

PRESS RELEASE

For Immediate Release
August 24, 2006

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**PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
ANNOUNCES OUTSTANDING INVESTMENT PERFORMANCE**
Pension fund posts gains of over 15 percent for the fiscal year ended June 30, 2006

HARRISBURG, PA – The Pennsylvania Public School Employees' Retirement System (PSERS) today announced its investment return for the fiscal year ended June 30, 2006.

The pension fund generated a total return of 15.26 percent for the fiscal year ended June 30, 2006. This return placed PSERS in the top 10 percent of the public pension plan database compiled by Wilshire Associates. This outstanding investment return will be used by PSERS' actuaries in December to calculate the employer contribution rate for fiscal year 2007-2008.

PSERS' Chairman Roger May commended the Fund's recent outstanding investment performance stating: "I am pleased to announce PSERS has earned 15.26 percent for the fiscal year ended June 30, 2006. This investment return is nearly double the Fund's assumed annual rate of return of 8.5 percent. Indeed, for the past three fiscal years, PSERS has earned well above its 8.5 percent funding target. PSERS' strong investment returns continue to be the major source of funding for PSERS' benefit payments. In fact, over the last ten years, approximately 78 percent of PSERS' funding was provided by investment returns."

PSERS earned 19.67 percent in fiscal year 2003-2004 and 12.87 percent in fiscal year 2004-2005.

PSERS' Executive Director Jeffrey Clay noted the impact of the Fund's investment performance on the employer contributions to the Fund. "During this past fiscal year, PSERS continued its record investment growth and currently is at an all-time high of \$57 billion in assets under management," Clay said. "While PSERS certainly cannot predict future investment returns, the impact of the past three fiscal year investment returns is clear. It decreases the amount of contributions needed from school employers and Commonwealth taxpayers."

PSERS excellent investment returns have also dramatically decreased the projected employer contribution rate increase in fiscal year 2012-2013.

Over the past three years PSERS' projected fiscal year 2012-2013 employer contribution rate increase has been reduced by approximately 40%, dropping 844 basis points from a projected high of 27.73 percent to the current projected increase of 19.29 percent.

PSERS' Chief Investment Officer Alan Van Noord commented on the diversification of the Fund's assets and its recent investment performance. "PSERS' Board and investment staff's dedication to a well-diversified plan has benefited the Fund during this past fiscal year. The Fund continues to look for ways to diversify the portfolio and enhance returns, including recently adding a global macro program and a global publicly traded real estate securities program," Van Noord said. "This diversification proved to be beneficial to the Fund during the recent decline in the equity markets. PSERS alternative and real estate investments earned 38.60 percent and 22.17 percent, respectively, and bolstered the Fund's investment returns," Van Noord said. "Not only did PSERS outperform many public pension plans across the nation, but the Fund performed well against the major market indices."

PSERS investment returns of 15.90 percent for the 3-year period and 8.67 percent for the 5-year period ended June 30, 2006 also ranked in the top 10 percent of the Wilshire Associates' public pension plan database. These returns also exceeded the Fund's annual rate of return assumption of 8.50 percent.

PSERS domestic equity portfolio earned 9.66 percent for the fiscal year ended June 30, 2006, closely matching the Wilshire 5000 Index return of 9.92 percent.

PSERS' international equity portfolio earned 30.81 percent for the fiscal year ended June 30, 2006, exceeding the MSCI All-Country World Index ex. U.S., which returned 28.40 percent for the same time period.

PSERS' fixed income portfolio earned 0.32 percent for the fiscal year ended June 30, 2006, exceeding the Lehman Global Aggregate Bond Index, which returned 0.27 for the same time period.

PSERS' alternative investment returns were 22.17 percent for the fiscal year ended June 30, 2006 in comparison to the Venture Economics Median Return, Vintage Year Weighted benchmark return of 11.78 percent for the same time period.

PSERS' real estate portfolio returned 38.60 percent for the fiscal year ended June 30, 2006.

About the Pennsylvania Public School Employees' Retirement System

PSERS is the 14th largest public pension fund in the nation and the 21st largest fund among public and corporate pension funds in the nation. As of June 30, 2006, PSERS had an investment portfolio of approximately \$57.0 billion and a membership of more than

255,000 active school employees and 156,000 retirees. For more detailed investment performance information visit PSERS' website at www.psers.state.pa.us.

As of June 30, 2006, PSERS had 31.5 percent of its assets in Domestic stocks; 29.9 percent in International stocks; 17.8 percent in Domestic and International Fixed Income investments; 9.2 percent in Alternative Investments; 6.8 percent in Real Estate, and 4.8 percent in cash and cash equivalents.

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