)	15,457	2,601,563
Net position restricted for pension, DC and postemployment healthcare benefits:					
Balance, beginning of year	71,967,352	62,276	132,515	370,676	72,532,819
Balance, end of period	\$ 74,528,134	\$ 87,940	\$ 132,175	\$ 386,133	\$ 75,134,382

Actuarial Process and Pension Plan Funding



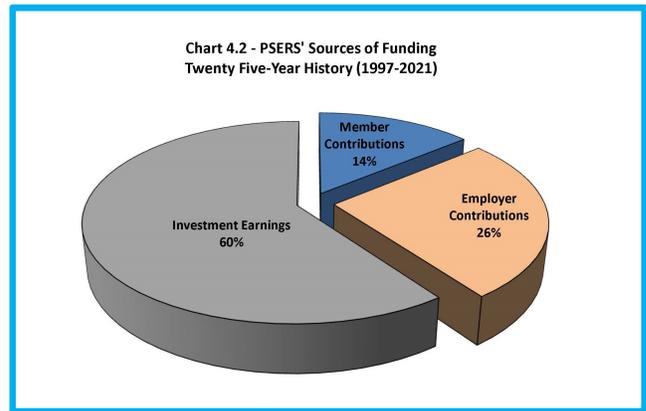
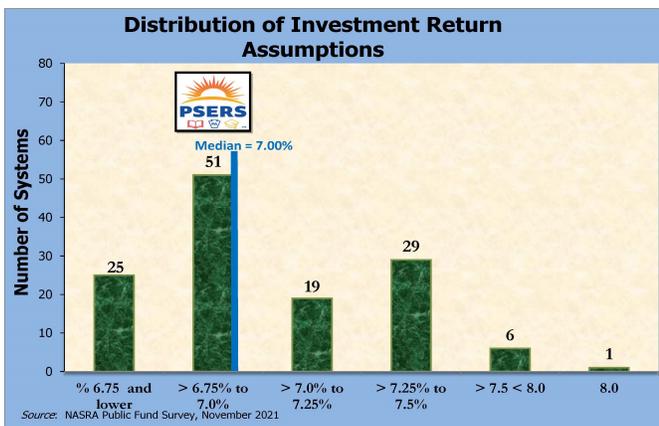
The Actuarial Process and Pension Plan Funding

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 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.

Chart 4.1



Actuarial Experience Study - June 30, 2021

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.

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, 2021 investment earnings provided 60% of PSERS funding followed by 26% from employers while members contributed 14%.

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 Actuarial Process and Pension Plan Funding (continued)

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 employer contribution rate for the fiscal year ended June 30, 2021 was 34.51%, including 0.18% for Act 5 DC (estimated average rate) plus 0.82% for healthcare premium assistance.

The total employer contribution rate for the fiscal year ending June 30, 2022 is 34.94%. This rate consists of a 33.99% pension rate, 0.15% Act 5 DC (estimated average rate) plus the healthcare premium assistance contribution of 0.80%.

The FY2022-23 employer contribution rate is 35.26%. This rate consists of a 34.31% pension rate, the healthcare premium assistance contribution of 0.75% and an Act 5 DC estimated average rate of 0.20%. The Board of Trustees certified this rate, which was calculated in accordance with the provisions of PSERS retirement code, at their December 2021 meeting. While any contribution increase is a challenge for PSERS employers, the increase in the FY2022-23 contribution rate is only 0.92%. The very large increases that employers experienced prior to FY2017-18 are now in the past. The projected rate increases in the future are less than one-half of current levels of inflation.

For the fiscal year ended June 30, 2021, PSERS employer contributions totaled \$4.891 billion, which includes \$117 million for healthcare premium assistance and \$15 million for DC. For the fiscal year ending June 30, 2022 the estimate for total employer contributions is \$4.993 billion, reflective of the 34.94% contribution rate. The contribution rate for the fiscal year ending June 30, 2023 is 35.26%, resulting in an employer contribution estimate of \$5.112 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 (FY2021-22) is 7.56%. 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.

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 similar to a defined contribution plan. 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 threshold. 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.

Section 1 - PSERS Overview

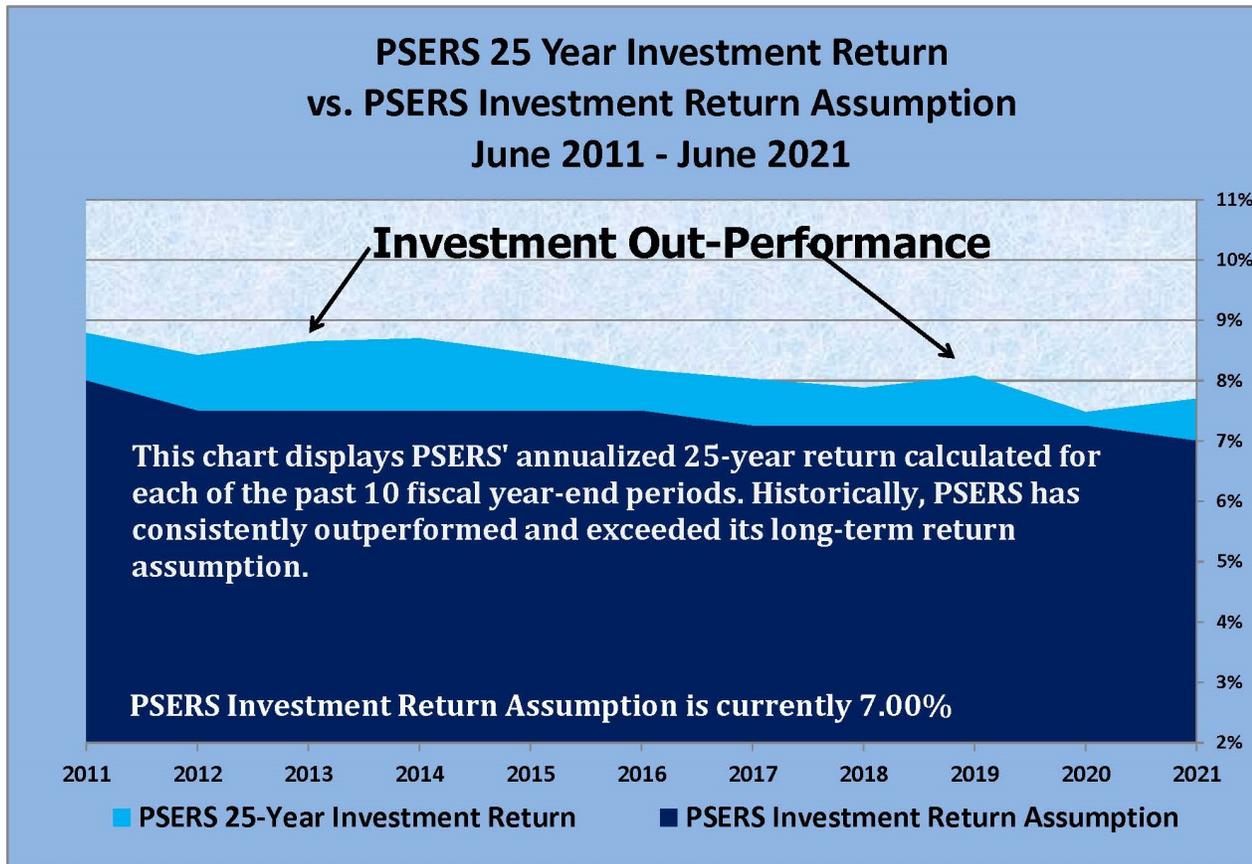
The Actuarial Process and Pension Plan Funding (continued)

PSERS members contributed \$1.081 billion of pension contributions for FY2021. Total member contributions are estimated to be \$1.080 billion for the fiscal year ending June 30, 2022 and \$1.090 billion for the fiscal year ending June 30, 2023.

Investment Returns

PSERS investment rate of return for the fiscal year ended June 30, 2021 was 24.58%, net of fees. The investment rates of return (net of fees) for the fiscal years ended June 30, 2020 and June 30, 2019 were 1.12% and 6.66%, respectively. The preliminary annualized rates of investment return for the three,

Chart 4.3



five, and ten-year periods ended December 31, 2021 are 13.59%, 10.58%, and 9.00%, respectively. Over the past 25 years ended December 31, 2021, the Fund earned an annualized rate of return of 7.69% (preliminary) which exceeded the Fund's long term investment rate of return assumption.

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. This outstanding long-term investment performance resulted in declining employer contribution rates and/or contribution rates lower than the annual normal cost of benefits.

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.

Section 1 - PSERS Overview

The Actuarial Process and Pension Plan Funding (continued)

Key Facts

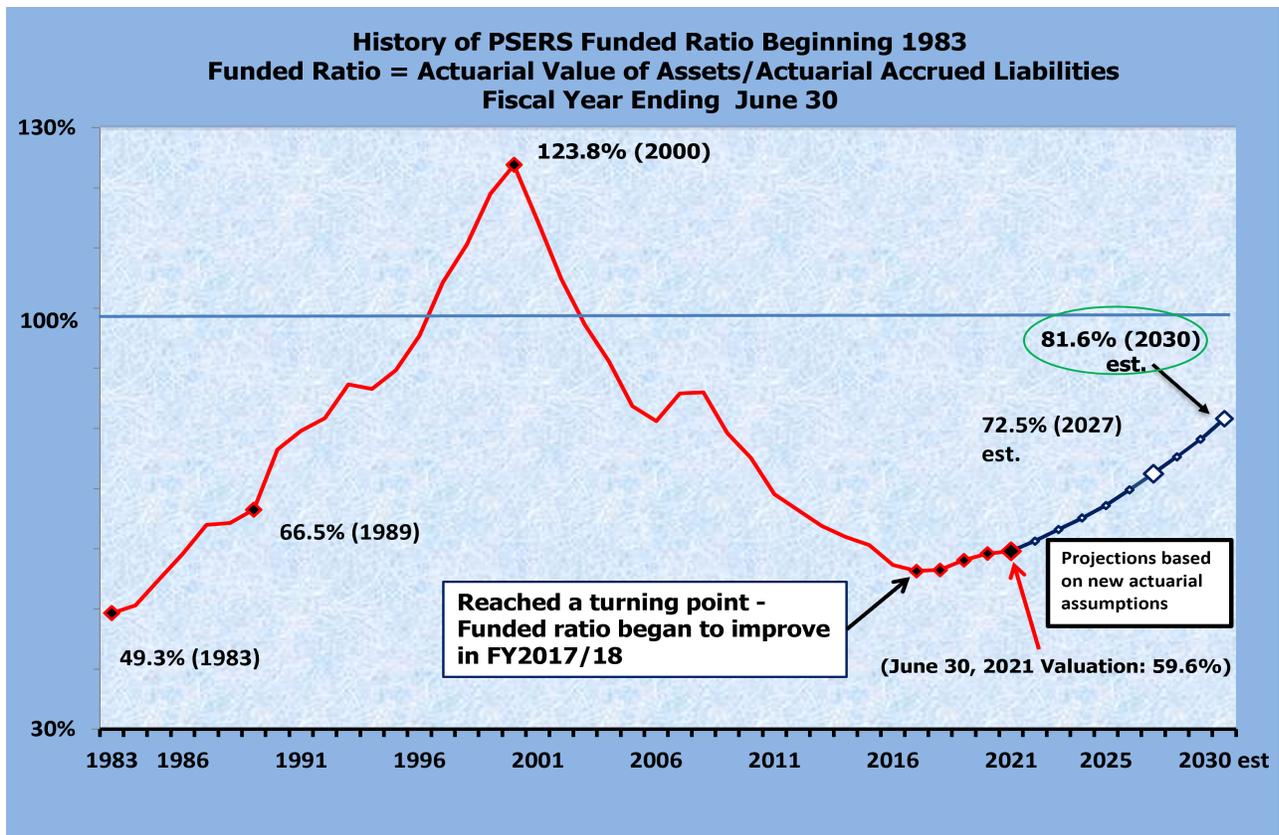
As a result of legislated contribution increases under Act 120, PSERS reached a turning point effective with the June 30, 2018 actuarial valuation as PSERS funded ratio began to slowly improve after declining for many years.

- Funded Status: 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 is the third consecutive improvement in the funded ratio, on an actuarial basis.

- 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 FY2003 and FY2008 to FY2009; 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 FY2016; 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. 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. Future projections now reflect a steadily increasing funded ratio.

Chart 4.4



Section 1 - PSERS Overview

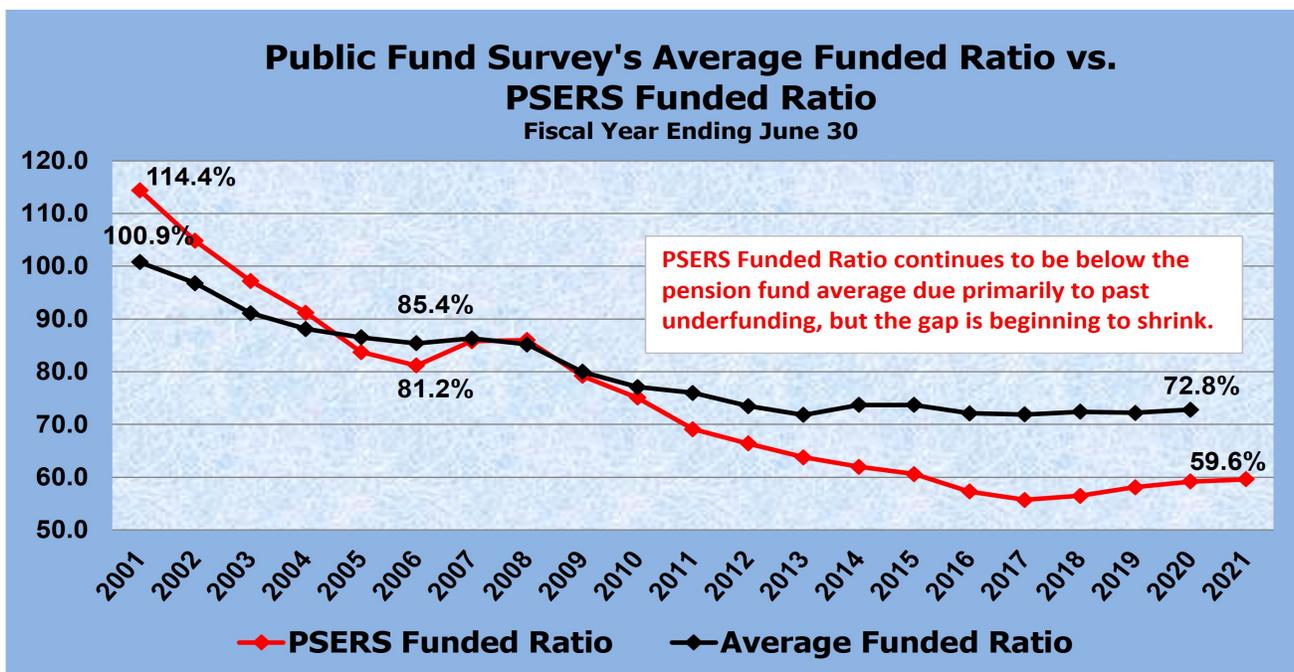
The Actuarial Process and Pension Plan Funding (continued)

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 very slow 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, 2021).

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 FY2020-21. 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

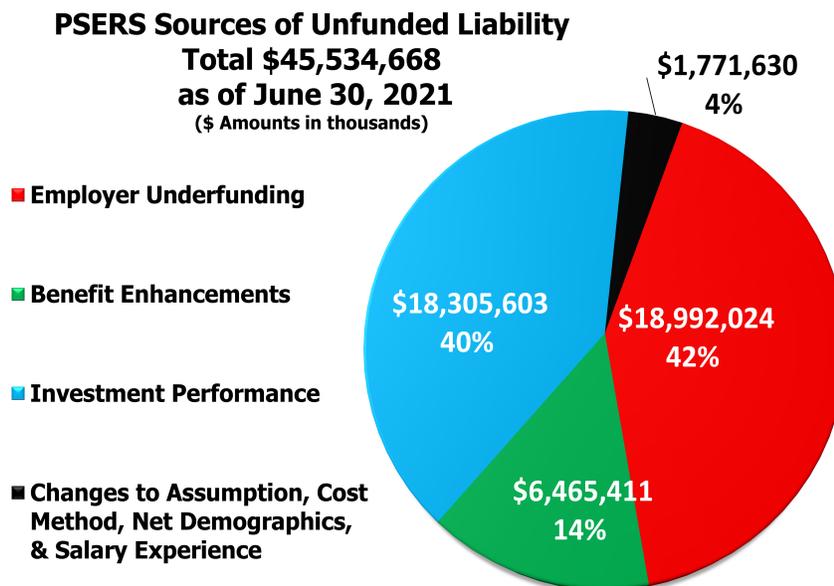
The System’s total funded ratio (for Pensions and Health Insurance combined) is 59.6% as of June 30, 2021. This funded ratio is based on an actuarial value of assets of \$67.25 billion and a total accrued liability of \$112.78 billion which equates to a \$45.53 billion unfunded liability. Chart 4.6 depicts the sources of the unfunded liability. The largest sources of unfunded liability in order of magnitude are employer funding deferrals (42%), investment performance (40%), and benefit enhancements (14%), which include Act 9, cost of living increases and early retirement incentives.

For many years PSERS outstanding investment performance compensated for unfunded benefit enhancements and employer funding deferrals. The Great Recession 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 fifty-six percent of PSERS June 30, 2021 unfunded liability is due to employer funding deferrals and benefit enhancements, both of which are not a result of the defined benefit plan design.

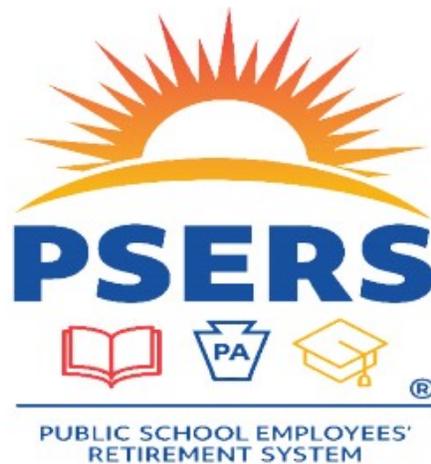
GASB 68 and 75 Pension and Healthcare Reporting for Employers

In June 2021, 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.

Chart 4.6



Employer Contribution Rate



Section 1 - PSERS Overview

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 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 (FY2021-22) 34.94 %
- Lowest historical ECR (FY2001-02) 1.09 %
- Ten yr. avg. ECR (2012-13 to 2021-22) 27.63 %
- Twenty yr. avg. ECR (2002-03 to 2021-22) 16.38 %
- Thirty yr. avg. ECR (1992-93 to 2021-22) 13.69 %
- Adopted ECR (FY2022-23) 35.26 %

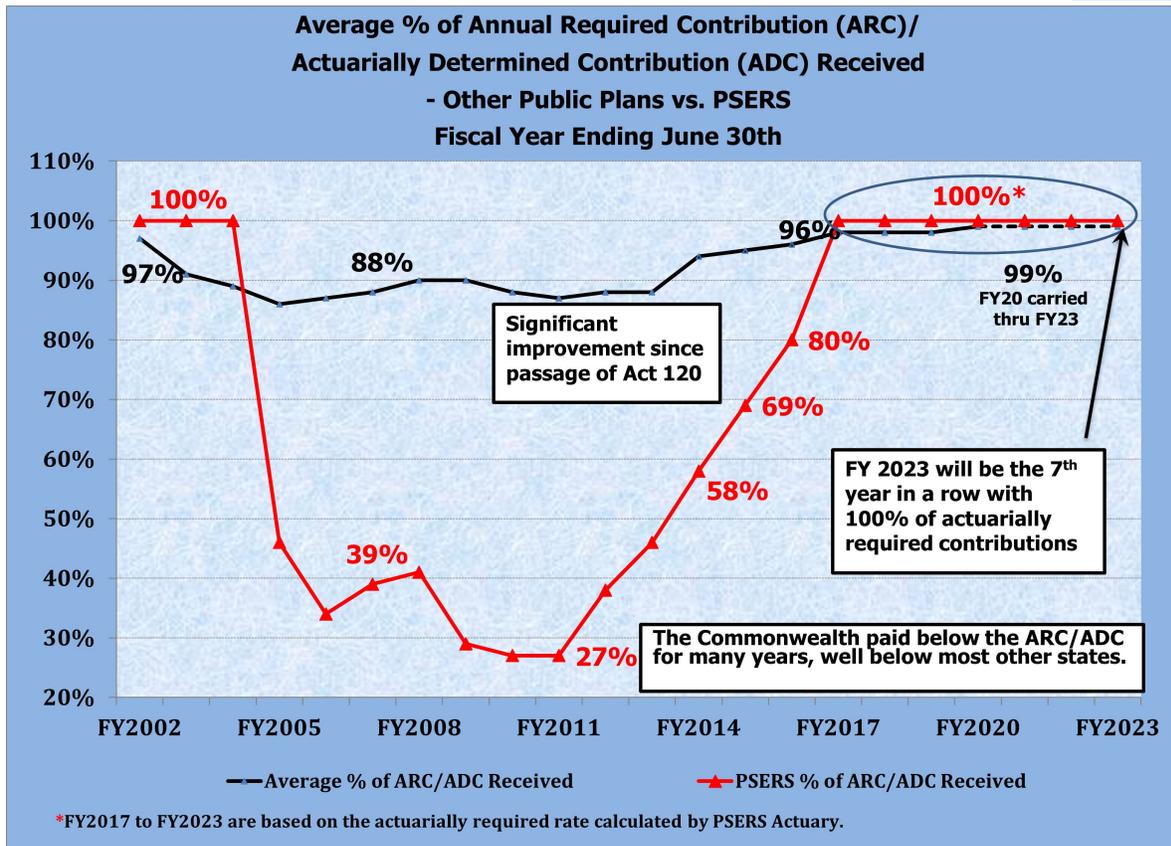
Act 120 of 2010

Progress on Funding Issue

PSERS is now in the 11th 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 contribution (ADC) starting in FY2016-17. An ARC/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 35.26% for FY2022-23 in compliance with Act 120 and Act 5 of 2017. This will be the seventh consecutive year PSERS contribution rate provides 100% of the actuarially required contributions based on sound actuarial practices and principles and now exceeds the average ARC/ADC percentage

Chart 5.1



Employer Contribution Rate (continued)

of 99% for public funds based on the November 2021 Public Fund Survey prepared by NASRA.

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, 2021, T-E and T-F members now total over 71,000 and account for 29% 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, 2021, 57,944 or 81% of new members remained in Class T-E and 13,766 or 19% 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.

For school employees who became new members of PSERS on or after July 1, 2019, there are two membership classes with “shared risk” elements: Class T-G and T-H. As of June 30, 2021, T-G and T-H members now total over 25,000 and account for 10% of the total active membership.

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

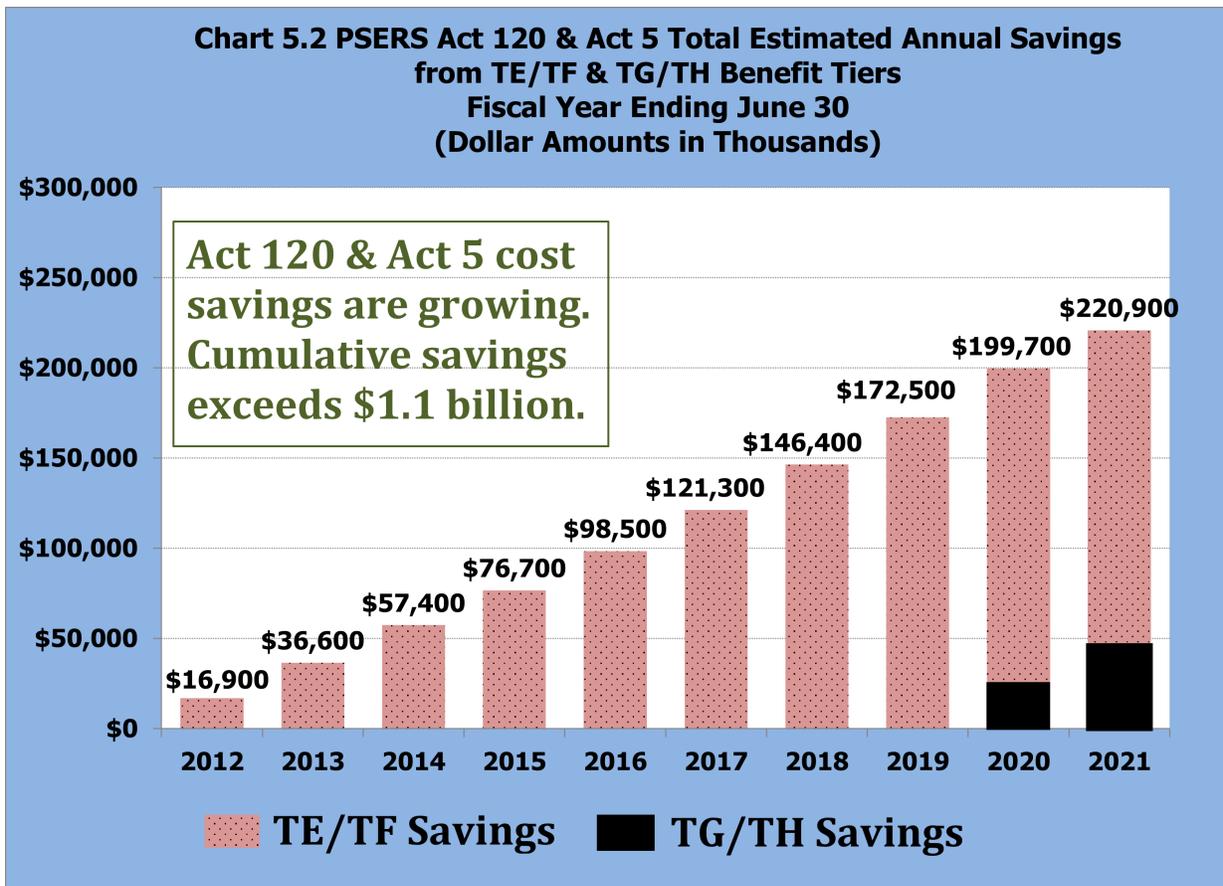
- Pension multiplier is 1.00%
- Effective July 1, 2019 employee contribution base rate is 7.5% (base DB rate of 4.5% plus DC rate of 3.0%) with “shared risk” contribution levels between 7.5% and 10.5%

As of June 30, 2021, 25,061 or 99% of new members remained in Class T-G and 139 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.

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 grew through FY2020-21, 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, 2021 are \$1.147 billion. The average member benefit for Act 120 members is approximately 32% lower than the benefit for pre- Act 120 members.

Section 1 - PSERS Overview

Employer Contribution Rate (continued)



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 35.26% for FY2022-23 which is a less than inflation increase of 0.92% over the FY2021-22 rate of 34.94%. This is the second smallest percentage increase since FY2009-10.

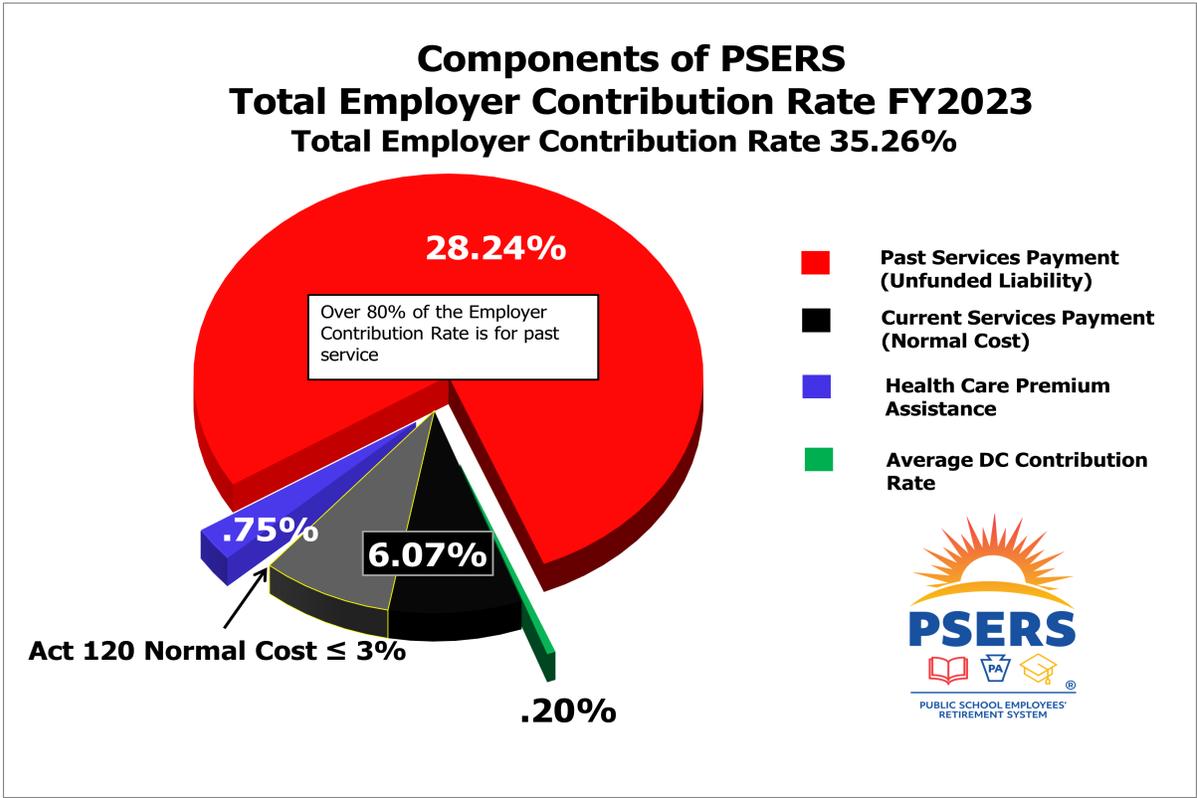
Employer Contribution Rate

Chart 5.3 displays the components of PSERS certified employer contribution rate of 35.26% in FY2022-23. 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 members (includes Act 5) join the System and pre-Act 120 members retire. The cost structure of PSERS members since Act 120 is low and the shared risk provisions shift a portion of the investment risk to active members similar to a defined contribution plan. Essentially, Act 120 provides the members with a defined benefit plan, which is both adequate and secure, and provides the employers with a low cost employee pension benefit funded in large part by the members who have also assumed some of the investment risk. 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.

Employer Contribution Rate (continued)

Chart 5.3



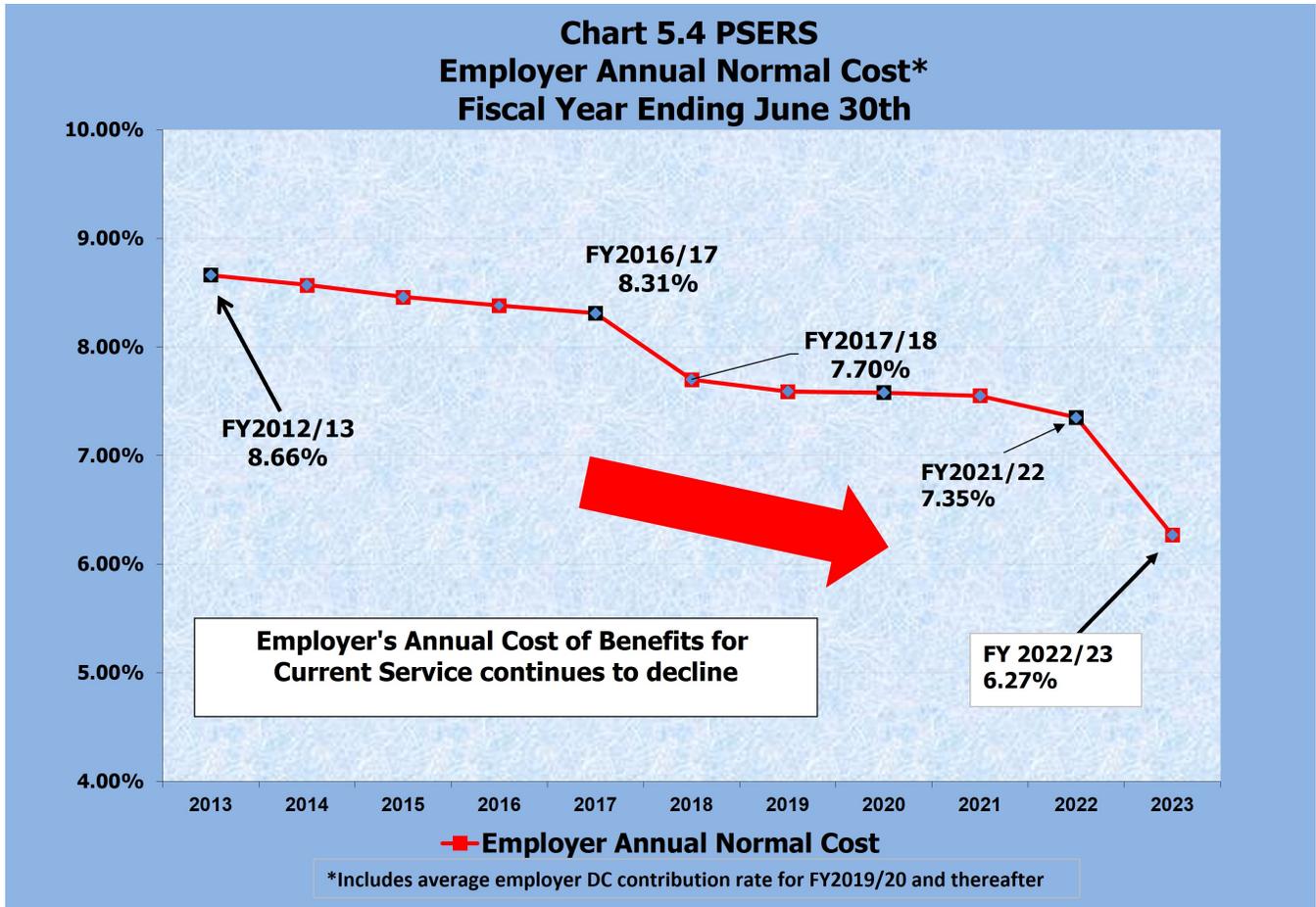
Section 1 - PSERS Overview

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 6.07% in FY2022-23 which is a 30% reduction from the 8.66% normal cost in FY2012-13. The substantial decrease from 7.35% in FY2021-22 to 6.07% in FY2022-23 is mainly due to the continued migration to lower cost members and from the new actuarial assumptions adopted by the Board.



Section 1 - PSERS Overview

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 57% of total employer contributions and employers pay for 43%.

Table 5.1 illustrates the projected amounts of the Commonwealth's Appropriation for FY2022-23 through FY2026-27. As depicted, the Commonwealth's share of contributions are starting to level out as the projected employer contribution rate increases in the future are less than current levels of inflation.

Act 5 of 2017

On June 12, 2017 Governor Wolf signed Act 5 of 2017 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 plan designs include two hybrid benefit options consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. 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 current 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 to the "shared risk" program.

Legislative Pension Proposal Assistance

Throughout 2021, 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 and operational aspects of various proposals, while remaining policy neutral on plan design elements of legislative proposals.

Table 5.1

**Commonwealth's Department of Education School Employees Retirement Appropriation
(Dollar Amounts in Billions)**

	-----Projected-----				
	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>
School Employees Retirement	\$2.901	\$3.007	\$3.101	\$3.201	\$3.296

Employer Contribution Rate (continued)

Recap

Act 120 reduced the employer's annual cost of benefits for members hired after June 30, 2011 by over 32% via member benefit reductions. However, a significant unfunded liability for service already rendered by pre-Act 120 members still remains to be paid. To address the underfunding which had taken place since FY2000-01, Act 120 also included rate collars designed to systematically increase the employer contribution rate over several years to raise the funding to actuarially required levels. Now that this objective has been achieved, the rate collars no longer apply.

At its December 2021 meeting, PSERS Board of Trustees certified an annual contribution rate of 35.26% for FY2022-23 which continues to put PSERS on the path towards full funding. For the seventh consecutive year, the Commonwealth's employer contributions rate provides 100% of the actuarially required 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 FY2020-21 and beyond. The Pennsylvania Independent Fiscal Office (IFO) has recognized the Commonwealth's progress on its pension funding issues. 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 has reached a Turning Point under Act 120

Effective in FY2017-18, PSERS actuarial funded ratio has begun 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 63.90% at June 30, 2021 due primarily to PSERS receiving the full actuarially required contributions in each of the past four 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 raising its outlook on the Commonwealth's general obligation bonds from 'negative' to 'stable' in September 2020, Fitch Ratings, Inc. noted that "The Commonwealth's long term liability burden is low. A recently completed ramp-up to making full actuarially determined contributions could slow future growth in net pension liabilities and lead to liability declines if maintained over time and if actuarial assumptions are met."

A major funding milestone was also reached during FY2016-17 as employers funded 100% of the actuarially required contributions to PSERS for the first time in fifteen years. FY2022-23 will be the seventh year in a row that PSERS will receive the full actuarially required contributions. These contributions are making a positive difference as PSERS funded ratio in FY2020-21 increased by a significant amount for the third 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.

Section 1 - PSERS Overview

Employer Contribution Rate (continued)

Chart 5.5

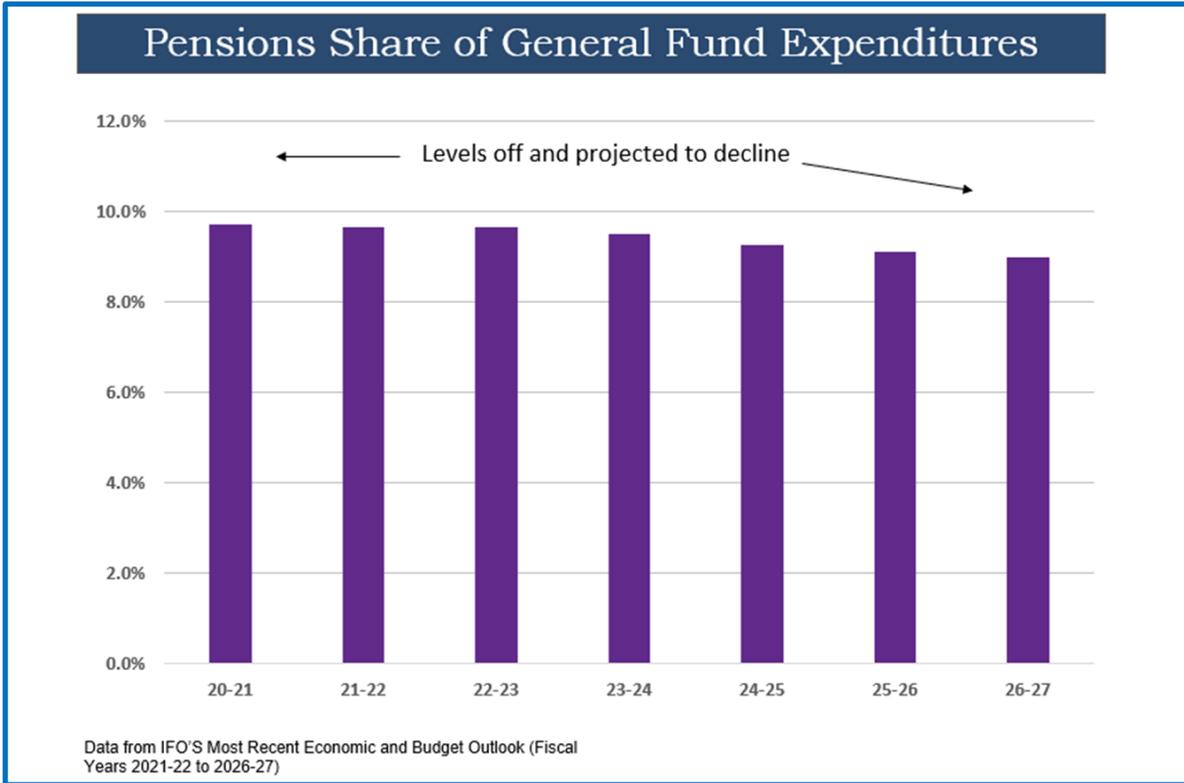


Chart 5.6

