Pennsylvania

Public School Employees' Retirement System

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

A COMPONENT UNIT OF THE
COMMONWEALTH OF PENNSYLVANIA

Pennsylvania
Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

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Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2012

Report prepared by the Public School Employees' Retirement System staff

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INTRODUCTORY SECTION

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
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October 29, 2012

The Honorable Thomas W. Corbett, Governor of Pennsylvania
Members of the General Assembly
Members of the Retirement System
Members of the Boards of PSERS' Employers
Pennsylvania Public School Employees' Retirement System Board of Trustees

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

We are pleased to present the ninety-third edition of the Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal year ended June 30, 2012 (FY 2012). This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The front cover of this year's CAFR and the divider pages inside show various scenes from a member's life from teaching in the classroom to enjoying retirement.

The management of the System is solely responsible for the accuracy and completion of this report, pursuant to section 24 Pa.C.S. §8502(n) of the Public School Employees' Retirement Code (Retirement Code). The entire report can be downloaded from the PSERS website at www.psers.state.pa.us.

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the 773 reporting entities in Pennsylvania. As of June 30, 2012, the System had approximately 274,000 active members with an estimated annual active payroll of $12.7 billion.

The annuitant membership at June 30, 2012 was comprised of approximately 202,000 retirees and beneficiaries who receive over $390 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is $24,122. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which all members and 773 reporting units contribute. PSERS is administered by a staff of 310. The System is headquartered in Harrisburg, Pennsylvania, and has eight field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

PSERS was established by law as an independent administrative board directed by a governing board of trustees (Board) which exercises control and management of the System, including the investment of its assets. PSERS is considered a component unit of the Commonwealth of Pennsylvania as defined by the Governmental Accounting Standards Board (GASB). An annual audit of the System by an independent certified public accounting firm is required by the Retirement Code. PSERS has contracted with CliftonLarsonAllen, LLP for this audit of its financial statements and has received an unqualified opinion as evidenced in the Independent Auditors' Report in the Financial Section of this report. An unqualified opinion means that PSERS' financial statements fairly present its financial condition. In addition, no significant findings were noted during the audit and therefore, a management letter was not issued. This is the third consecutive year that a management letter was not issued by the independent auditors and is reflective of the hard work and dedication of PSERS' staff to continue to improve the internal controls, operations and efficiency of the System.

Economic Summary

Domestically, the equity markets incurred steep losses during the first quarter of the fiscal year partly due to a bitter and partisan U.S. debt ceiling debate. In the second quarter, the Federal Reserve announced the “Operation Twist” strategy (a plan to sell short-term notes and purchase long-term Treasuries to reduce interest rates), sparking a second quarter rally, while the third and fourth quarters of FY 2012 displayed signs of stabilization in the housing market. Internationally, the European debt crisis and the significant deceleration of growth in China negatively influenced the economy. Despite these hurdles, PSERS FY 2012 investment return outperformed more than 85 percent of the public pension plans in the Wilshire Compass All Public Funds Universe. For FY 2012 PSERS’ investment portfolio generated a rate of return of 3.43%, which resulted in $1.1 billion of net investment income. The total net assets of the System decreased from $51.4 billion to $48.8 billion from July 1, 2011 to June 30, 2012. The decrease was due to the deductions for benefits and administrative expenses exceeding net investment income plus member and employer contributions.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System’s assets and the actuarial soundness of the Fund with respect to its funding status. The annualized rate of return for the twenty-five year period ended June 30, 2012 was 8.42% and exceeded the Fund’s long-term investment rate of return assumption during that time period. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits. PSERS has maintained its position among the top thirty largest pension systems in the nation.

Major Initiatives

Act 120 of 2010 Implementation Update

Act 120 of 2010 included a series of actuarial and funding changes to PSERS as well as significant benefit changes for individuals who become new members on or after July 1, 2011. Implementation of the actuarial, funding and benefit changes in Act 120 of 2010 continued throughout the year. Highlights of the implementation follow:

- The employer contribution rate caps defined in Act 120 of 2010 are in effect. These rate caps step up the employer contribution rate in predictable increments and allow advance notice to the school employers and Commonwealth for budget planning purposes. The rate caps in Act 120 have had a dramatic impact on the employer contribution rate. If Act 120 was not in effect, the employer rate would have jumped to 29.65% on July 1, 2012, rather than the current rate of 12.36%. While this suppression of the employer contribution rate helps school employers and the Commonwealth budget for the increasing rates, the use of rate caps continues the underfunding of the System.
- Over the past year PSERS’ documents, letters, forms, and most publications were updated to incorporate the provisions of Act 120. This included changes in PSERS’ computer system to enable the new membership classes to receive member Statement of Accounts and staff prepared estimates. PSERS’ Member Web application was also revamped to enable these new members to calculate their own retirement estimates.
- The System also implemented an election process for the new membership Classes T-E and T-F. Of the 10,524 new members since July 1, 2011, 1,345 (12.78%) elected to be Class T-F with the 2.5% pension multiplier and higher contribution rate of 10.3%; whereas 9,179 (87.22%) elected to be Class T-E with a 2.0% pension multiplier and a contribution rate of 7.5%.

While Act 120 of 2010 provided historic pension reform and made dramatic progress toward addressing funding issues at PSERS, difficult budget issues remain for both the Commonwealth and school employers. Discussions about additional pension reform are ongoing and PSERS continues to provide technical advice and information on the funding issue.

Budgetary and Financial Governance

PSERS submits its administrative budget request to the Governor’s Office of the Budget each October where it is reviewed and evaluated. Any changes proposed by the Governor’s Budget Office are made and a final amount is provided to the Legislature, which passes the final budget and submits it to the Governor for his signing into law. The administrative budget is not funded from the Commonwealth’s General Fund, rather from the earnings of the Fund itself. PSERS continues to be prudent in its use of funds and managing the annual budget.

PSERS has annually underspent its approved budget, keeping more funds available to invest for PSERS' members. During FY 2012, the relocation of PSERS' Southcentral regional field office was completed. The office was moved from a satellite location to PSERS Headquarters building in downtown Harrisburg. This relocation will provide substantial annual savings each year. PSERS' expenditures for travel and training were lower than the previous year and other reductions were made to postage, printing and outsourced electronic data processing services as part of PSERS' efforts to control costs and improve operational efficiency. PSERS will discontinue printing and mailing CAFRs to its 700 plus employers this year to save costs. PSERS will utilize its website as the primary method to distribute its CAFR.

In addition, during FY 2012, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received $8.0 million in settlements from these cases in FY 2012.

Customer Service

While PSERS staff worked tirelessly to develop and implement the requirements of Act 120, service levels for members and school employers were not negatively impacted. The vast majority of retirement benefits continue to be processed in one step, which has enabled staff to focus on other customer service areas and reduce some of the timeframes for benefit processing.

Additionally, the System enhanced customer service by formalizing a process to review member accounts at periodic milestones and event triggers to ensure each detail of a member's account is accurately portrayed prior to the member applying for retirement.

Financial Highlights

The fair value of the System's net assets totaled $48.8 billion as of June 30, 2012. The System is the 17th largest state-sponsored public defined benefit pension fund in the nation and the 27th largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Assets and Management's Discussion and Analysis included in the Financial Section of this report.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2012, PSERS provided $6.0 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2012, the appropriation was $44.1 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding for a defined benefit pension plan entails an actuarial examination of the fund balances and liabilities to ensure money will be available for future and current benefit payments. The actuarial valuation measures the progress toward funding pension obligations of the System by comparing the actuarial assets to the actuarial liabilities of the System.

The results of PSERS' latest published actuarial valuation (as of June 30, 2011) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The funded status as of the latest actuarial valuation was 69.1%. Additional comparative information on the funded status of PSERS can be found in the Actuarial Section and in the Financial Section of this report.

Investments

Over the past few years, PSERS' Board and investment staff made significant changes to the Fund's investment asset allocation, including further refining the Fund's investment strategy and increasing the diversification of the Fund's assets. In particular, PSERS actively reduced its risk profile by significantly reducing its equity exposure and by moving portions of the Fund's assets into asset classes that are less correlated to the equity markets.

Income from the investment portfolio represents the major source of revenue to the System, accounting for 71% of total revenues over the twenty-year period from FY 1993 to FY 2012. During FY 2012, net investment income was $1.1 billion. The investment portfolio, which is one part of the System's net assets, totaled $48.5 billion, at fair value, as of June 30, 2012. For FY 2012, the time-weighted rate of return on the System's investments was 3.43%.

The investment portfolio is well diversified to emphasize a long-term investment approach. The overall objective of the System is to provide benefits to its members through a carefully planned and well-executed investment program. The return objectives are to (i) realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis and that exceeds the Policy Index (the Policy Index is a custom benchmark, which is based on the Board-established asset allocation structure that seeks to generate a return that meets the actuarial rate of return assumption); and (ii) invest the assets to maximize returns for the level of risk taken. The risk objectives are to (i) diversify the assets of the System to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location; and (ii) invest the assets so that the probability of investment losses (as measured by the Policy Index) in excess of 15.0% in any one year is no greater than 2.5% (or two standard deviations below the expected return). Additional information on the System's investments is contained in the Investment Section of this report.

Federal and State Tax Status

The System is a qualified trust fund under Section 401(a) of the Internal Revenue Code (IRC). As a result of the qualified status, the trust fund is entitled to an exemption, under Section 501(a) of the IRC, from federal income taxation on its investment earnings. Additionally, contributions made on behalf of the active members are tax deferred under Section 414(h) of the IRC. The trust fund and any benefits accruing to the members of PSERS are exempt from Pennsylvania state and municipal taxes.

It should be noted that the Internal Revenue Service (IRS) announced and initiated a renewed focus on the tax qualification of public pension funds in 2008. PSERS continues to work proactively, in conjunction with the State Employees' Retirement System, to address this IRS initiative.

Internal Controls and Reporting

PSERS' management is responsible for and has implemented internal controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America. The System maintains a full accrual accounting system. More specific accounting information is detailed in the Summary of Significant Accounting Policies (Note 2) in the notes to the financial statements found in the Financial Section of this report.

PSERS' management believes the internal accounting controls currently in place are adequate to meet the purpose for which they were intended and also believes the financial statements, supporting schedules and statistical tables are fairly presented.

GASB Pension Accounting and Financial Reporting Project (Pension Project)

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans,* addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

Statement No. 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* for most government employers. The new Statements also replace the requirements of Statement No. 50, *Pension Disclosures,* for those governments and pension plans.

Statement No. 67 provides public employee pension plans such as PSERS guidance for financial reporting. Statement No. 67 will significantly change related financial reporting through note disclosures and new required supplementary information (RSI) schedules. These changes are necessary for government employers to comply with Statement No. 68.

Statement No. 68 will require cost-sharing governments (employers) to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the employers in the plan. Additionally, all government employers participating in the plan will be required to include plan information in their note disclosures and RSI schedules.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013. Statement No. 68 will take effect for employers and governmental nonemployer contributing entities in fiscal years beginning after June 15, 2014. Statements Nos. 67 and 68 are available for download at no cost from the GASB website, www.gasb.org.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform services essential to the efficient operation of the System. An annual audit by an independent certified public accounting firm and annual valuation by an actuarial consultant attest to the financial and actuarial soundness of PSERS. The investment performance of the System is reviewed by an investment evaluation firm on a quarterly basis. The consultants providing services to the System are listed in the Financial Section and Investment Section of this report.

Other Information

In compliance with the Retirement Code, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published in the *Pennsylvania Bulletin* (Vol. 31, No.14). This information can be found at www.pabulletin.com/secure/data/vol31/31-14/index.html.

System Awards

Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for 29 consecutive years from FY 1983 to FY 2011. A photograph of this award appears in the Introductory Section of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the Comprehensive Annual Financial Report.

The System believes the current report continues to conform to the Certificate of Achievement program requirements and will be submitting this report to GFOA to determine eligibility for the 2012 certificate.

Public Pension Coordinating Council Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2011. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

The Public Pension Coordinating Council was formed in 1990 to assist the public employee retirement community. The Council is composed of representatives from three national associations whose members are directly involved in the administration of public employee retirement systems: the National Association of State Retirement Administrators (NASRA); the National Conference on Public Employee Retirement Systems (NCPERS); and the National Council on Teacher Retirement (NCTR). A reproduction of this award appears in the Introductory Section.

Acknowledgements

The preparation of this report reflects the combined efforts of PSERS staff under the direction of the PSERS Board. It is intended to provide complete and reliable information in conformance with accepted standards and to document responsible stewardship of the System's assets.

Respectfully submitted,

Jeffrey B. Clay	Brian S. Carl, CPA, CTP
Executive Director	Chief Financial Officer


Certificate of
Achievement
for Excellence
in Financial
Reporting
Presented to
Pennsylvania Public School
Employees' Retirement System
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

Pennsylvania Public School Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

Mission Statement

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

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

adopted 6/20/2008

Administrative Organization
PSERS Board of Trustees

Seated, front row: *Jeffrey B. Clay, PSERS' Executive Director, Board Secretary; Sally J. Turley, Board Vice-Chairman; Melva S. Vogler, Board Chairman; Patricia A. Tozer*

Standing, second row: *Thomas J. Gentzel; Hal Moss; James M. Sando; Glen S. Galante; Stacey Connors, designee for Honorable Patrick M. Browne; Ambassador Martin J. Silverstein; Anthony Mannino, designee for Honorable Lawrence M. Farnese; Jennifer Langan, designee for Treasurer Robert M. McCord; Honorable Glen R. Grell; Bernard Gallagher, designee for Honorable Joseph F. Markosek*

Not pictured: *Ronald J. Tomalis, Secretary of Education and Richard N. Rose*

PSERS Board of Trustees

2012 Board Committees

Appeals / Member Services

Ms. Tozer, Chair
Mr. Gentzel
Senator Farnese
Mr. Moss
Mr. Rose
Mr. Sando
Mrs. Turley

Audit/Budget

Mr. Galante, Chair
Mr. Grell, Vice Chair
Representative Markosek
Mr. Gentzel
Ambassador Silverstein
Treasurer McCord
Mr. Rose

Bylaws / Policy

Representative Grell, Chair
Representative Markosek
Senator Browne
Mr. Moss
Ms. Tozer
Mrs. Turley

Corporate Governance

Mr. Sando, Chair
Senator Browne
Mr. Galante
Treasurer McCord
Mr. Rose
Ambassador Silverstein

Elections

Mr. Moss, Chair
Representative Markosek
Senator Farnese
Mr. Tomalis
Mrs. Turley
Ambassador Silverstein

Finance

Mr. Rose, Chair
Mr. Moss, Vice Chair

Committee is comprised of all Board Members

Health Care

Mrs. Turley, Chair
Mr. Galante, Vice Chair
Representative Markosek
Mr. Gentzel
Representative Grell
Ms. Tozer

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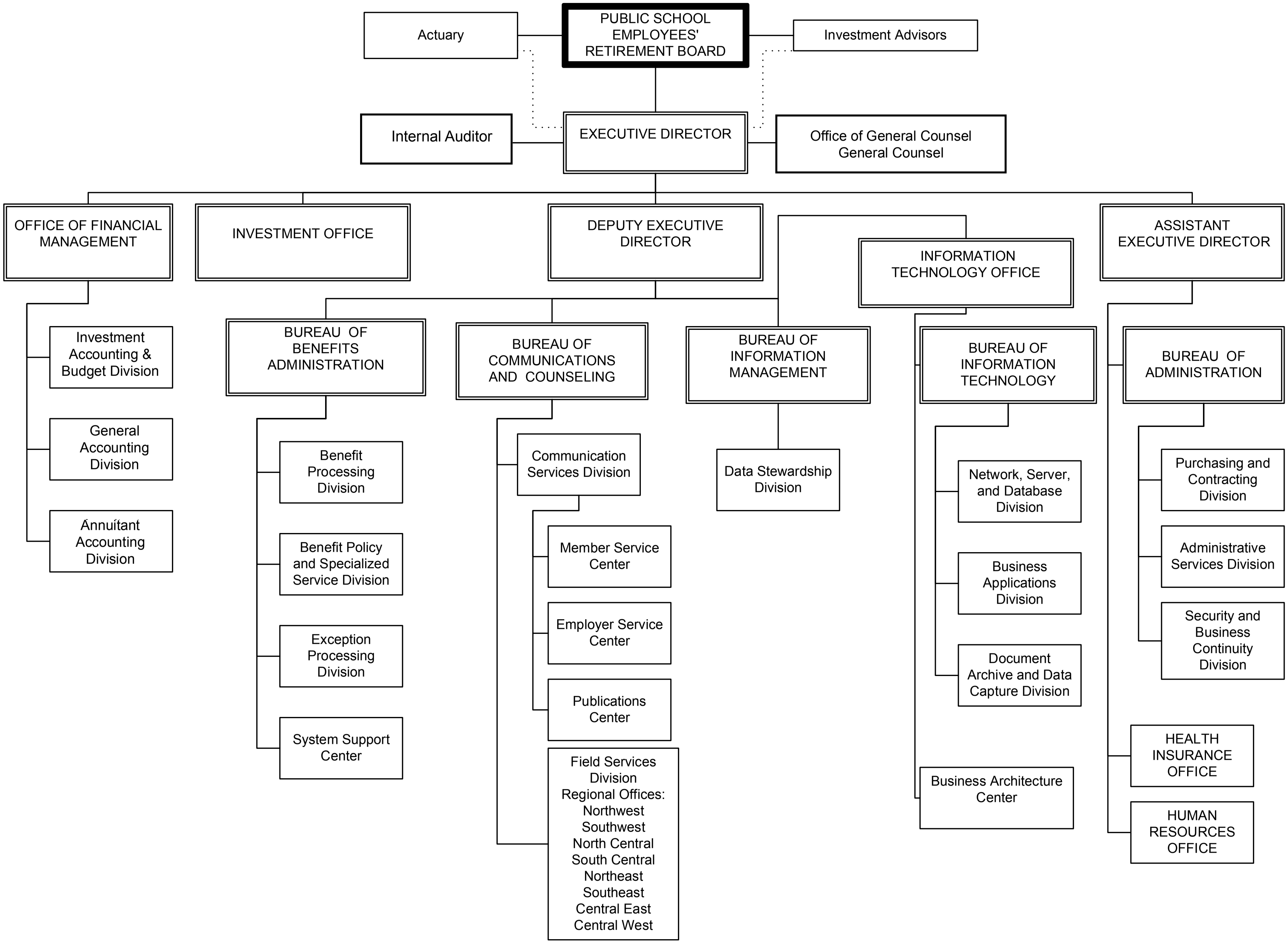
Senator Browne
Treasurer McCord
Mr. Rose
Mr. Sando
Representative Grell

Technology Steering

Treasurer McCord, Chair
Mr. Sando, Vice Chair
Mr. Galante
Mr. Tomalis
Senator Farnese
Mr. Moss

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

Organizational Chart of the Public School Employees' Retirement System



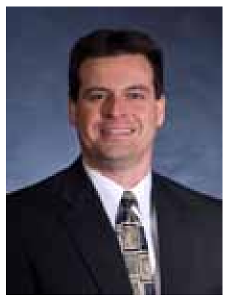
Administrative Staff

Jeffrey B. Clay
Executive Director

Alan H. Van Noord
Chief Investment Officer

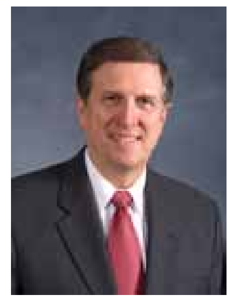
Terrill J. Sanchez
Deputy Executive Director

Michele M. Ferencz
Chief Counsel



Brian S. Carl
Chief Financial Officer

Joseph E. Wasiak
Assistant Executive Director

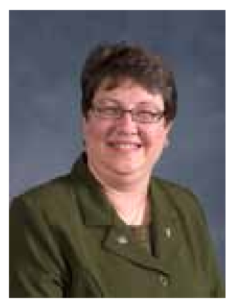


Richard R. Spinks
Chief Technology Officer

James F. Noone
Director of Administration

Ginger L. Bucher
Director of Benefits
Administration

Eugene W. Robison
Director of Communications
and Counseling

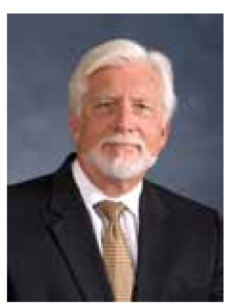


Deborah L. Garraway
Director of Information
Management

Mary E. Geesey
Director of Information
Technology

Tammy L. Meshey
Director of Human
Resources

Donald J. Halke, II
Internal Auditor



Mark F. Schafer
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Insurance

Francis J. Ryder
Director of Government
Relations

Evelyn M. Tatkovski
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PSERS REGIONAL OFFICES

Public School Employees' Retirement System of Pennsylvania

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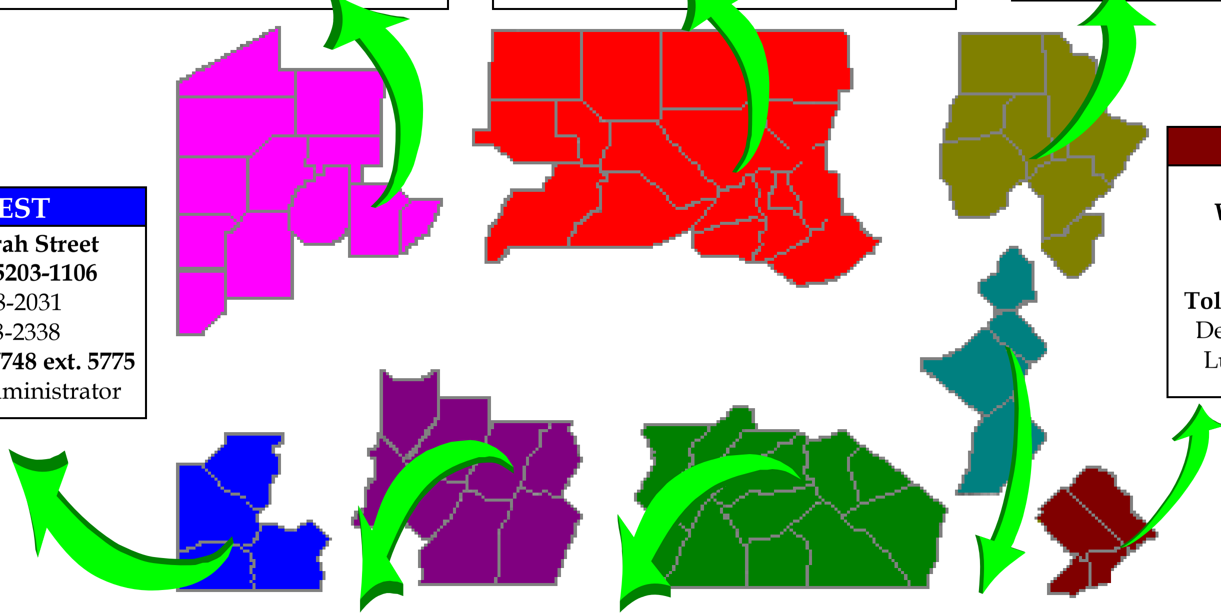

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Lisa A. York, Administrator

PSERS Headquarters Building

The headquarters of the Public School Employees' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania within the State Capital complex. Regional field offices are also maintained in Ebensburg, Fleetwood, Franklin, Lock Haven, Harrisburg, Pittsburgh, Warminster and Scranton.

The building was built and first occupied by the Retirement System in 1987 and is its first home built specifically for its use. It is owned by the Five North Fifth Street Corporation, a holding entity formed by PSERS, and is managed by Property Management Inc.

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FINANCIAL SECTION

FINANCIAL SECTION

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Public School Employees' Retirement System (PSERS), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of PSERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, PSERS' plan net assets as of June 30, 2012 and 2011, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of American require that the Management's Discussion and Analysis and Required Supplementary Schedules of Funding Progress and Employer Contributions (Required Supplementary Schedules 1 and 2) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. Supplementary Schedules 1 through 3, are presented for purposes of additional analysis and are not a required part of the financial statements. Supplementary Schedules 1 through 3 are the responsibility of management and have been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Introductory, Investment, Actuarial and Statistical Sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Baltimore, Maryland
September 18, 2012

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS, System, Fund) for the fiscal year ended June 30, 2012 (FY 2012) provides a narrative summary of PSERS' financial position and performance, including highlights and comparative data. The MD&A is presented as required supplementary information to the financial statements and should be read in conjunction with the financial statements, the notes to financial statements, and the supplementary schedules.

Overview of Financial Statements

PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. PSERS also administers two postemployment healthcare programs, the Health Insurance Premium Assistance Program (PA) and the Health Options Program (HOP), for its annuitants. The financial statements present the financial position and activities for the pension plan and the two postemployment healthcare programs.

The ***Statements of Plan Net Assets*** provide a snapshot of the financial position of PSERS at June 30, 2012, including comparative amounts for the prior year.

The ***Statements of Changes in Plan Net Assets*** summarize PSERS' financial activities that occurred during the fiscal period from July 1, 2011 to June 30, 2012, including comparative amounts for the prior year.

The ***Notes to Financial Statements*** provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements such as accounting policies, plan membership and benefits, and summary disclosures of selected financial data.

The ***Required Supplementary Schedules*** immediately following the notes to financial statements provide two schedules illustrating historical information concerning the funded status of PSERS and the employer contributions. These schedules emphasize the long-term nature of the pension and premium assistance plans and show the progress of PSERS in accumulating assets sufficient to pay benefits when due.

The remaining supplementary schedules provide additional detailed information concerning the operating expenses, investment expenses and payments to non-investment consultants. All of this supplementary information is considered useful in understanding and evaluating the financial activities of PSERS.

Financial Highlights

- The rate of return on investments was 3.43% for fiscal year ended June 30, 2012, 20.37% for the fiscal year ended June 30, 2011 (FY 2011) and 14.59% for the fiscal year ended June 30, 2010 (FY 2010). The annualized rate of return for the three years ended June 30, 2012 was 12.57%, which exceeded the 7.5% actuarial investment rate of return assumption. Unless otherwise noted, all rates of return are net of fees.

- PSERS' total plan net assets decreased by $2.6 billion from $51.4 billion at June 30, 2011 to $48.8 billion at June 30, 2012. This decrease was due in large part to deductions for benefits and administrative expenses exceeding net investment income plus member and employer contributions. The change in total plan net assets from June 30, 2010 to June 30, 2011 was an increase of $5.6 billion from $45.8 billion at June 30, 2010 to $51.4 billion at June 30, 2011. This increase was due in large part to net investment income plus member and employer contributions exceeding the deductions for benefits and administrative expenses.

- PSERS' funded ratio for the pension plan, as of the latest actuarial valuation dated June 30, 2011, decreased from 75.1% at June 30, 2010 to 69.1% at June 30, 2011. This decrease was primarily due to experience losses on investment assets, assumption changes, and employer contributions that were less than the normal cost plus interest on the unfunded liability. The funded ratio at June 30, 2009 was 79.2%.

- Total member contributions decreased from $1.24 billion in FY 2011 to $1.17 billion in FY 2012. The decrease was due to a 2.6% decrease in the active member payroll and fewer purchase of service contributions. The portion of member contributions for the HOP grew due to increased participation as well as ongoing health insurance rate increases.

- Total employer contributions increased from $747.8 million during FY 2011 to $1.1 billion in FY 2012. This increase was primarily attributable to an increase in the total employer contribution rate from 5.64% in FY 2011 to 8.65% in FY 2012 which was partially offset by a 2.6% reduction in active member payroll. Total employer contributions increased from FY 2010 to FY 2011 which was attributable to an increase in the total employer contribution rate from 4.78% in FY 2010 to 5.64% in FY 2011 and an increase in the active member payroll.

Management's Discussion and Analysis (continued)

- Total PSERS' benefit expense increased by $400 million from $5.6 billion in FY 2011 to $6.0 billion in FY 2012. This increase is attributable to the number of new retirements for the year, higher lump sum payments as well as an ongoing increase to the average monthly benefit and the number of members receiving benefits. New retirements during FY 2012 outpaced those of FY 2011 by approximately 6%. Total PSERS' benefit expense increased by $300 million from $5.3 billion in FY 2010 to $5.6 billion in FY 2011. This increase is attributable to the number of new retirements for the year, higher lump sum payments as well as an ongoing increase to the average monthly benefit, and the number of members receiving benefits. New retirements during FY 2011 outpaced those of FY 2010 by approximately 25%.
- Total PSERS' administrative expenses decreased slightly from $57.7 million for FY 2011 to $56.5 million in FY 2012 as PSERS continued to diligently control administrative expenses. Total PSERS' administrative expenses increased from $30.5 million in FY 2010 to $57.7 million for FY 2011. This overall increase is primarily due to the impact of the capitalization of intangible assets as a result of PSERS' implementation of Governmental Accounting Standards Board (GASB) Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* in FY 2010. This adjustment resulted in a $23.8 million reduction in FY 2010.

Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

Summary of Plan Net Assets	**FY 2012**	Increase (Decrease)	FY 2011	Increase (Decrease)	FY 2010
Assets:					
Receivables	**$ 1,433,111**	$ 258,554	$ 1,174,557	$ 109,496	$ 1,065,061
Investments	**48,540,849**	(3,288,315)	51,829,164	5,324,896	46,504,268
Securities lending collateral pool	**506,804**	(255,001)	761,805	(762,429)	1,524,234
Capital assets	**22,333**	1,304	21,029	1,814	19,215
Total Assets	**50,503,097**	(3,283,458)	53,786,555	4,673,777	49,112,778
Liabilities:					
Payables and other liabilities	**1,232,714**	(358,855)	1,591,569	(159,448)	1,751,017
Obligations under securities lending	**506,804**	(255,001)	761,805	(762,429)	1,524,234
Total Liabilities	**1,739,518**	(613,856)	2,353,374	(921,877)	3,275,251
Plan Net Assets	**$48,763,579**	$(2,669,602)	$ 51,433,181	$5,595,654	$ 45,837,527
Summary of Changes in Plan Net Assets					
Additions:					
Contributions	**$ 2,285,918**	$ 262,364	$ 2,023,554	$ 208,388	$ 1,815,166
Net investment income	**1,093,979**	(8,153,113)	9,247,092	3,132,104	6,114,988
Total Additions	**3,379,897**	(7,890,749)	11,270,646	3,340,492	7,930,154
Deductions:					
Benefit expense	**5,992,979**	375,732	5,617,247	348,072	5,269,175
Administrative expenses	**56,520**	(1,225)	57,745	27,253	30,492
Total Deductions	**6,049,499**	374,507	5,674,992	375,325	5,299,667
Changes in Plan Net Assets	**$(2,669,602)**	$(8,265,256)	$ 5,595,654	$2,965,167	$ 2,630,487

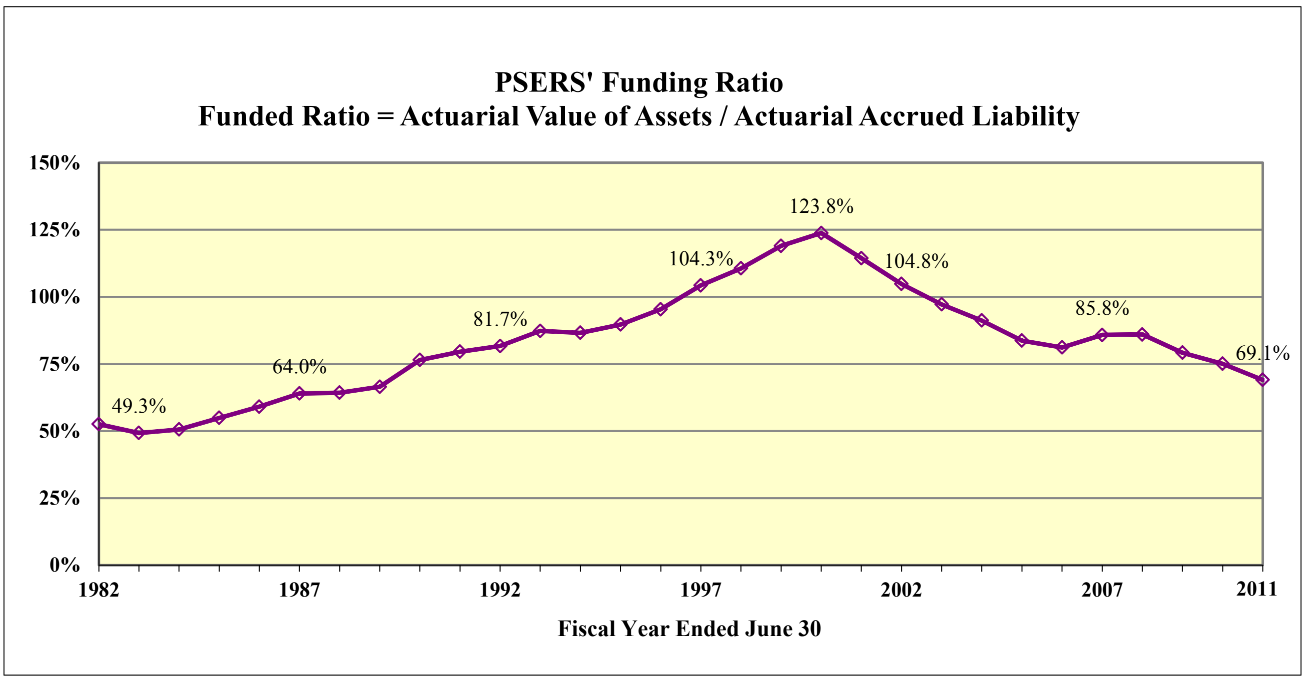
Management's Discussion and Analysis (continued)

Funded Status

PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS' pension is 69.1% funded as of June 30, 2011. The funded ratio decreased from 75.1% as of June 30, 2010 due to a decrease in the actuarial value of assets, which is based on a ten-year smoothing period, employer contributions below the normal cost plus interest, and an increase in the actuarial accrued liability which was partially due to a change in actuarial assumptions.

The results of operations for FY 2012 will be reflected in the actuarial valuation for the year ended June 30, 2012. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the 2012 calendar year and will be reported in the financial statements for the fiscal year ending June 30, 2013 (FY 2013). Based on the investment performance for the eight-year period ended June 30, 2012, which is below the investment rate of return assumption during that time period, and employer contributions below the normal cost plus interest, the funded ratio at June 30, 2012 is expected to decrease. FY 2012 is the third year of a five year transition from five-year to ten-year smoothing of actuarial assets. A thirty year history of PSERS' funded status is shown at the bottom of the page.

PSERS' State Accumulation Account had a negative balance at June 30, 2012 and 2011 (See Note 3). The deficit increased in FY 2012 due to a change in actuarial assumptions in the June 30, 2011 valuation, which was reflected in FY 2012, employer contributions below the normal cost plus interest and investment returns below the rate of return assumption. Employer contributions and investment earnings will be used to reduce the deficit in this Account in the future.



Management's Discussion and Analysis (continued)

Investments

PSERS is a long-term investor and manages the pension fund with long-term objectives in mind. A primary element of PSERS' investment philosophy is diversification among various asset classes, which is the best way to achieve its goals. PSERS makes estimates of future long-term market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

Domestically, the equity markets incurred steep losses during the third quarter of 2011 as the result of a bitter and partisan U.S. debt ceiling debate, which ultimately ended with an increase in the debt ceiling and led Standard & Poor's to downgrade the credit rating of United States government debt from AAA to AA+. The U.S. Gross Domestic Product (GDP) was fairly tepid during the past fiscal year with the exception of a slight pickup in the fourth quarter of 2011. The announcement on September 21, 2011 of the Federal Reserve's "Operation Twist" strategy (a plan to sell short-term notes and purchase long-term Treasuries to reduce interest rates) was a catalyst for the fourth quarter 2011 rally. One potential positive for the U.S. economy as of June 2012 and going forward is the apparent stabilization of the U.S. housing market as measured by the S&P Case-Shiller 20-City Home Price Index, which is up slightly since last June and is up 3.56% since its January 2012 lows. Internationally, the markets have been driven by both the continuing European debt crisis as well as a significant deceleration of growth in China. The debt problems continue to plague the peripheral European countries and demands for austerity measures in the Eurozone dampen growth forecasts and hurt equity markets in Europe. In China, real GDP has decelerated from 9.5% in the second quarter of 2011 to 7.6% in the second quarter of 2012. As a large and growing engine for world growth, the economic slow-down in China has caused global concerns. Despite these hurdles, PSERS outperformed more than 85 percent of the public pension plans in the Wilshire Compass All Public Funds Universe.

For FY 2012 PSERS' rate of return on investments was 3.43% which exceeded PSERS' total fund Policy Index of 1.98%. The Policy Index is a custom benchmark, which is based on the Board-established asset allocation structure, that seeks to generate a return that meets the actuarial rate of return assumption. Net investment income of $1.1 billion in FY 2012 decreased from a net investment income of $9.2 billion in FY 2011.

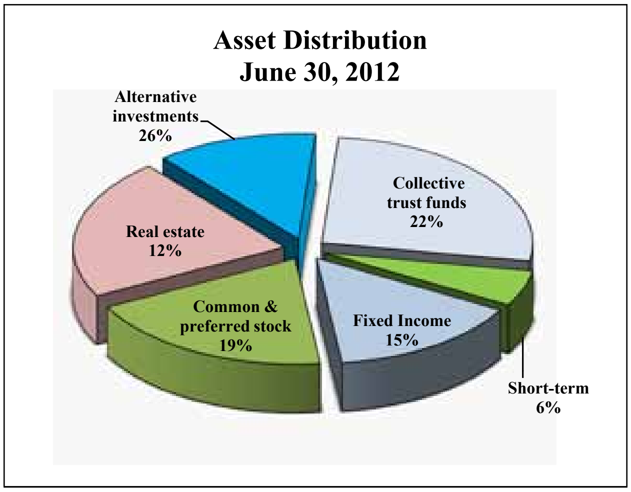
The annualized rate of return over the past three and five-year periods ended June 30, 2012 was 12.57% and .37%, respectively. The return for the three-year period exceeded the total fund Policy Index return by 263 basis points while the return for the five-year period trailed the total fund Policy Index return by 22 basis points. The annualized rate of return for the ten and twenty-five-year periods ended June 30, 2012 was 7.19% and 8.42%, respectively.

PSERS' long-term actuarial investment rate of return assumption was 7.5% at June 30, 2012. PSERS' Board of Trustees (Board) decreased the actuarial investment rate of return assumption from 8.0% to 7.5% for the June 30, 2011 actuarial valuation. The change made by the Board lowered PSERS' rate of return assumption to provide a more realistic outlook on the future earnings potential of the Fund as long-term capital market assumptions have declined.

The asset distribution of PSERS' investment portfolio at June 30, 2012, 2011 and 2010, at fair value, and including postemployment healthcare assets, is presented in the table at the bottom of the page.

	(Dollar Amounts in Thousands)					
Asset Class	**2012**	**%**	2011	%	2010	%
Short-term	**$ 2,649,495**	**5.5**	$ 5,813,421	11.2	$ 4,163,515	9.0
Fixed income	**7,207,558**	**14.8**	8,527,633	16.4	8,645,356	18.6
Common and preferred stock	**9,357,122**	**19.3**	11,319,183	21.8	10,908,365	23.5
Collective trust funds	**10,460,482**	**21.5**	8,320,294	16.1	7,636,438	16.4
Real estate	**6,003,753**	**12.4**	5,263,467	10.2	3,973,873	8.5
Alternative investments	**12,862,439**	**26.5**	12,585,166	24.3	11,176,721	24.0
Total	**$ 48,540,849**	**100.0**	$ 51,829,164	100.0	$ 46,504,268	100.0

Management's Discussion and Analysis (continued)



Short-term investments (cash and cash equivalents) decreased by $3.2 billion from $5.8 billion at June 30, 2011 to $2.6 billion at June 30, 2012. This asset class was overweighted at June 30, 2011 and underweighted at June 30, 2012 according to the asset allocation plans approved by the Board. Due to manager terminations, reallocation of investments and funding for benefit payments, PSERS decreased its short-term investments during FY 2012. Fixed income investments decreased by $1.3 billion from $8.5 billion at June 30, 2011 to $7.2 billion at June 30, 2012 mostly due to manager terminations and reallocation of exposure to other asset classes during FY 2012. Common and preferred stock investments also decreased by $1.6 billion from $11.0 billion at June 30, 2011 to $9.4 billion at June 30, 2012. The reduction in this asset category was mainly the result of negative returns in the international equity market. Collective trust funds rose by $1.9 billion from $8.6 billion at June 30, 2011 to $10.5 billion at June 30, 2012 mostly due to a reallocation of exposure from other asset classes. Real estate investments increased by $700 million from $5.3 billion at June 30, 2011 to $6.0 billion at June 30, 2012 due to contributions to new and existing partnerships combined with a recovery of value in partnership portfolio holdings.

Short-term investments (cash and cash equivalents) increased by $1.6 billion from $4.2 billion at June 30, 2010 to $5.8 billion at June 30, 2011 due to a reallocation of exposure from common and preferred stocks during FY 2011. Collective trust funds increased by $1 billion from $7.6 billion at June 30, 2010 to $8.6 billion at June 30, 2011 due to market value appreciation and allocation increases to the asset class. Real estate investments rose by $1.3 billion from $4.0 billion at June 30, 2010 to $5.3 billion at June 30, 2011 mostly as a result of contributions to new and existing partnerships combined with market recovery. Alternative investments increased by $1.4 billion from $11.2 billion at June 30, 2010 to $12.6 billion at June 30, 2011 due to contributions to new and existing partnerships combined with strong appreciation in partnership portfolio investments, which outweighed significant distributions.

Securities Lending

The System experienced only a slight change in net income from securities lending activities from $7.2 million in FY 2011 to $8.3 million in FY 2012 as spreads improved and volume increased.

Contributions

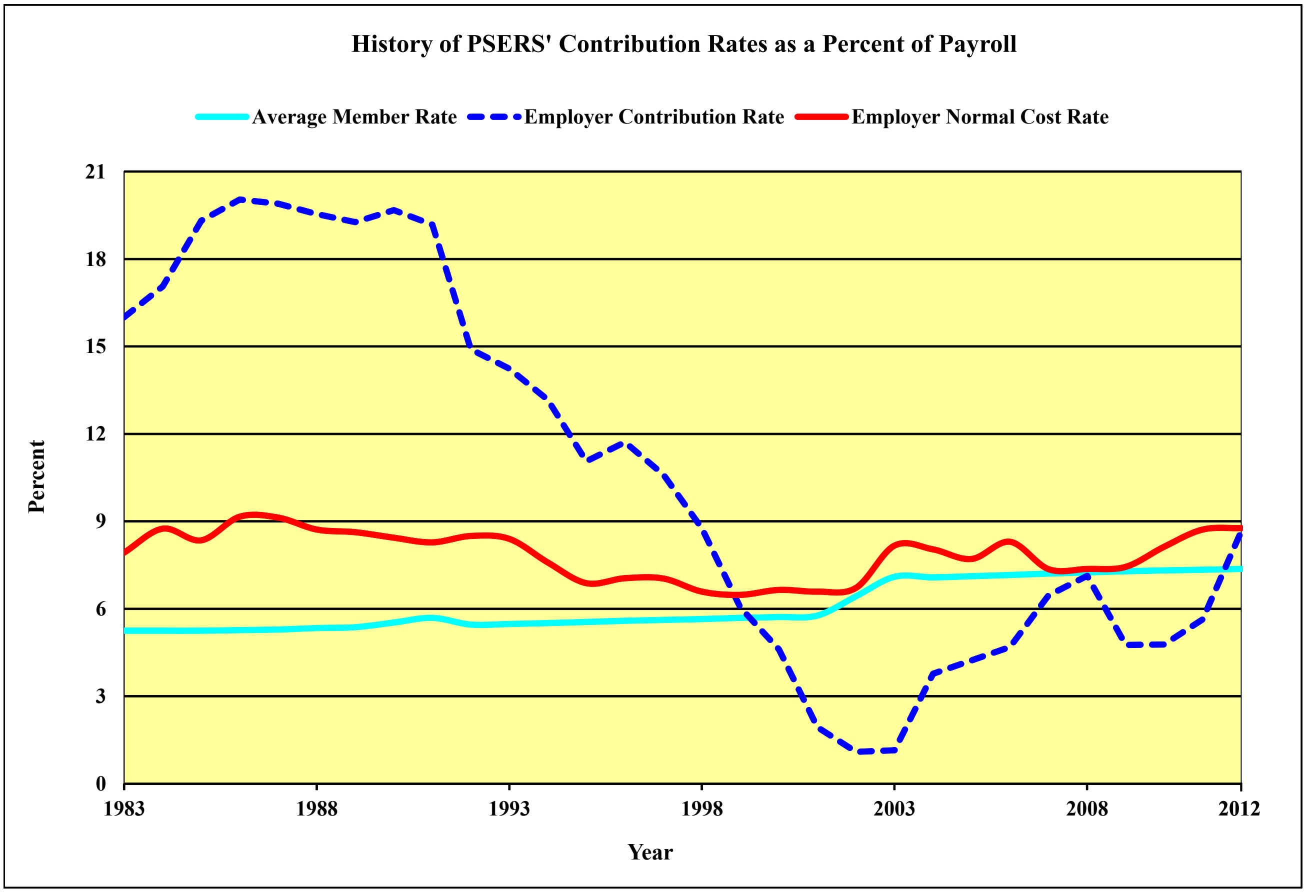
Employer contributions increased from $747.8 million in FY 2011 to $1.1 billion in FY 2012 due to the increase in the total employer contribution rate from 5.64% in FY 2011 to 8.65% in FY 2012. The decrease in active member payroll partially offset the increase in contribution rate. Active member payroll decreased 2.6% from FY 2011 to FY 2012. This was the first active member payroll decrease in over 20 years.

Total member contributions decreased from $1.24 billion in FY 2011 to $1.17 billion in FY 2012 due to a decrease in active member payroll for pension offset by a slight increase in the average member contribution rate and increased participation in the HOP. The average member contribution rate for pension increased from 7.34% in FY 2011 to 7.37% in FY 2012. Total member contributions increased from $1.14 billion in FY 2010 to $1.24 billion in FY 2011 as a result of the increase in the average member contribution rate and total active member payroll for pension and increased participation in the HOP. The average member contribution rate for pension increased from 7.32% in FY 2010 to 7.34% in FY 2011.

A thirty-year history of PSERS' contribution rates is presented on the next page.

As a result of a decrease in active member payrolls and a decrease in service credit purchases by members from FY 2011 to FY 2012, member contribution receivables decreased from $306.4 million at June 30, 2011 to $290.1 million at June 30, 2012. The increase in the employer contribution rate from FY 2011 to FY 2012 offset the effects of the decrease in the active member payrolls and lower employer cost of service credit purchases and resulted in the employer contribution receivable rising from $224.6 million at June 30, 2011 to $319.2 million at June 30, 2012.

Management's Discussion and Analysis (continued)



Pennsylvania Act 120 of 2010

On November 23, 2010, the Governor signed HB 2497 into law. The legislation is now known as Act 120 of 2010.

Act 120 preserves the benefits of existing members and includes a series of actuarial and funding changes to PSERS and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. The Act created two new membership classes, T-E and T-F.

Act 120 has a projected net savings of $1.38 billion thru FY 2044 as the $24.65 billion of projected savings from benefit reductions is offset by the $23.27 billion cost of deferring contributions for budgetary purposes. Act 120 addressed the pending employer contribution rates spike projected for FY 2013 by smoothing the projected rate increases over a five to nine year time period. In addition, the benefit reductions and risk sharing provisions for new members on July 1, 2011 and thereafter have created a low employer cost structure for new members and shifted some of the investment risk to members. The employer normal cost for Act 120 members is 68% less than pre-Act 120 members as the benefit plan is primarily member funded.

Benefit Changes

All new members will automatically become Class T-E members. New members however, will have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS. Failure to elect Class T-F at time of original eligibility will make the member ineligible for Class T-F forever. In other words, once the election is made either by action or inaction, the election is permanent. Provisions affecting both new membership classes are as follows:

- The cost to purchase Non Qualifying Part Time (NQPT) service and most types of nonschool or nonstate service credit (other than military service) will be the full actuarial cost of the service.
- Ten year vesting period.
- For normal retirement, employees must work until age 65 with a minimum of 3 years of service, or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service.
- No projection of service for determining normal retirement.

Management's Discussion and Analysis (continued)

- Cannot withdraw contributions and interest in a lump sum when retiring.
- Pension benefit cannot exceed the member's final average salary.
- New employees starting later than July 1, 2011 will contribute based on the "shared risk" rate in effect at date of hire.

Benefit and contribution rates for the new membership classes are as follows:

Class T-E

- Final average salary multiplier is 2% as opposed to 2.5% multiplier for most current members.
- Employee contribution base rate is 7.5% (base rate) with a "shared risk" provision that could cause the total contribution levels to fluctuate between 7.5% and 9.5%.

Class T-F

- Final average salary multiplier is 2.5%.
- Employee contribution base rate is 10.3% (base rate) with a "shared risk" provision that could cause the total contribution levels to fluctuate between 10.3% and 12.3%.

With a "shared risk" program, Class T-E and T-F 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 or T-F; but could increase or decrease by .5% every three years starting July 1, 2015, dependent on investment performance of PSERS. The member contribution rate could never go below the base rate of 7.5% for T-E and 10.3% for T-F members, or above 9.5% for T-E and 12.3% for T-F members.

Funding/Actuarial Changes Summary

Funding Changes - Employer Contributions

The legislation also suppresses the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast for budgetary purposes.

The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year's rate as follows:

- FY 2012 - not more than 3.0% plus the premium assistance contribution rate
- FY 2013 - not more than 3.5% plus the premium assistance contribution rate
- FY 2014 and thereafter - not more than 4.5% plus the premium assistance contribution rate

The rate cap remains at 4.5% until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. Once the rate caps no longer apply, the employer normal cost becomes the contribution rate floor.

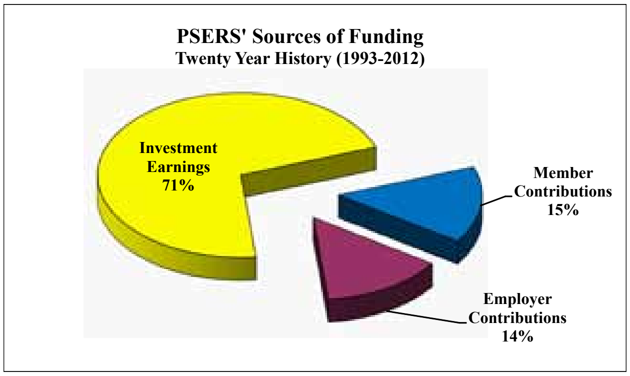
Actuarial Changes

- Currently liabilities are funded over various periods of time using level dollar amortization. Act 120 re-amortizes all unfunded liabilities over a 24 year period and uses level percentage of pay amortization.
- Level percentage of pay amortization is calculated using the same percentage of compensation each year during the amortization period. Under the level dollar amortization, the annual dollar amount of the payment remains the same each year.
- Act 120 changes the recognition of investment gains and losses from a five year smoothing period to a ten year smoothing period.
- Any future legislation enacted that adds liabilities to the system (i.e. cost-of-living adjustments, "30 and Out") will be amortized over ten years, using a level percentage of pay method. The cost of any additional accrued liability must be reflected above the employer contribution rate caps.
- The use of Pension Obligation Bonds to fund the System is prohibited.

Management's Discussion and Analysis (continued)

Investment Income

Net investment income decreased from $9.2 billion in FY 2011 to $1.1 billion in FY 2012, which is consistent with the decrease in the investment rate of return from 20.37% for FY 2011 to 3.43% for FY 2012. Net investment income changed by $3.1 billion from $6.1 billion in FY 2010 to $9.2 billion in FY 2011, which is consistent with the increase in the investment rate of return from 14.59% for FY 2010 to 20.37% for FY 2011. As depicted in the following chart, investment earnings provided 71% of PSERS' funding over the past 20 years. Net investment income also includes investment expenses as a deduction. The "Total PSERS' Benefits and Expenses" section that follows includes an analysis of investment expenses.



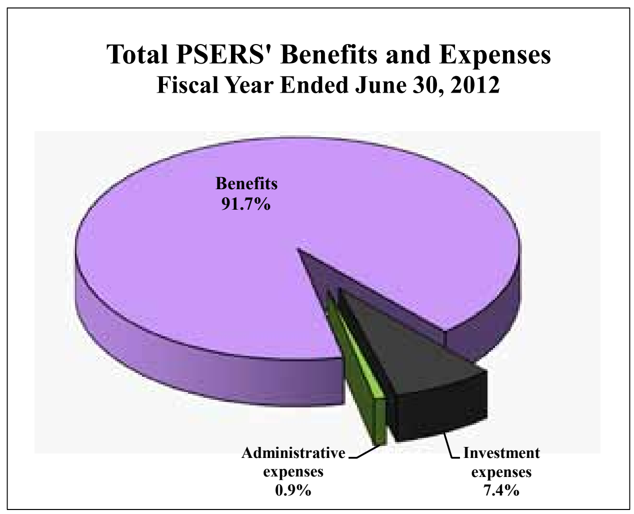
Total PSERS' Benefits and Expenses

The primary source of expense during FY 2012 was for the payment of benefits approximating $6.0 billion. The breakdown consisted of $5.7 billion for Pension, $97.0 million for the PA program, and $213.0 million for HOP benefits. The chart at the end of this page illustrates the significant portion of expenses attributable to benefit payments.

Total PSERS' benefit expense increased from $5.6 billion in FY 2011 to $6.0 billion in FY 2012. The increase is attributable to higher lump sum payments as well as an ongoing increase to the average monthly benefit and an increase in the number of members receiving benefits. There was a decrease in fourth quarter retirements, in FY 2012 versus the same period in FY 2011, resultng in a lower pension benefits payable figure at June 30, 2012 of $495.0 million compared to $646.4 million at June 30, 2011. New retirements during FY 2012 outpaced the number from FY 2011 by approximately 6%. Benefit expense increased from $5.3 billion in FY 2010 to $5.6 billion in FY 2011. This increase is attributable to the number of new retirements for the year, higher lump sum payments, as well as an ongoing increase to the average monthly benefit.

Investment expenses decreased by $33.4 million from $514.7 million in FY 2011 to $481.3 million in FY 2012 mainly due to a decline in management fees in the real estate and alternative investment asset classes. This reduction is widely attributable to changes in fee structure brought on by partnerships maturing. Also contributing to this change was a decrease in performance fees in the public market sector from FY 2011 to FY 2012. Investment expenses decreased by $7.6 million from $522.3 million in FY 2010 to $514.7 million in FY 2011 mainly due to a decline in management fees in the alternative investment asset class. This reduction is widely attributable to changes in fee structure brought on by partnerships maturing.

Administrative expenses decreased by $1.2 million from $57.7 million during FY 2011 compared to $56.5 million during FY 2012 as PSERS continued to diligently control administrative expenses. FY 2012 and FY 2011 are more consistent with historical values. FY 2010 administrative expenses of $30.5 million were significantly lower due to a $23.8 million reduction from the capitalization of previously expensed GASB 51 qualifying costs for computer systems development.



Management's Discussion and Analysis (continued)

Postemployment Healthcare

PSERS administers two postemployment healthcare programs, the Health Insurance Premium Assistance Program (PA) and the Health Options Program (HOP) for its annuitants. The following paragraphs and summary financial data provide supplementary information to the financial statements which contain the financial position and activities for the two postemployment healthcare programs.

Financial Highlights for Postemployment Healthcare

Health Insurance Premium Assistance (PA) Program

- Total plan net assets decreased by $17.5 million in FY 2012 due to a decrease in employer contributions and an increase in benefit payments. The change from June 30, 2010 to June 30, 2011 was a decrease of $5.6 million due to benefit payments and the associated administrative expenses exceeding employer contributions.
- Total receivables decreased slightly from $32.6 million at June 30, 2011 to $29.1 million at June 30, 2012 due to lower active member payroll. This was slightly offset by an increase in the contribution rate from .64% to .65% for FY 2011 and FY 2012, respectively.
- Investments decreased from $80.6 million at June 30, 2011 to $65.1 million at June 30, 2012 due to net cash outflows caused by expenditures exceeding contributions and income.

Health Options Program (HOP)

- Total plan net assets increased by $14.1 million in FY 2012 primarily due to the rise in contributions that outpaced expenses. The change from June 30, 2010 to June 30, 2011 is primarily due to the rise in claims expenditures outpacing the rise in contributions by almost a 3 to 1 margin.
- Total receivables increased from $13.8 million at June 30, 2011 to $16.8 million at June 30, 2012. The increase is tied primarily to higher contributions due to an increase in participation in the HOP.
- Investments increased from $145.9 million at June 30, 2011 to $157.8 million at June 30, 2012 due to increased participation, which increased contributions and improved cash flow.
- Total liabilities increased 2.2% from June 30, 2011 to June 30, 2012. The increase is due to increased participation in the program slightly offset by a decrease in claims payable.

Contributions

- Total employer contributions for PA decreased from $89.2 million in FY 2011 to $81.3 million in FY 2012 due to the decrease in employer reported salaries from FY 2011 to FY 2012. The contribution rate had a small increase, going from 0.64% in FY 2011 to 0.65% in FY 2012, which did not have a significant impact on the total contributions due to lower reported active member payroll.
- Total member and Centers for Medicare and Medicaid Services (CMS) contributions for HOP increased from $233.1 million in FY 2011 to $247.1 million in FY 2012. This increase is representative of the 7.8% increase in plan participation.

Investment Income

- Total investment income for PA decreased from $0.7 million in FY 2011 to $0.4 million in FY 2012. The decrease is due to declining short-term interest rates from FY 2011 to FY 2012 and a reduction in investments.
- Investment income for HOP decreased from $0.3 million in FY 2011 to $0.2 million in FY 2012. This decrease is due to lower rates of return on short-term investments.

Benefits and Expenses

- Overall expenses for PA increased from $95.5 million in FY 2011 to $99.3 million in FY 2012. This increase is primarily due to the increase in number of members receiving premium assistance benefits.
- Overall expenses for HOP were relatively unchanged totaling $233.7 million in FY 2011 and $233.2 million in FY 2012.

Management's Discussion and Analysis (continued)

Premium Assistance

Summary of Plan Net Assets

(Dollar Amounts in Thousands)

Assets:	FY 2012	Increase (Decrease)	FY 2011	Increase (Decrease)	FY 2010
Receivables	**$ 29,102**	$ (3,519)	$ 32,621	$ (4,919)	$ 37,540
Investments	**65,072**	(15,515)	80,587	739	79,848
Total Assets	**94,174**	(19,034)	113,208	(4,180)	117,388
Liabilities					
Payables and other liabilities	**421**	(1,529)	1,950	1,393	557
Total Liabilities	**421**	(1,529)	1,950	1,393	557
Plan Net Assets	**$ 93,753**	$ (17,505)	$ 111,258	$ (5,573)	$ 116,831

Summary of Changes in Plan Net Assets

Additions:	FY 2012	Increase (Decrease)	FY 2011	Increase (Decrease)	FY 2010
Contributions	**$ 81,343**	$ (7,899)	$ 89,242	$ (13,461)	$ 102,703
Net Investment Income	**423**	(268)	691	(178)	869
Total Additions	**81,766**	(8,167)	89,933	(13,639)	103,572
Deductions:					
Benefit Expenses	**97,206**	3,688	93,518	3,607	89,911
Administrative Expenses	**2,065**	77	1,988	44	1,944
Total Deductions	**99,271**	3,765	95,506	3,651	91,855
Changes in Plan Net Assets	**$ (17,505)**	$ (11,932)	$ (5,573)	$ (17,290)	$ 11,717

Health Options Program

Summary of Plan Net Assets

(Dollar Amounts in Thousands)

Assets:	FY 2012	Increase (Decrease)	FY 2011	Increase (Decrease)	FY 2010
Receivables	**$ 16,813**	$ 3,044	$ 13,769	$ 351	$ 13,418
Investments	**157,785**	11,884	145,901	3,465	142,436
Total Assets	**174,598**	14,928	159,670	3,816	155,854
Liabilities					
Payables and other liabilities	**38,568**	827	37,741	4,108	33,633
Total Liabilities	**38,568**	827	37,741	4,108	33,633
Plan Net Assets	**$ 136,030**	$ 14,101	$ 121,929	$ (292)	$ 122,221

Summary of Changes in Plan Net Assets

Additions:	FY 2012	Increase (Decrease)	FY 2011	Increase (Decrease)	FY 2010
Contributions	**$ 247,104**	$ 14,010	$ 233,094	$ 8,009	$ 225,085
Net Investment Income	**237**	(73)	310	(130)	440
Total Additions	**247,341**	13,937	233,404	7,879	225,525
Deductions:					
Benefit Expenses	**213,027**	(1,940)	214,967	21,660	193,307
Administrative Expenses	**20,213**	1,484	18,729	2,286	16,443
Total Deductions	**233,240**	(456)	233,696	23,946	209,750
Changes in Plan Net Assets	**$ 14,101**	$ 14,393	$ (292)	$ (16,067)	$ 15,775

Statements of Plan Net Assets
June 30, 2012 and 2011
(Dollar Amounts in Thousands)

	2012			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 284,565	$ 5,492	$ 19	$ 290,076
Employers	296,374	22,807	-	319,181
Investment income	284,451	251	28	284,730
Investment proceeds	521,217	-	-	521,217
CMS Part D and prescriptions	-	-	16,615	16,615
Miscellaneous	589	552	151	1,292
Total Receivables	1,387,196	29,102	16,813	1,433,111
Investments, at fair value:				
Short-term	2,426,638	65,072	157,785	2,649,495
Fixed income	7,207,558	-	-	7,207,558
Common and preferred stock	9,357,122	-	-	9,357,122
Collective trust funds	10,460,482	-	-	10,460,482
Real estate	6,003,753	-	-	6,003,753
Alternative investments	12,862,439	-	-	12,862,439
Total Investments	48,317,992	65,072	157,785	48,540,849
Securities lending collateral pool	506,804	-	-	506,804
Capital assets (net of accumulated depreciation $20,044)	22,333	-	-	22,333
Total Assets	50,234,325	94,174	174,598	50,503,097
Liabilities:				
Accounts payable and accrued expenses	106,413	314	1,571	108,298
Benefits payable	494,996	107	18,499	513,602
Participant premium advances	-	-	18,498	18,498
Investment purchases and other liabilities	592,316	-	-	592,316
Obligations under securities lending	506,804	-	-	506,804
Total Liabilities	1,700,529	421	38,568	1,739,518
Net assets held in trust for pension and postemployment healthcare benefits	$ 48,533,796	$ 93,753	$ 136,030	$ 48,763,579

The accompanying notes are an integral part of the financial statements.

Statements of Plan Net Assets
June 30, 2012 and 2011
(Dollar Amounts in Thousands)

	2011			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 300,448	$ 5,893	$ 38	$ 306,379
Employers	198,739	25,899	-	224,638
Investment income	314,822	242	11	315,075
Investment proceeds	313,512	-	-	313,512
CMS Part D and prescriptions	-	-	13,700	13,700
Miscellaneous	646	587	20	1,253
Total Receivables	1,128,167	32,621	13,769	1,174,557
Investments, at fair value:				
Short-term	5,586,933	80,587	145,901	5,813,421
Fixed income	8,527,633	-	-	8,527,633
Common and preferred stock	11,319,183	-	-	11,319,183
Collective trust funds	8,320,294	-	-	8,320,294
Real estate	5,263,467	-	-	5,263,467
Alternative investments	12,585,166	-	-	12,585,166
Total Investments	51,602,676	80,587	145,901	51,829,164
Securities lending collateral pool	761,805	-	-	761,805
Capital assets (net of accumulated depreciation $18,208)	21,029	-	-	21,029
Total Assets	53,513,677	113,208	159,670	53,786,555
Liabilities:				
Accounts payable and accrued expenses	118,980	340	1,230	120,550
Benefits payable	646,390	100	19,525	666,015
Participant premium advances	-	-	16,986	16,986
Investment purchases and other liabilities	786,508	1,510	-	788,018
Obligations under securities lending	761,805	-	-	761,805
Total Liabilities	2,313,683	1,950	37,741	2,353,374
Net assets held in trust for pension and postemployment healthcare benefits	$ 51,199,994	$ 111,258	$ 121,929	$ 51,433,181

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011
(Dollar Amounts in Thousands)

	2012			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 952,887	$ -	$ 213,642	$ 1,166,529
Employers	1,004,584	81,343	-	1,085,927
Centers for Medicare & Medicaid Services	-	-	33,462	33,462
Total contributions	1,957,471	81,343	247,104	2,285,918
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	539,129	(1,543)	-	537,586
Short-term	8,422	2,018	237	10,677
Fixed income	328,492	-	-	328,492
Common and preferred stock	258,258	-	-	258,258
Collective trust funds	5,209	-	-	5,209
Real estate	170,991	-	-	170,991
Alternative investments	255,769	-	-	255,769
Total investment activity income	1,566,270	475	237	1,566,982
Investment expenses	(481,234)	(52)	-	(481,286)
Net income from investing activities	1,085,036	423	237	1,085,696
From securities lending activities:				
Securities lending income	9,457	-	-	9,457
Securities lending expense	(1,174)	-	-	(1,174)
Net income from securities lending activities	8,283	-	-	8,283
Total net investment income	1,093,319	423	237	1,093,979
Total Additions	3,050,790	81,766	247,341	3,379,897
Deductions:				
Benefits	5,655,306	97,206	213,027	5,965,539
Refunds of contributions	24,675	-	-	24,675
Net transfer to State Employees' Retirement System	2,765	-	-	2,765
Administrative expenses	34,242	2,065	20,213	56,520
Total Deductions	5,716,988	99,271	233,240	6,049,499
Net increase (decrease)	(2,666,198)	(17,505)	14,101	(2,669,602)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	51,199,994	111,258	121,929	51,433,181
Balance, end of year	$ 48,533,796	$ 93,753	$ 136,030	$ 48,763,579

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011
(Dollar Amounts in Thousands)

	2011			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 1,042,707	$ -	$ 201,014	$ 1,243,721
Employers	658,511	89,242	-	747,753
Centers for Medicare & Medicaid Services	-	-	32,080	32,080
Total contributions	1,701,218	89,242	233,094	2,023,554
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	8,616,152	(1,324)	-	8,614,828
Short-term	12,755	2,063	310	15,128
Fixed income	383,306	-	-	383,306
Common and preferred stock	292,475	-	-	292,475
Collective trust funds	4,147	-	-	4,147
Real estate	113,370	-	-	113,370
Alternative investments	331,286	-	-	331,286
Total investment activity income	9,753,491	739	310	9,754,540
Investment expenses	(514,647)	(48)	-	(514,695)
Net income from investing activities	9,238,844	691	310	9,239,845
From securities lending activities:				
Securities lending income	8,251	-	-	8,251
Securities lending expense	(1,004)	-	-	(1,004)
Net income from securities lending activities	7,247	-	-	7,247
Total net investment income	9,246,091	691	310	9,247,092
Total Additions	10,947,309	89,933	233,404	11,270,646
Deductions:				
Benefits	5,281,223	93,518	214,967	5,589,708
Refunds of contributions	17,695	-	-	17,695
Net transfer to State Employees' Retirement System	9,844	-	-	9,844
Administrative expenses	37,028	1,988	18,729	57,745
Total Deductions	5,345,790	95,506	233,696	5,674,992
Net increase (decrease)	5,601,519	(5,573)	(292)	5,595,654
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	45,598,475	116,831	122,221	45,837,527
Balance, end of year	$ 51,199,994	$ 111,258	$ 121,929	$ 51,433,181

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

1. Organization and Description of the System

(A) Organization

The System was established on July 18, 1917, under the provisions of Pamphlet Law 1043, No. 343 as a governmental cost-sharing multiple-employer plan that provides retirement allowances and other benefits to its members. Membership in the System is mandatory for nearly all qualifying public school employees in the Commonwealth of Pennsylvania (Commonwealth). At June 30, 2012, there were 773 participating employers, generally school districts. Membership as of June 30, 2011, the most recent year for which actual amounts are available, is presented in the table at the bottom of this page.

The Public School Employees' Retirement Board (Board) is established by state law as an independent administrative board of the Commonwealth. The Board exercises control and management of the System, including the investment of its assets. The Board has fifteen members including the Commonwealth's Secretary of Education, the State Treasurer, the Executive Director of the Pennsylvania School Boards Association, two members appointed by the Governor, six elected members (three from among the System's certified members, one from among the System's noncertified members, one from among the System's annuitants, and one from among school board members in Pennsylvania), two members from the Senate, and two members from the House of Representatives.

The State Treasurer is the custodian of the System's fund. The retirement plan of the System is a contributory defined benefit plan for which the benefit payments to members and contribution provisions by employers and employees are specified in the Pennsylvania Public School Employees' Retirement Code (Code). Changes in benefit and contribution provisions for the retirement plan must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the System's retirement plan are to be accompanied with an actuarial note prepared by an enrolled pension actuary from the Public Employee Retirement Commission providing an estimate of the cost and actuarial effect of the proposed change.

Based upon criterion of financial accountability as defined by governmental accounting standards, the System is considered a component unit of the Commonwealth of Pennsylvania financial reporting entity and is included in the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania.

(B) Pension Plan

i. Pension Benefits

Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. The Internal Revenue Code (IRC) limitation on the annual benefits for a defined benefit plan was $200,000 and age 62 for 2012 and $195,000 and age 62 for 2011.

Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of

Currently employed members:		
Vested	191,879	
Nonvested	87,273	
Total currently employed members		**279,152**
Retirees and beneficiaries currently receiving benefits	194,622	
Inactive members and vestees entitled to but not receiving benefits	115,102	
Total retirees and other members		**309,724**
Total number of members		**588,876**

Notes to Financial Statements (continued)

PSERS members whose membership started prior to July 1, 2011:		
Membership Class T-C	Active Members hired before July 22, 1983	5.25%
Membership Class T-C	Active Members hired on or after July 22, 1983	6.25%
Membership Class T-D	Active Members hired before July 22, 1983	6.50%
Membership Class T-D	Active Members hired on or after July 22, 1983	7.50%
PSERS members whose membership started on or after July 1, 2011 (Act 120 members):		
Membership Class T-E*		7.50%
Membership Class T-F**		10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.5% and 9.5%
** Shared risk program could cause future contribution rates to fluctuate between 10.3% and 12.3%

years of credited service. For members whose membership started prior to July 1, 2011, in most cases after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service. Under certain features of the System, active members may purchase credit for various types of school and non-school service on a lump-sum, installment purchase basis, or through an actuarially calculated benefit reduction. Class T-E and Class T-F members must purchase Non Qualifying Part Time service and most other types of non-school or non-state service credit at full actuarial cost.

In addition to regular retirement benefits, the System also provides for disability retirement benefits and death benefits. Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits. Certain exceptions apply to normal disability retirements.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death. Benefits may be distributed for a deceased member by a nonspouse beneficiary via a direct trustee-to-trustee transfer to an Individual Retirement Account (IRA), which is treated as an inherited account.

Members with credited service in the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) may elect to transfer service with the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service with SERS upon becoming a member of that system.

All members are fully vested in their individual balance in the Members' Savings Account which is described in Note 3. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement. Vested Class T-E and Class T-F members cannot withdraw their individual balance from the Members' Savings Account upon their retirement.

ii. Contributions

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth. The System's funding policy provides for periodic employer and Commonwealth contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay retirement benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This method determines the amount of contributions necessary to (1) fully fund all current costs, (also known as normal cost), which represents the estimated amount necessary to pay for the benefits earned by the employees during the current service year; and (2) liquidate the prior service cost for service earned prior to the current service year and subsequent benefit increases, which represents the amount necessary to fund accrued liabilities over the appropriate amortization periods.

Notes to Financial Statements (continued)

Contribution rates for active members are set by law (redefined with the provisions of Act 9 of 2001 and Act 120) and are dependent upon membership class. The contribution rates based on qualified member compensation for virtually all members are presented in the table at the top of this page. The IRC limitation on the annual compensation for a defined benefit plan was $245,000 for 2011 and $250,000 for 2012.

Active members enrolling prior to Act 120 newly hired after July 1, 2001, the effective date of Act 9 of 2001, are automatically Membership Class T-D (Class T-D). The contribution rates for all members in Class T-D were effective January 1, 2002. For Act 120 members, all new members will automatically become Class T-E members. New members however, will have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS. Failure to elect Class T-F at time of original eligibility will make the member ineligible for Class T-F forever. Act 120 introduced a shared risk program that could affect Class T-E and Class T-F members' contribution rates in future fiscal years. With the shared risk program Class T-E and Class T-F 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 or Class T-F; but could increase or decrease by .5% every three years starting July 1, 2015, dependent on investment performance of PSERS. The member contribution rate will never go below the base rate of 7.5% for Class T-E and 10.3% for Class T-F members, or above 9.5% for Class T-E and 12.3% for Class T-F members.

The total contribution rate for the employers and the Commonwealth was 8.65% and 5.64% of qualified compensation for the years ended June 30, 2012 and 2011, respectively. The total contribution rate for the year ended June 30, 2011 was recertified from an actuarially required rate of 8.22% to 5.64% based upon the statutory requirements of Act 46 of 2010.

Act 120 suppresses the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast for budgetary purposes.

The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year's rate as follows:

- FY 2012 - not more than 3.0% plus the premium assistance contribution rate
- FY 2013 - not more than 3.5% plus the premium assistance contribution rate
- FY 2014 and thereafter - not more than 4.5% plus the premium assistance contribution rate

The rate cap remains at 4.5% until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. Once the rate caps no longer apply, the employer normal cost becomes the contribution rate floor.

According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. All school entity employers are reimbursed by the Commonwealth at least 50% of the total employer contributions based on the total contribution rate. The Commonwealth reimburses certain school entity employers at a rate greater than 50% based upon non-pension criteria which stipulate that the entity must have a Commonwealth Department of Education calculated Market Value / Personal Income Aid Ratio in excess of .5000. The Commonwealth remits employer contributions for employers other than school entities directly to the System. All contributions from employers and the Commonwealth are shown as employer contributions on the Statements of Changes in Plan Net Assets.

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of the Health Insurance Premium Assistance (PA) Program. The PA Program contribution rate is set at a level necessary to establish reserves sufficient to provide PA Program payments for all participating eligible members for the subsequent fiscal year. The portion of the total contribution rate for employers and the Commonwealth used to fund the PA Program was 0.65% and 0.64% for the years ended June 30, 2012 and 2011, respectively.

iii. Funding Status and Annual Required Contributions (ARC)

As of June 30, 2011, the most recent actuarial valuation, the plan was 69.1% funded. The actuarial accrued liability for pension benefits was $85.6 billion, and the actuarial value of pension assets was $59.1 billion, resulting in an unfunded accrued liability of $26.5 billion. The covered payroll of active members was $12.9 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 205.3%.

For fiscal year ended June 30, 2012, the ARC was $2.63 billion. The actual employer contributions, net of purchase of service contributions, for fiscal year ended June 30, 2012 was $1.0 billion resulting in a 38% contributed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions included as Required Supplementary Information following the notes to the financial statements provide multiyear presentations of funding status and ARC to illustrate their trends over time.

iv. Actuarial Assumptions and Methods

(a) Funding Method

For purposes of determining pension contributions under the PSERS Code, the entry-age normal actuarial cost method is used in determining benefit liabilities and normal cost. Act 120 modified the funding method. The outstanding balance of the unfunded accrued liability as of June 30, 2010 was re-amortized over a 24 year period with amortization payments based on level percentage of pay. Future valuation experience gains or losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 24-year period as a level percent of pay. Future increases in accrued liability enacted by legislation after June 30, 2010 will be funded over a 10-year period as a level percent of pay.

For purposes of determining the annual required contributions under GASB Statement No. 25, the same funding method is used as for pension funding, except that (i) the 4% pension floor is not taken into account and (ii) the amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period of 30 years.

(b) Asset Valuation Method

For actuarial purposes, Act 120 extended the asset smoothing from five years to ten years. Assets are valued using a ten-year moving market average value that will recognize the actuarial expected investment return immediately and spread the difference between actual and expected investment return beginning with fiscal year ended June 30, 2010 over a period of ten years (the averaging period is being phased-in from fiscal year 2006). Previously, PSERS recognized the actuarial expected return immediately and spread the difference between actual and expected investment return over a period of five years.

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2011, the date of the most recent actuarial valuation include:

- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Amortization method - level percent of pay
- Benefit payments - no postretirement benefit increases assumed in the future
- Multiple decrement tables - mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

The System's actuarial liabilities are calculated separately for retirees and beneficiaries and for active and inactive members. The actuarial present value of benefits to be paid to retirees and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The Annuity Reserve Account with interest credited thereon at an annual rate of 5.50% is compared to the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries and any deficiency is then funded by a transfer from the State Accumulation Account.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry-age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Members' Savings Account, State Accumulation Account and the fair value adjustment are subtracted from this present value to arrive at the funded or unfunded actuarial accrued liability.

(C) Postemployment Healthcare Plans

i. Health Insurance Premium Assistance Program

(a) Premium Assistance Benefits

The System provides a Health Insurance Premium Assistance (PA) Program for all eligible annuitants who qualify or elect to participate. Under this program, employer contribution rates for the PA Program are established to provide reserves in the Health Insurance Account that are sufficient for the payment of PA Program benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible annuitants must obtain their health insurance through either their school

Notes to Financial Statements (continued)

employer or the PSERS' Health Options Program. As of June 30, 2012 there were no assumed future benefit increases to participating eligible annuitants in the PA Program.

(b) Funding Status and Annual Required Contributions

As of June 30, 2011, the most recent actuarial valuation, the plan was 8.3% funded. The actuarial accrued liability for benefits was $1.339 billion, and the actuarial value of assets was $111.3 million, resulting in an unfunded accrued liability of $1.228 billion. The covered payroll of active members was $12.9 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.5%.

For fiscal year ended June 30, 2012, the ARC was $102.1 million. The actual employer contributions for fiscal year ended June 30, 2012 was $80.9 million resulting in a 79.0% contributed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions included as Required Supplementary Information following the notes to the financial statements provide multiple year presentations of funding status and ARC to illustrate their trends over time.

(c) Actuarial Assumptions and Methods

The health insurance liability and funding provisions of the PSERS Code differ from the GASB disclosure requirements. As a result, there are different determinations of actuarial liability and contribution requirements for GASB accounting purposes and for Commonwealth funding purposes. For purposes of funding, the actuarial liability equals the assets in the PA Program account, and the contribution required is the amount necessary to establish reserves sufficient to provide PA Program payments to all participating eligible annuitants during the fiscal year that immediately follows the year the employer contribution is made. For GASB accounting purposes, the actuarial liability has been determined under the entry age normal actuarial cost method, and the ARC is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years using level dollar open amortization. The entry age actuarial cost method was selected for this calculation because it meets the GASB parameters for determining actuarial liability and normal cost, and is the cost method specified by the PSERS Code for the PSERS pension plan.

Each annual actuarial valuation for the PA Program includes calculations that are based on the PA benefits provided under the terms of the substantive plan in effect at the time of each valuation. The valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial calculations for the PA Program reflect a long-term perspective. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Other significant actuarial assumptions employed by the actuary as of June 30, 2011, the date of the most recent actuarial valuation were:

- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Multiple decrement tables - mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

ii. Health Options Program

The Health Options Program (HOP) is a PSERS-sponsored voluntary health insurance program for the sole benefit of annuitants of PSERS, spouses of annuitants, survivor annuitants and their dependents who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect. HOP offers several health plans. Participants may select among a self-funded Medicare supplement plan, two Medicare Rx plans, and multiple Medicare Advantage plans for those eligible for Medicare. Participants not eligible for Medicare have a choice of a self-funded high deductible indemnity plan and multiple managed care plans. Medicare Advantage and managed care plans are available to retirees residing in the plan's service area. The Medicare Advantage and managed care plans are provided by private insurance companies or managed care organizations and benefits are fully insured. The Medicare supplement and high deductible plans are self-funded and claims are adjudicated by a third party administrator. The Medicare Rx Options and the prescription drug benefit of the high deductible plan for those not eligible for Medicare are also self-funded and HOP uses a pharmacy benefits manager to administer the benefits. Effective January 1, 2006, PSERS entered into an Employer/Union Entity contract with the Centers for Medicare and Medicaid Services (CMS) to operate a voluntary Medicare Prescription Drug Plan (PDP). Monthly contributions are received from CMS covering the 49,674 participants in the PDP. An independent

Notes to Financial Statements (continued)

actuarial consulting firm sets the rates for the self-funded benefits. The HOP maintains reserves for claims that are incurred but not reported (IBNR) and for claim fluctuation for the self-funded benefit plans. At June 30, 2012 and 2011 PSERS recorded $14,389,000 and $15,394,000, respectively, in IBNR. The IBNR is included in benefits payable. The PSERS pension fund assets are not available to fund or satisfy obligations of the HOP.

2. Summary of Significant Accounting Policies

(A) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period for which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions in plan net assets during the reporting period. Actual results could differ from those estimates.

(B) Investments

The System's investments are reported at fair value. Fair value is the amount that the System can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national securities exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national securities exchanges or securities pricing services. Securities which are not traded on a national securities exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and, for properties not appraised, the present value of the projected future net income stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2012 and 2011, $132,000,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 9, 2015. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 75 basis points and is collateralized by certain fixed income investments of the System.

For alternative investments which include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing services. The changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds generally do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which regulatory agencies such as the Securities and Exchange Commission have regulatory oversight. Investments that are not subject to this oversight are subject to annual independent audits.

In accordance with PSERS' investment guidelines, cash collateral from securities loaned is invested in one of two collateral investment pools, the first of which is denominated in U.S. dollars (USD) and the second in Euros. The USD pool is invested entirely in overnight repurchase agreements carried at amortized cost which approximates fair value. The Euro pool is invested in asset-backed floating rate notes which are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing

Notes to Financial Statements (continued)

services. In addition to the floating rate notes, the Euro pool is invested in repurchase agreements.

Investment expenses consist of investment manager fees and those administrative expenses directly related to the System's investment operations. Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are included in investment purchases and other liabilities.

(C) Capital Assets

Capital assets consist primarily of data processing equipment and software and internally developed computer software qualifying as intangible assets according to GASB 51. Capital assets other than intangible assets are depreciated using the straight-line method over an estimated useful life of five years. The System amortizes intangible assets using the straight-line method over an estimated useful life of twenty years.

(D) Benefits Payable

Benefits payable identifies the obligations of the System, on an accrual basis, at the end of the fiscal year. It includes the estimated retirement and death benefits payable, premium assistance benefits payable, and the HOP IBNR claims for its participants.

(E) Compensated Absences

The System uses the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employees of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 2012 and 2011, $3,452,000 and $3,378,000, respectively, was accrued for unused vacation and sick leave for the System's employees and included in "Accounts payable and accrued expenses" on the Statements of Plan Net Assets.

(F) Participant Premium Advances

Premium advances in the fiscal years ended June 30, 2012 and 2011 are for HOP premiums related to health care coverage to be provided in calendar year 2012 and 2011, respectively.

(G) Federal Income Taxes

The Internal Revenue Service (IRS) issued a determination letter dated March 3, 1978 which stated that the plan and its underlying trust qualify under the provisions of Section 501(a) of the Internal Revenue Code (IRC) and therefore are exempt from federal income taxes. The plan has been amended since receiving that determination letter. Additionally, the IRS issued a 1982 ruling which concluded that the fund and the board are integral parts of the Commonwealth, and are therefore not subject to federal income tax. In the opinion of management, the System has operated within the terms of the plan and remains qualified under the applicable provisions of the IRC.

(H) Risk Management

The System is exposed to various liabilities and risks of loss, including, without limitation, the ordinary risks of investment losses, risks related to theft or destruction of assets, liabilities resulting from injuries to employees, and liabilities resulting from court challenges to fiduciary decisions. As an administrative agency of the Commonwealth of Pennsylvania, the System is accorded sovereign immunity. For claims not shielded by sovereign immunity, the System participates in certain Commonwealth pooled insurance programs and requires asset managers to carry certain insurance coverage for the protection of the System. The System has implemented a self-insurance program for fiduciary and director and officer liability coverage. During the past three fiscal years, insurance settlements did not exceed insurance coverage.

(I) Reclassifications

Certain 2011 amounts have been reclassified in conformity with the 2012 presentation. These reclassifications had no effect on net assets held in trust for pension benefits or the change in plan net assets.

(J) Members Receivables

Members receivables include an amount for members' obligations to the System for the purchase of service credit. Members have a variety of options to remit purchase of service payments:

- Remit a lump sum payment.
- Request an installment plan from one to seven years where the member's employer establishes a payroll deduction process. The member's employer then forwards monthly payments of the withheld amounts to PSERS.
- Accept an actuarial reduction debt through which the amount of the purchase plus accumulated interest will reduce the member's retirement or death benefit.
- Rollover funds from an eligible distribution.

Notes to Financial Statements (continued)

The following is a summary of the members receivables at June 30, 2012 and 2011:

	(Dollar Amounts in Thousands)	
	2012	**2011**
Pension:		
Member contributions	**$ 76,202**	$ 80,117
Purchase of service	**202,271**	212,431
Other	**6,092**	7,900
Total Members Receivable	**$ 284,565**	$ 300,448

(K) Adoption of New Accounting Standards

During the year ended June 30, 2011 the System adopted GASB Statement No. 59, *Financial Instruments Omnibus*, which was issued to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments.

In June 2011 GASB issued GASB Statement No. 64 (GASB 64), *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. GASB 64 became effective during FY 2012 and was issued to provide government entities guidance to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty or a swap counterparty's credit support provider is replaced. Upon examination of the provisions of GASB 64, it was determined to have no current impact on PSERS.

3. Description of Accounts

The Code requires the System to maintain the following accounts which represent reserves held for future and current benefit payments as follows:

	(Dollar Amounts in Thousands)	
	2012	2011
Pension:		
State Accumulation Account	**$ (13,746,778)**	$ (5,704,296)
Members' Savings Account	**12,535,442**	12,242,308
Annuity Reserve Account	**49,745,132**	44,661,982
	$ 48,533,796	$ 51,199,994
Postemployment healthcare:		
Health Insurance Account	**$ 93,753**	$ 111,258
Health Insurance Program Account	**136,030**	121,929
	$ 229,783	$ 233,187

(A) State Accumulation Account

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of the System (after crediting the Members' Savings Account with 4% interest and the reserve for retirement with 5.50% statutory interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement, disabilities, and death benefits, are transferred from the State Accumulation Account to the Annuity Reserve Account increasing the reserve credit to the 7.50% valuation assumption rate determined by the actuary. All administrative expenses necessary for the operation of the System, except for premium assistance and HOP expenses, are paid from the State Accumulation Account.

(B) Members' Savings Account

The Members' Savings Account is credited with all contributions made by active members of the System. Interest is added to the member's individual account at an annual rate of 4%.

Upon death or retirement of a member, the accumulated contributions plus interest are transferred to the Annuity Reserve Account for subsequent payment of benefits.

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Notes to Financial Statements (continued)

(C) Annuity Reserve Account

The Annuity Reserve Account represents the amounts transferred from the Members' Savings and State Accumulation Accounts, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities and cost-of-living increases. All death, disability, and retirement benefits are paid from this account. Annual interest of 5.50% is credited to the Annuity Reserve Account.

(D) Health Insurance Account

The Health Insurance Account is credited with contributions of the Commonwealth and the employers for the PA Program. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. The Health Insurance Account pays all administrative expenses necessary to operate the health insurance premium assistance program.

(E) Health Insurance Program Account

The Health Insurance Program Account is credited with contributions from members of the HOP and from CMS. All benefits related to the HOP (premium payments to the insurance companies and self-funded benefits) are paid from this account. The Health Insurance Program Account pays all administrative expenses necessary to operate the HOP.

4. Investments

(A) Summary of Investments

The Board has the responsibility to invest and reinvest available funds of the System in accordance with the guidelines and limitations set forth in the Code and other applicable state law. The Board accomplishes the daily management of the System's investments through investment advisors who act as agents for the System and through internal investment managers.

The Board invests the funds of the System using the Prudent Investor Standard, as articulated in the Code, which means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital." The Board has adopted its investment policy to formally document investment objectives and responsibilities. This policy, as well as applicable state law, establishes guidelines for permissible investments of the System.

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Notes to Financial Statements (continued)

A summary of the fair value of investments at June 30, 2012 and 2011 follows:

	(Dollar Amounts in Thousands)	
	2012	2011
Pension investments:		
Short-term:		
PSERS Short-Term Investment Fund	**$ 1,678,876**	$ 4,474,903
Other domestic short-term	**527,008**	758,775
International short-term	**220,754**	353,255
	2,426,638	5,586,933
Fixed income:		
Domestic asset-backed and mortgage-backed securities	**2,580,131**	3,418,696
U.S. government and agency obligations	**1,961,606**	1,773,700
Domestic corporate and taxable municipal bonds	**1,426,219**	1,724,004
International fixed income	**1,239,602**	1,611,233
	7,207,558	8,527,633
Common and preferred stock:		
Domestic common and preferred stock	**5,056,850**	5,532,057
International common and preferred stock	**4,300,272**	5,787,126
	9,357,122	11,319,183
Collective trust funds	**10,460,482**	8,320,294
Real estate:		
Equity real estate	**5,767,203**	5,036,219
Directly-owned real estate	**236,550**	227,248
	6,003,753	5,263,467
Alternative investments:		
Private equity	**8,054,170**	7,813,079
Private debt	**3,918,894**	3,922,952
Venture capital	**889,375**	849,135
	12,862,439	12,585,166
Pension investments at fair value	**$ 48,317,992**	$ 51,602,676
Postemployment healthcare investments:		
Premium Assistance Program:		
PSERS Short-Term Investment Fund	**$ 21,995**	$ 24,300
Other domestic short-term	**43,077**	56,287
	65,072	80,587
Health Options Program:		
PSERS Short-Term Investment Fund	**88,197**	87,977
Other domestic short-term	**69,588**	57,924
	157,785	145,901
Postemployment healthcare investments at fair value	**$ 222,857**	$ 226,488

Notes to Financial Statements (continued)

(B) Deposit and Investment Risk Disclosures

i. Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System would not be able to recover the value of the deposits. The Commonwealth's Treasury Department is the custodian of the System's funds. Commonwealth Treasury Department deposits must be held in insured depositories approved by the Commonwealth's Board of Finance and Revenue and must be fully collateralized.

The System, through its third party administrator, maintains certain bank deposits for the operation of its voluntary HOP. These deposits are not required to be collateralized by statute or policy. These deposits totaled $69,588,000 and $57,924,000 at June 30, 2012 and 2011, respectively, and are under the custody of M&T Bank which has an A- rating by Standard and Poor's (S&P) and an A3 rating by Moody's Investor Services (Moody's).

ii. Investment Risks

The System's investments, including derivatives and other similar investments, may be subject to various risks. Among these risks are concentration of credit risk, custodial credit risk, credit risk, interest rate risk, and foreign currency risk. The policies addressing each one of these risks, discussed in more detail below, are contained within the Investment Policy Statement, Objectives, and Guidelines reviewed and approved annually by the Board. Due to the level of risk associated with certain investments, it is possible that changes in the values of investments may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Plan Net Assets.

(a) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2012 and 2011 the System had no single issuer that exceeded 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments were excluded.

(b) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with a contractual relationship between the Commonwealth's Treasury Department and its custodial agent, substantially all investments, where securities are used as evidence of the investment, are held by the custodian in book-entry form in the System's name. Those investments are defined as insured or registered investments for which the securities are held by the System or its agent and, therefore, have a very minimal level of custodial credit risk. The remaining investments, which do not have securities that are used as evidence of the investment, are primarily in collective trust funds and limited partnerships, which include real estate and alternative investments.

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating organizations (NRSRO) such as Fitch Investor Services (Fitch), Moody's, and S&P. Annually, the Board establishes an asset allocation plan. This plan manages the overall credit risk of the fixed income asset class through a clearly defined long-term asset allocation policy. This policy establishes a long-term target allocation of the fixed income asset class at 26.2% of the investment portfolio. The fixed income target allocation consists of:

- An allocation of 5.2% of the portfolio has been made to the U.S. core plus segment of the fixed income asset class benchmarked to the Barclays Capital U.S. Aggregate Index. The U.S. core plus allocation is composed of primarily investment grade, relatively liquid, public domestic bonds with an overall weighted-average NRSRO credit rating of A or better.

- An allocation of 6.0% of the portfolio has been made to the high yield segment of the fixed income asset class benchmarked to the Barclays Capital U.S. High Yield Index. The high yield allocation is composed of less liquid public non-investment grade fixed income securities with an overall weighted-average NRSRO credit rating of B- or better.

- An allocation of 5.0% of the portfolio has been made to the Treasury Inflation-Protected Securities (TIPS) segment of the fixed income asset class benchmarked to the Barclays Capital U.S. TIPS Index and composed of primarily government issued TIPS with an overall weighted-average NRSRO credit rating of AA or better. The portfolio manager is permitted to leverage the portfolio using TIPS total return swaps up to 3:1.

- An allocation of 3.0% of the portfolio has been made to the non-U.S. developed markets fixed income asset class benchmarked to the Barclays Capital Global Aggregate GDP-weighted Developed Market ex-U.S.

Notes to Financial Statements (continued)

(Unhedged) Index composed of primarily investment grade, relatively liquid non-U.S. public bonds with an overall weighted-average NRSRO credit rating of A or better.

- An allocation of 2.0% of the portfolio has been made to the emerging markets fixed income asset class benchmarked to the Barclays Capital EM Local Currency-Government-MV Weighted (Unhedged) -10% Country Cap Index composed of primarily investment grade, relatively liquid non-U.S. public bonds with an overall weighted-average NRSRO credit rating of BB- or better.

- An allocation of 5.0% of the portfolio has been made to cash benchmarked to the Merrill Lynch U.S. Treasury Bill 0-3 Months Index composed of primarily investment grade, relatively liquid U.S. and non-U.S. public bonds with an overall weighted-average NRSRO credit rating of AA or better.

The following table discloses aggregate market value by credit quality rating category. Many securities have ratings from more than one NRSRO and sometimes those ratings differ from one NRSRO to another. The data listed below uses the rating (expressed as S&P equivalent) available from Fitch, Moody's and/or S&P that indicates the lowest credit quality at June 30, 2012 and 2011.

	(Dollar Amounts in Thousands)	
	2012	2011
Quality Rating	**Fair Value**	Fair Value
AAA	**$ 764,417**	$ $1,397,723
AA	**473,928**	489,305
A	**705,148**	1,063,433
BBB	**702,523**	844,735
BB and Below	**971,777**	1,222,225
NR*	**8,055,914**	5,183,904
Total Exposed to Credit Risk	**11,673,707**	10,201,325
US Government Guaranteed**	**3,638,615**	8,342,563
Total Fixed Income and Short-Term Investments	**$ 15,312,322**	$ 18,543,888

* Not Rated securities include $5,455,269 and $4,202,834 in collective trust funds at June 30, 2012 and 2011 respectively.

** Comprised of U.S. government and agency obligations explicitly guaranteed by the U.S. government and not considered to have credit risk.

For derivatives exposed to credit risk, the table below presents aggregate market value by the least favorable credit rating provided by NRSROs at June 30, 2012 and 2011.

	(Dollar Amounts in Thousands)	
	2012	2011
Quality Rating	**Fair Value**	Fair Value
AA	**$ (11,394)**	$ 29,005
A	**(11,866)**	(211)
Total Swaps - Total Return	**$ (23,260)**	$ 28,794

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The System manages its interest rate risk by diversifying the fixed income portfolio and maintaining the fixed income portfolio at a Board-approved effective duration range of the benchmark index.

Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. For example, a duration of 4.0 would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up approximately 4.0 percent. PSERS measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

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Notes to Financial Statements (continued)

At June 30, 2012 and 2011, the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

	(Dollar Amounts in Thousands)			
	2012		2011	
Investment Type	**Option-Adjusted Duration**	**Fair Value**	Option-Adjusted Duration	Fair Value
Domestic asset-backed and mortgage-backed securities	**1.0**	**$ 2,580,131**	1.3	$ 3,418,696
U.S. government and agency obligations	**6.9**	**1,961,606**	5.7	1,773,700
Domestic corporate and taxable municipal bonds	**0.6**	**1,426,219**	3.4	1,724,004
International fixed income	**4.0**	**1,239,602**	4.3	1,611,233
Collective trust funds	**4.3**	**5,455,269**	3.8	1,131,686
PSERS Short-Term Investment Fund	**0.1**	**1,789,068**	0.1	4,587,180
Total	**3.1 ***	**$ 14,451,895**	2.4*	$ 14,246,499

* Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole rather than any particular investment type within the portfolio. In total, the futures contracts have adjusted PSERS' total portfolio duration upward by 0.1 at June 30, 2012 and 2011. The total portfolio option-adjusted duration is calculated by weighting each investment type by fair value.

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Notes to Financial Statements (continued)

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program to manage risk and enhance returns, the System invests in non-U.S. markets. Investment managers in non-U.S. equity and global fixed income may hedge their non-U.S. foreign currency exposure back to U.S. dollars. At June 30, 2012 and 2011 PSERS had the following non-U.S. currency exposures:

2012

(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments & Real Estate	Short-Term*	Total Fair Value
Euro	$ 573,763	$ 171,451	$ 2,420,337	$ (629,843)	$ **2,535,708**
Japanese yen	675,615	53,696	-	73,113	**802,424**
British pound sterling	772,071	36,716	24,171	(139,358)	**693,600**
Canadian dollar	359,569	22,974	269	17,386	**400,198**
Australian dollar	264,528	-	-	(39,707)	**224,821**
Hong Kong dollar	210,518	-	-	210	**210,728**
Brazil real	52,874	65,855	-	75,055	**193,784**
South African rand	64,243	43,544	-	72,791	**180,578**
New Turkish lira	37,238	39,922	-	101,023	**178,183**
Mexican new peso	10,288	67,619	-	52,407	**130,314**
South Korean won	72,610	42,477	-	(1,328)	**113,759**
Norwegian krone	39,774	2,906	-	70,461	**113,141**
Polish zloty	7,660	36,509	-	62,622	**106,791**
Other non-U.S. currencies	713,324	197,579	-	(438,917)	**471,986**
Total	$ **3,854,075**	$ **781,248**	$ **2,444,777**	$ **(724,085)**	$ **6,356,015**

2011

(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments & Real Estate	Short-Term*	Total Fair Value
Euro	$ 869,631	$ 283,457	$ 2,700,941	$ (42,624)	$ **3,811,405**
British pound sterling	1,037,285	28,124	7,905	(83,210)	**990,104**
Japanese yen	888,939	59,028	-	19,296	**967,263**
Canadian dollar	570,515	17,855	2,163	(32,757)	**557,776**
Australian dollar	387,318	6,982	-	130,042	**524,342**
Brazil real	103,195	57,054	-	145,027	**305,276**
Hong Kong dollar	254,608	-	-	176	**254,784**
Swiss franc	334,961	-	-	(96,720)	**238,241**
South African rand	65,946	49,997	-	116,948	**232,891**
Indian rupee	67,743	-	-	138,855	**206,598**
Indonesian rupian	39,246	47,443	-	80,196	**166,885**
Norwegian krone	30,641	3,808	-	131,625	**166,074**
South Korean won	102,798	7,550	-	53,188	**163,536**
Other non-U.S. currencies	558,614	331,305	-	14,558	**904,477**
Total	$ **5,311,440**	$ **892,603**	$ **2,711,009**	$ **574,600**	$ **9,489,652**

* Includes investment receivables and payables

Notes to Financial Statements (continued)

	(Dollar Amounts in Thousands)	
	2012	2011
Currency	**Notional Value**	Notional Value
British pound sterling	**$ 82,410**	$ 122,723
Japanese yen	**60,038**	102,741
Euro	**63,260**	30,072
Canadian dollar	**29,455**	36,761
Australian dollar	**22,457**	9,161
Total Futures Contracts and Total Return Swaps	**$ 257,620**	$ 301,458

At June 30, 2012 and 2011, the System had foreign currency exposures for its derivatives (except for foreign exchange contracts which are included in Note 5) as presented in the table at the top of the page.

(C) Securities Lending

In accordance with a contract between the Commonwealth and its custodial agent, the System participates in a securities lending program. Under this program, the custodian, acting as the lending agent, loans securities (equities, fixed income and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102% of the fair value of any securities loaned except for non-U.S. corporations for which 105% of the fair value is required. For Euro fixed income debt issues, for which the Commonwealth receives Euros as collateral and international fixed income debt issues denominated in U.S. dollars, the collateral required to be exchanged is in an amount not less than 102% of the fair value of any securities loaned. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. In lieu of certain approved securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the System.

As of June 30, 2012 and 2011, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the same borrowers fail to return the underlying securities (and the collateral is inadequate to replace the loaned securities) or fail to pay income distributions on them. There were no losses during the fiscal years ended June 30, 2012 and 2011, resulting from a default of the borrowers or the lending agent.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loan is one day. There were no term loans as of June 30, 2012 and 2011.

Cash collateral is invested in one of two short-term collateral investment pools, the first of which is denominated in U.S. dollars and the second in Euros. Each collateral investment pool is managed by the lending agent, is segregated from all other clients of the lending agent, and is not subject to custodial credit risk. The System's income from securities lending represents its pro-rata share from participating in the program. The weighted-average maturity of the investments in the pool was 2 days at June 30, 2012 and 2011. During the fiscal years ended June 30, 2012 and 2011, the mismatch between the maturities of the investments made with cash collateral and the maturities of the securities loans may have posed some interest rate risk to the System. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a default, the lending agent may use the collateral to replace the loaned securities.

As of June 30, 2012, the fair value of loaned securities was $2,841,486,000, which includes $2,343,034,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Assets. The fair value of the associated collateral was $2,962,708,000 of which $506,804,000 was cash. As of June 30, 2011, the fair value of loaned securities was $1,338,387,000, which includes $600,228,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Assets. The fair value of the associated collateral was $1,412,915,000 of which $761,805,000 was cash.

Notes to Financial Statements (continued)

5. Derivative and Other Similar Investments

The System enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury strips. The System is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The System is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The System generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types and uses of derivative financial instruments and do not measure the System's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the System has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2012 and 2011 represent a restriction on the amount of assets available as of year-end for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The System generally uses exchange listed currency, index, stock, and futures options. The fair value of option contracts of $25,617,000 and $7,289,000 at June 30, 2012 and 2011, respectively, is included in the Statements of Plan Net Assets.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. To reduce the risk of counterparty non-performance, the investment managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported below on the following page primarily include forwards. The $9,497,409,000 of foreign currency contracts outstanding at June 30, 2012 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $4,376,438,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $5,120,971,000. The $9,941,182,000 of foreign currency contracts outstanding at June 30, 2011 consist of "buy" contracts of $5,342,849,000 and "sell" contracts of $4,598,333,000. The unrealized gain (loss) on contracts of $(7,891,000) and $3,896,000 at June 30, 2012 and 2011, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts.

Notes to Financial Statements (continued)

The table presented below summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2012 and 2011.

	(Dollar Amounts in Thousands)	
	2012	2011
Futures contracts - long:		
Treasury futures	$ **386,242**	$ 295,044
Eurodollar futures	**-**	551,678
U.S. equity futures	**550,224**	613,483
Non-U.S. equity futures	**217,950**	175,136
Commodity futures	**1,339,130**	1,526,770
Non-U.S. bond futures	**-**	77,793
Futures contracts - short:		
Treasury futures	**209,438**	187,080
Eurodollar futures	**49,991**	275,905
U.S. equity futures	**-**	99,626
Non-U.S. bond futures	**-**	56,045
Foreign exchange forward and spot contracts, gross	**9,497,409**	9,941,182
Options - calls purchased	**5,103,649**	4,336,538
Options - puts purchased	**5,140,968**	4,708,379
Options - calls sold	**5,751,549**	4,673,491
Options - puts sold	**5,831,011**	5,024,008
Swaps - total return type	**2,338,655**	2,931,449

The fair values of derivative instruments outstanding at June 30, 2012 and 2011 are classified by type and by the changes in fair value of the derivative instrument in the table below.

(Dollar Amounts in Thousands)

	Change in Fair Value Gain/(Loss) FY 2012		Fair Value at June 30, 2012	
Investment Derivative Type	**Classification**	**Amount**	**Classification**	**Amount**
Futures	Investment income	**$ 11,174**	Receivable/(Payable)	**$ 11,174**
Total return type swaps	Investment income	**(23,260)**	Receivable/(Payable)	**(23,260)**
Options	Investment income	**25,617**	Investment	**25,617**
Foreign exchange contracts	Investment income	**(7,891)**	Receivable/(Payable)	**(7,891)**
Total		**$ 5,640**		**$ 5,640**

	Change in Fair Value Gain/(Loss) FY 2011		Fair Value at June 30, 2011	
Investment Derivative Type	**Classification**	**Amount**	**Classification**	**Amount**
Futures	Investment income	$ (26,858)	Receivable/(Payable)	$ (26,858)
Total return type swaps	Investment income	28,794	Receivable/(Payable)	28,794
Options	Investment income	7,289	Investment	7,289
Foreign exchange contracts	Investment income	3,896	Receivable/(Payable)	3,896
Total		$ 13,121		$ 13,121

Notes to Financial Statements (continued)

The following table summarizes the System's foreign exchange contracts by currency at June 30, 2012 and 2011:

2012

(Dollar Amounts in Thousands)

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro	$ 746,352	$ (4,418)	$ 1,350,760	$ (1,985)
Japanese yen	379,984	(807)	354,361	734
Australian dollar	343,044	7,831	346,844	(6,826)
British pound sterling	324,185	2,330	506,845	(1,875)
Mexican new peso	266,694	7,152	193,829	(5,942)
Canadian dollar	237,112	1,409	234,769	(966)
Turkish lira	200,666	2,497	99,968	(1,386)
Brazil real	196,941	2,739	126,023	(2,077)
New Zealand dollar	170,912	4,248	175,612	(5,503)
Norwegian krone	168,289	1,360	89,258	(453)
South African rand	148,768	2,116	76,178	(1,264)
Indonesian rupian	131,107	(2,192)	128,228	865
Indian rupee	130,890	(252)	104,850	(259)
Swiss franc	119,192	661	424,828	(3,640)
Swedish krona	105,483	2,008	290,916	(8,691)
Hungarian forint	88,252	4,496	8,249	(236)
Taiwan dollar	86,403	(626)	135,764	896
Other non-US currencies	532,164	787	473,689	(622)
Total	**$ 4,376,438**	**$ 31,339**	**$ 5,120,971**	**$ (39,230)**

2011

(Dollar Amounts in Thousands)

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro	$ 811,997	$ 6,664	$ 805,874	$ (6,999)
Brazil real	405,682	11,530	264,077	(5,937)
Swiss franc	373,760	884	390,096	(160)
Australian dollar	345,768	2,981	197,644	(2,932)
British pound sterling	336,006	(4,028)	417,026	4,981
Canadian dollar	309,000	2,677	353,205	(4,410)
Norwegian krone	262,880	2,685	102,507	(1,673)
Japanese yen	255,697	1,879	256,718	(721)
South African rand	247,660	1,378	133,093	(2,618)
Turkish lira	212,215	(4,230)	110,831	1,497
New Zealand dollar	210,700	2,388	201,563	(2,362)
Swedish krona	210,291	559	221,263	(2,402)
Indonesian rupian	208,656	2,296	54,681	(101)
Hungarian forint	151,655	2,109	92,520	(2,200)
Indian rupee	134,337	1,762	73,340	(583)
Taiwan dollar	98,614	(43)	196,674	(1,463)
Russian ruble	91,420	888	40,380	(205)
Mexican new peso	87,501	710	60,635	(659)
Other non-US currencies	589,010	4,167	626,206	(4,413)
Total	**$ 5,342,849**	**$ 37,256**	**$ 4,598,333**	**$ (33,360)**

Notes to Financial Statements (continued)

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2012 and 2011, the System entered into total return type swaps. Under the total return type swap arrangements, the System receives the net return of certain equity securities or indexes in exchange for a short-term rate minus a spread or a predetermined fixed charge. The receivable (payable) on the total return type swap contracts of $(23,260,000) and $28,794,000 at June 30, 2012 and 2011, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from August 14, 2012 to July 1, 2013.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2012 and 2011 is $1,437,519,000 and $1,735,359,000, respectively.

The System invests in U.S. Treasury strips which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop in interest rates.

Through certain collective trust funds, the System also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs, to enhance the performance and reduce the volatility of their portfolios.

6. Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, death, and disability benefits to plan members and beneficiaries according to Commonwealth statute. SERS issues a publicly available financial report that can be obtained by writing to SERS, 30 N. Third Street, P. O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5%, 6.25%, or 9.37% of their annual covered payroll depending upon service class. The System is required to contribute at an actuarially determined rate.

The rates applied to annual covered payroll were 6.99% at June 30, 2012, 4.11% at June 30, 2011, 3.15% at June 30, 2010. The System's contributions to SERS for the years ended June 30, 2012, 2011 and 2010 were $1,363,000, $790,000 and $601,000, respectively, which were equal to the required contributions each year.

7. Postemployment Healthcare Plan for Employees of the System

The System participates in the Commonwealth's Retired Employees Health Program (REHP). The REHP is a single-employer plan and provides certain healthcare benefits to qualifying individuals meeting specified age and/or service requirements. The Commonwealth's Office of Administration (OA), in its sole discretion, determines available REHP benefits on an ongoing basis. The Pennsylvania Employees Benefit Trust Fund (PEBTF) is a third-party administrator for the REHP under the provisions of an Administration Agreement between OA and PEBTF.

Employer costs for retiree healthcare benefits are charged as a component of payroll expenditures on a 'pay-as-you-go' basis. REHP funding is arranged between OA and the Governor's Budget Office. FY 2012 employer costs were charged at the rate of $240/employee/bi-weekly pay period. Plan members who retired after June 30, 2005 contribute to the plan based on a percentage of their final annual gross base salary at the time of retirement. Plan member contribution rates vary based on their REHP enrollment date.

In September 2011, the Commonwealth released an Actuarial Valuation of its Post-Retirement Medical Plan with calculations made as of July 1, 2011 using census data collected as of December 2010 and health care claims costs for calendar 2010. This valuation provided Other Postemployment Benefits (OPEB) reporting that was used for both FY 2011 and FY 2012. For FY 2011, the valuation indicated overall AOC of $883.2 million with the System's allocated AOC $3.2 million. Based on the aggregate REHP qualifying contributions for FY 2011, the net OPEB liability for the System was $1.1 million for that fiscal year. For FY 2012, the valuation indicated overall AOC of $870.2 million with the System's allocated AOC $3.1 million. Based on the aggregate REHP qualifying contributions for FY 2012, the net OPEB liability for the System was $0.9 million for that fiscal year.

Notes to Financial Statements (continued)

(Dollar Amounts in Thousands)			
Fiscal Year	Commonwealth ARC/AOC	PSERS' ARC/ AOC	PSERS' Net OPEB
2012	$ 870,200	$ 3,132	$ 871
2011	883,160	3,179	1,070
2010	850,440	3,705	1,460

8. Litigation and Contingencies

The System is subject to various threatened and pending lawsuits. These lawsuits include issues related to benefit calculations and eligibility. It is the opinion of management that the ultimate liability arising from such threatened and pending litigation will not have a material effect on the financial position of the System. The System is exposed to various other liabilities and risks related to fiduciary responsibilities of directors and officers.

9. Commitments

As of June 30, 2012, PSERS had commitments for the future purchase of investments in alternative investments of $4.9 billion and real estate of $2.3 billion.

10. Subsequent Events

The System has performed an evaluation of subsequent events through September 18, 2012, the date the basic financial statements were available to be issued. No material events were identified by the System.

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Required Supplementary Schedule 1
Schedules of Funding Progress*
(Unaudited – See Accompanying Auditor's Report)
(Dollar Amounts in Millions)

Pension

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) Unfunded actuarial accrued liabilities UAAL (1) - (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) UAAL as a percentage of covered payroll (3) / (5)
2011	$ 85,640.4	$ 59,141.1	$ 26,499.3	69.1%	$ 12,910.0	205.3%
2010	79,005.4	59,306.8	19,698.6	75.1%	12,788.8	154.0%
2009	75,520.7	59,781.6	15,739.1	79.2%	12,524.6	125.7%
2008	70,845.6	60,922.1	9,923.5	86.0%	11,921.5	83.2%
2007	66,495.8	57,057.8	9,438.0	85.8%	11,410.3	82.7%
2006	64,627.3	52,464.7	12,162.6	81.2%	11,419.0	106.5%

Premium Assistance

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) Unfunded actuarial accrued liabilities UAAL (1) - (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) UAAL as a percentage of covered payroll (3) / (5)
2011	$ 1,339.4	$ 111.3	$ 1,228.2	8.3%	$ 12,910.0	9.5%
2010	1,162.2	116.8	1,045.4	10.1%	12,788.8	8.2%
2009	1,159.0	105.1	1,053.9	9.1%	12,524.6	8.4%

* The amounts reported above in the Schedule of Funding Progress do not include assets or liabilities for the HOP.

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. The laws governing PSERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. In this environment, employees pay in greater dollar amounts, resulting in a dollar increase in unfunded accrued liabilities. This occurs at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Required Supplementary Schedule 2
Schedules of Employer Contributions
(Unaudited – See Accompanying Auditor's Report)
(Dollar Amounts in Thousands)

Pension

Year ended June 30	Annual Required Contributions	Actual Employer Contributions*	Percentage Contributed
2012	$ 2,629,244	$ 1,001,140	38%
2011	2,436,602	646,560	27%
2010	1,928,278	527,212	27%
2009	1,761,295	503,227	29%
2008	1,852,238	753,532	41%
2007	1,708,821	659,545	39%

Premium Assistance

Year ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2012	$ 102,104	$ 80,936	79%
2011	119,320	88,796	74%
2010	117,187	102,703	88%

The Board adopted all contribution rates as recommended by the Board's actuary pursuant to the prevailing provisions of the Retirement Code for each year, with the exception of the year ended June 30, 2011. Act 46 required the Board to recertify the employer contribution rate from 8.22% to 5.64%, allocating 5% to the pension component and .64% to the premium assistance component.

* Includes purchase of service contributions in FY 2007 and FY 2008.

Supplementary Schedule 1
Schedule of Operating Expenses
Year Ended June 30, 2012
(Dollar Amounts in Thousands)

	Administrative Expenses (1)	Investment Expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 15,268	$ 3,681	**$ 18,949**
Social security contributions	1,144	229	**1,373**
Retirement contributions	1,104	259	**1,363**
Employees' insurance contributions	4,713	545	**5,258**
Other employee benefits	50	130	**180**
Total personnel costs	22,279	4,844	**27,123**
Operating costs:			
Investment managers' fees	-	467,195	**467,195**
Custodian fees	-	604	**604**
Specialized services	17,553	2,856	**20,409**
Rental of real estate, electricity	2,028	179	**2,207**
Consultant and legal fees	2,941	3,447	**6,388**
Treasury and other commonwealth services	1,509	182	**1,691**
Postage	989	-	**989**
Contracted maintenance and repair services	963	14	**977**
Office supplies	247	14	**261**
Rental of equipment and software	1,619	187	**1,806**
Printing	304	-	**304**
Travel and training	165	13	**178**
Telecommunications	730	1	**731**
Equipment (non-capital assets)	2,565	4	**2,569**
Miscellaneous expenses	792	1,746	**2,538**
Total operating costs	32,405	476,442	**508,847**
Other charges:			
Depreciation	1,836	-	**1,836**
Total other charges	1,836	-	**1,836**
Total operating expenses	$ 56,520	$ 481,286	**$ 537,806**

(1) Includes administrative expenses of $2,065 related to Postemployment Healthcare Premium Assistance and $20,213 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2012.

(2) Includes investment expenses of $52 related to Postemployment Healthcare Premium Assistance for fiscal year ended June 30, 2012 and does not include $8,006 in capitalized broker commissions for the fiscal year ended June 30, 2012.

Supplementary Schedule 2
Summary of Investment Expenses
Year Ended June 30, 2012
(Dollar Amounts in Thousands)

	Fees
External management:	
Domestic equity	$ 2,869
International equity	22,225
Fixed income	64,644
Real estate	74,758
Alternative investments	140,914
Absolute return	138,992
Commodities	19,517
Master limited partnership	810
Risk parity	2,466
Total external management	**467,195**
Total internal management	**10,040**
Total investment management	**477,235**
Custodian fees	604
Consultant and legal fees	3,447
Total investment expenses	**$ 481,286**

Supplementary Schedule 3
Schedule of Payments to Non-Investment Consultants
Year Ended June 30, 2012
(Dollar Amounts Greater than $50,000)

Consultant	Fees	Services Provided
CoreSource Inc.	$ 13,046,823	Postemployment healthcare benefits administration and claims adjudication
ViTech Systems Group Inc.	5,422,005	Pension administration system services
Rx Solutions, Inc	4,109,161	Administration of postemployment healthcare benefits and prescription drug plan
The Segal Company, Inc.	2,631,905	Actuarial services and consulting for HOP and prescription drug plan
Independent Pharmaceutical Consultants, Inc.	527,691	Pharmacy benefit consulting services
Buck Consultants LLC	389,471	Pension benefit actuarial services
CliftonLarsonAllen LLP	115,000	Financial audit of pension system and postemployment healthcare programs

INVESTMENT SECTION

INVESTMENT SECTION

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

October 29, 2012

Dear Members of The PSERS Board of Trustees:

It is a privilege to present to you the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2012.

Authority and Fiduciary Standard

The Board has the responsibility to invest funds of the System in accordance with guidelines and limitations set forth in the Code and other applicable state law. As fiduciaries, the members of the Board and Staff must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. In performance of their duties, the members of the Board and Staff delegated with investment authority shall be held to the Prudent Investor Standard.

The Prudent Investor Standard, as articulated in the Code, means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital."

The Prudent Investor Standard requires a trustee to act prudently and with caution, discretion, loyalty, and care but does not restrict the assets in which the Board can invest. Under the Prudent Investor Standard, which recognizes modern portfolio theory, the Board's investment and management decisions with respect to individual assets shall be considered in the context of the portfolio as a whole and as part of an overall investment strategy, and not in isolation. No specific investment or course of action, taken alone, shall be considered inherently prudent or imprudent. This Standard recognizes the trade-off between risk and return.

Policies and Objectives

The Board is responsible for the formulation of investment policies for the System. The overall investment objectives of the System are as follows:

Return Objectives – the overall return objective is to realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis. Funding adequacy is achieved when the actuarial market value of assets is at least equal to the present value of the System's projected benefit obligations. The System has a return objective of meeting or exceeding the targeted actuarial rate of return of 7.5% over the long-term. In addition, the Board has the following broad objectives:

1. The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
2. The System shall strive to achieve a return that exceeds the Policy Index (the Policy Index is a custom benchmark, which is based on the Board-established asset allocation structure that seeks to generate a return that meets the actuarial rate of return assumption).

Risk Objectives

1. The assets of the System shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location. Failure to do so could impair the

System's ability to achieve its funding and long-term investment goals and objectives; and,

2. The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 15% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

To achieve these objectives, the Board meets during the first quarter of the calendar year to review the overall asset allocation plan and investment policies for the System. Implementation of investment policies is accomplished through the use of external investment management firms who act as agents for the System and through the use of internal investment managers. The Board also retains various investment consultants to assist with the formulation and implementation of investment policies.

Operations

The Board, via the Finance Committee, provides oversight of investment activities. The Finance Committee generally conducts seven meetings per year and may meet more frequently as needed. Investment Office staff, as well as external investment advisors and Investment Accounting staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2012, Wilshire Associates Incorporated (Wilshire) served as the general investment consultant to assist the Board in formalizing investment objectives, establishing an asset allocation plan, conducting investment advisor searches, reviewing performance, and commenting on compliance with investment policies. In addition, the Board utilized Aksia, LLC as an absolute return consultant, Courtland Partners, Ltd. as a real estate consultant, and Portfolio Advisors, LLC as an alternative investment consultant. Alternative investments generally consist of investments in private debt, private equity, and venture capital limited partnerships. Investment Office staff implement the investment decisions within the guidelines established in the Investment Policy Statement, Objectives and Guidelines regarding asset allocation, manager selection, security selection, and other objectives directed by the Board.

The Board employs both external investment management firms and internal investment managers to manage the investment portfolio of the System. At fiscal year end, 54 external public market investment management firms were managing $14.4 billion in assets of the System, $14.7 billion in assets were managed by the System's internal investment managers, and the remaining $19.4 billion in assets were managed by numerous emerging, alternative investment, and real estate investment managers. The performance of each external investment management firm and each internal manager is monitored quarterly against a pre-established benchmark as well as the performance of the manager's peer group.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System during the first quarter of each calendar year. The Board will consult with its actuary, consultants, Investment Office staff, and other sources of information it deems appropriate in formulating the asset allocation plan. The Board believes that the level of risk assumed by the System is largely determined by the Board's strategic asset allocation plan. The Board, in determining its long-term asset allocation, shall take the following factors into consideration:

- The System's investment time horizon;
- The demographics of the plan participants and beneficiaries;
- The cash flow requirements of the System;
- The actuarial assumptions approved by the Board;
- The funded status of the System;
- The Board's willingness and ability to take risk; and,
- The employers' (Commonwealth and school districts) financial strength.

In establishing the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations as prepared by its general investment consultant. The current long-term, top-down asset allocation targets of the Board are discussed in the following paragraphs.

The long-term target allocation as of June 30, 2012 included an equity target allocation of 21.5% consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (10.3%) and non-U.S. equity exposure

(11.2%). Within the U.S. equity target, the portfolios are diversified between large, small, and micro capitalization investment managers, and growth and value investment managers. The non-U.S. equity exposure includes both developed and emerging markets portfolios as well as large and small capitalization investment managers.

The fixed income target allocation of 26.3% consisted of U.S. core fixed income exposure (5.3%), leveraged Treasury Inflation-Protected Securities exposure (5.0%), high yield exposure (6.0%), emerging markets fixed income exposure (2.0%), non-U.S. fixed income exposure (3.0%), and cash (5.0%). The Board, Staff, and Wilshire deemed it prudent to have an allocation to cash given the known and potential cash flow requirements of the System. Within these categories, all sectors of the bond market are represented.

The real estate target allocation of 12.2% consisted primarily of limited partnerships. The types of partnerships the System invests in include core, value-added, and opportunistic real estate limited partnerships.

Alternative investments had a target allocation of 22.0%. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity, venture capital, and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

The absolute return target allocation of 12.0% consisted primarily of investment managers retained by the System to generate positive returns over time and be independent of how the equity, fixed income, and commodity markets perform. Strategies implemented to achieve this target include, but are not limited to, global macro, commodity trading advisors (CTAs), currency, and relative value strategies such as insurance-linked securities and credit long/short. The absolute return program is included in the allocation to generate returns equal to or greater than the targeted actuarial rate of return of 7.5% and to diversify the System's total portfolio risk.

The commodities target allocation of 6.0% consisted primarily of commodity futures and commodity and commodity-related publicly traded stocks. Commodities are included in the allocation to diversify the System's total portfolio risk.

Investment Results

As of June 30, 2012, the fair value of the investment portfolio was $48.5 billion, a decrease of $3.3 billion from last year's value. This decrease was primarily due to net investment income ($1.1 billion) less the deductions for benefits and administrative expenses exceeding member and employer contributions ($3.7 billion) less net changes in other investment assets and liabilities ($0.7 billion). The investment portfolio, as invested, was composed of 23.0% common and preferred stocks (equity), 23.2% fixed income investments, 22.0% alternative investments, 12.8% real estate, 12.6% absolute return portfolios, 4.4% commodities, 0.5% master limited partnership, and 1.5% risk parity at June 30, 2012. The table immediately following this letter illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percentage of the total investment portfolio.

The past few years, including this past fiscal year, have been characterized by slow global economic growth and episodic "risk-on" and "risk-off" periods. Equity market performance appears to be more and more driven by policy decisions made by sovereign governments and central banks around the world rather than economic performance. As these entities become more accommodating, equity markets will go through risk-on periods such as the fourth quarter 2011 and first quarter 2012 when the Morgan Stanley (MSCI) All-Country World Investable Market Index with USA gross (ACW IMI Index) was up 7.42% and 12.21%, respectively. The announcement on September 21, 2011 of the Federal Reserve's "Operation Twist" strategy (a plan to sell short-term notes and purchase long-term Treasuries to reduce interest rates), and the meetings of European Union leaders to take steps in addressing the economic woes threatening the existence of the Euro, were catalysts for the fourth quarter 2011 rally. The first quarter 2012 rally was primarily driven by the European Central Bank's $1.2 trillion long-term refinancing operating (LTRO) program which provided liquidity to European banks with some money going to European peripheral countries with stressed bond markets. As governments and central banks around the world become less accommodating, equity markets go through risk-off periods such as the third quarter of 2011 and the second quarter of 2012 when the MSCI ACW IMI Index was down 17.89% and 5.61%, respectively. In the U.S., the equity markets incurred steep losses during the third quarter of 2011 as the result of a bitter and partisan U.S. debt ceiling debate which ultimately ended with an increase in the debt ceiling and led Standard & Poor's to downgrade the credit rating of United States government debt from AAA to

AA+. In Europe, debt problems continued to plague the peripheral countries and demands for austerity measures in the Eurozone dampened growth forecasts and hurt equity markets in Europe.

U.S. economic activity as represented by the U.S. Gross Domestic Product (GDP) has been fairly tepid during the past fiscal year with the exception of a slight pickup in the fourth quarter of 2011. The U.S. real GDP increased by 1.3%, 4.1%, 2.0%, and 1.7% in the third quarter 2011, fourth quarter 2011, first quarter 2012, and second quarter 2012, respectively. The official unemployment rate (otherwise known as the U3 unemployment rate) fell during the fiscal year from 9.1% as of June 2011 to 8.2% as of June 2012, but three years into an economic recovery the rate still remains elevated relative to past recoveries. The more encompassing U6 unemployment rate, which measures not only people without work seeking full-time employment (U3 unemployment rate) but also counts "marginally attached workers and those working part-time for economic reasons" remains elevated at 14.9% as of fiscal year end, down from 16.2% at the end of the last fiscal year but significantly above the low point over the past 10 years of 7.9% in December 2006. One potential positive for the U.S. economy going forward is the apparent stabilization of the U.S. housing market as measured by the S&P Case-Shiller 20-City Home Price Index which is up slightly since last June and is up 3.56% since its January 2012 lows. The remainder of 2012 and 2013, however, face potentially significant headwinds, including the November presidential election, the impending expiration of tax cuts in 2013, and a potentially acrimonious debate over increasing the U.S. debt ceiling.

Internationally, the markets have been driven by both the continuing European debt crisis as well as a significant deceleration of growth in China. The European debt crisis continues to have the potential to be one of the largest debt crises in history. Countries in the periphery of Europe, including Greece, Portugal, Ireland, Spain, and Italy have tremendous amounts of debt and have required, in various degrees, rescue packages from the European Central Bank and International Monetary Fund. Conditions of support from these rescue packages include implementation of austerity measures which require each of these countries to either increase taxes or decrease government spending, both of which will have a negative impact on economic growth. The funding gaps in these countries have the potential to be economically destabilizing to world growth. In addition, severe austerity measures in the countries have the potential to be both politically and socially destabilizing. In China, real GDP has decelerated from 9.5% in the second quarter of 2011 to 7.6% in the second quarter of 2012. As a large and growing engine for world growth, the economic slow-down in China has caused global concerns.

With the continued backing of accommodative monetary and fiscal policies during the past fiscal year, there was, on net, a modest increase in risk assets worldwide which led to positive returns in most asset classes. The MSCI U.S. Investible Market Index, a U.S. equity index, returned 3.34% during the fiscal year. Returns for the second and third quarters of the fiscal year were exceptionally strong, posting an 11.95% and 12.76% return, respectively. Returns for the first and fourth quarters of the fiscal year were negative, posting -15.32% and -3.33%, respectively. Foreign markets in U.S. dollar terms were much weaker as the MSCI All-Country World (ACW) ex. U.S. Investable Market Index, an international equity index, returned -14.79% for the fiscal year, driven primarily by currency weakness versus the U.S. dollar as well as weaker economic conditions. The Venture Economics median return, a benchmark for alternative investments that represents the median performance of the venture capital/private equity industry listed in the Investment Benchmark Reports on Venture Capital and Buy-outs produced by Venture Economics, returned 5.97% for the fiscal year (reported on a one-quarter lag) as these investments were written up to prices comparable to gains in the public equity markets.

Commodity markets performed very poorly in this environment as slowing global growth overshadowed loose monetary policy while inflationary conditions were not evident. For the fiscal year, the Dow Jones UBS Commodity Index, an index composed of futures contracts on 19 physical commodities weighted to account for economic significance and market liquidity, was down 14.32%.

Fixed income markets were generally positive in this environment as interest rates, while volatile during the year, fell and investors continued to take advantage of wide credit spreads in search of yield. For the fiscal year, the Barclays U.S. Universal Index, a U.S. fixed income index, was up 7.35% as the yield curve fell from the June 2011 level. The Barclays Multiverse Index, a global fixed income index, was up 2.79% driven primarily by falling interest rates offset somewhat by weakening currencies against the U.S. dollar. The Barclays High Yield Index returned 7.27% during the past fiscal year due to a tightening of credit spreads as investors continued to bid up credit in search of yield. The Barclays U.S. TIPS Index, an index of U.S. treasury inflation protection securities, driven by falling real yields, returned 11.66% for the fiscal year.

To benchmark real estate performance, the System uses the National Council of Real Estate Investment Fiduciaries / Townsend Fund (NTF) Index, a quarterly time series of real estate partnership portfolios used to simulate the universe of core, value-added and opportunistic real estate partnerships. The indexes are designed to reflect the performance of funds available to U.S. institutional investors, including private real estate/equity-oriented investments, without regard to geographic location. The NTF Index returned 10.51% during the past fiscal year. Index returns are reported on a quarter lag due to the time taken to acquire this information from private market sources, so this return is for the twelve months ended March 31, 2012. Investment performance in the private real estate markets have continued rebounding from significant declines sustained during the credit crisis in 2008.

The absolute return program had a positive but below target fiscal year generating a total return of 2.72%, 478 basis points under its target return of 7.50%. Weak performance from the currency managers who have been whipsawed by markets increasingly driven by policy decisions significantly detracted from returns during the fiscal year. The absolute return program is structured to have low beta to the equity, fixed income, and commodity markets and to provide additional diversification from the remainder of the asset allocation.

For the one-year period ended June 30, 2012, the System generated a total net of fee return of 3.43%. This return exceeded the total fund Policy Index return of 1.98% by 145 basis points. Annualized total net of fee returns for the three-, five-, and ten-year periods ended June 30, 2012 were 12.57%, 0.37%, and 7.19%, respectively. The five-year return ended June 30, 2012 fell short of the total fund Policy Index return by 22 basis points while the three- and ten-year returns ended June 30, 2012 exceeded the total fund Policy Index returns by 263 and 107 basis points, respectively.

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PSERS

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Wilshire calculates the total investment return of the System as well as the performance of each external investment management firm and each internal investment manager retained by the Board to invest the System's assets. Performance is calculated using a time-weighted return methodology.

The following table provides the System's total investment return for each major asset class and the total portfolio, including, where applicable and available, respective benchmark indexes used by asset class and median performance by asset class:

	Annualized Total Returns (%) Net of Fees Ended June 30, 2012			
	1 Year	3 Years	5 Years	10 Years
PSERS Total Portfolio	**3.43**	**12.57**	**0.37**	**7.19**
Total Fund Policy Index	1.98	9.94	0.59	6.12
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	1.73	12.16	1.52	6.57
PSERS U.S. Equity Portfolios	**3.62**	**17.60**	**-0.20**	**5.55**
U.S. Equity Policy Index (1)	3.34	16.26	0.20	5.92
Median Public DBP Fund Universe - U.S. Equities (Wilshire Database)	2.67	16.56	0.19	5.62
PSERS Non-U.S. Equity Portfolios	**-13.14**	**9.24**	**-2.62**	**8.26**
MSCI All-Country World ex. U.S. Investable Market Index (2)	-14.79	7.36	-3.79	7.30
Median Public DBP Fund Universe - Non-U.S. Equities (Wilshire Database)	-13.23	7.84	-5.43	6.04
PSERS U.S. Fixed Income Portfolios	**10.64**	**14.44**	**9.84**	**7.96**
U.S. Fixed Income Policy Index (3)	8.53	11.90	9.93	7.16
Median Public DBP Fund Universe - U.S. Bonds (Wilshire Database)	7.84	9.95	7.35	6.19
PSERS Global Fixed Income Portfolios	**11.90**	**9.85**	**8.05**	**7.60**
Global Fixed Income Policy Index (4)	9.95	9.84	6.91	6.70
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	9.93	9.73	8.05	7.81
PSERS Commodity Portfolios	**7.35**	**7.96**	**-2.15**	**N/A**
Dow Jones-UBS Commodity Index	7.16	3.49	-3.65	N/A
PSERS Absolute Return Portfolios	**6.19**	**10.36**	**N/A**	**N/A**
Benchmark - 7.5% Annualized Return	7.50	7.83	N/A	N/A
PSERS Real Estate (5)	**7.96**	**4.99**	**-8.86**	**6.33**
Blended Real Estate Index (6)	10.51	8.46	2.38	8.71
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	10.64	10.24	-1.58	6.76
PSERS Alternative Investments (5)	**9.35**	**16.65**	**6.59**	**12.96**
Venture Economics Median Return, Vintage Year Weighted	5.97	10.07	3.58	5.10
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	9.60	18.45	7.05	12.46

1. MSCI USA Investable Market Index effective April 1, 2009; previously was the Dow Jones Wilshire 5000 Index.
2. MSCI All Country World (ACW) ex. USA Investable Market Index effective July 1, 2008; previously was the MSCI ACW ex. U.S. Index. The benchmark was 30% hedged to the U.S. dollar from July 1, 2006 to March 31, 2009; otherwise, the benchmark is unhedged.
3. Returns presented are a blend of the Barclays Capital U.S. Aggregate Index (32.3%), Barclays Capital U.S. TIPS Index (Series –L) (30.8%), and Barclays Capital U.S. High Yield Index (36.9%) effective January 1, 2012. The weights to these indexes have varied in previous quarters. Prior to January 1, 2012, the Barclays Capital U.S. Universal Index was used in place of the Barclays Capital U.S. Aggregate Index.
4. Returns presented are a blend of the Barclays Capital Global Aggregate GDP-weighted Developed Market ex-U.S. (Unhedged) Index (60%) and Barclays Capital EM Local Currency-Government-MV Weighted (Unhedged)-10% Country Cap Index (40%) effective January 1, 2012. Between April 1, 2010 and December 31, 2011, the Barclays Multiverse Index and the JP Morgan Global Bond Index Emerging Markets Global Diversified (USD Unhedged) Index was used.
5. Returns reported on a one-quarter lag, except for publicly traded real estate security investments.
6. NTFI Index effective July 1, 2010. The NTFI Index is reported on a one-quarter lag. Between April 1, 2010 and June 30, 2010, the NCREIF Index was used. Previously, returns presented were a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index.

The System also participates in a securities lending program administered by The Bank of New York Mellon Corporation. This program is designed to provide incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated $8.3 million in net gains during the year.

Accomplishments

The System continued its efforts to diversify its market exposures as the board approved new target allocations to risk parity, master limited partnerships, and U.S. long treasuries which should enable the System to have an improved risk return profile after implementation in fiscal year 2013.

Summary

The System had a mediocre fiscal year ended June 30, 2012 with returns of 3.43% on an absolute basis but did very well versus the Policy Index (up 1.98%, 1.45% outperformance). Over the past three fiscal years, however, the System returned 12.57% annualized, well in excess of the System's targeted actuarial rate of return of 7.50%. The markets struggled during the past year between "risk-on" and "risk-off" environments. We continue to be concerned about the ever-increasing impact that policy makers such as Central Banks and sovereign governments are having on the performance of assets as opposed to performance being reflective of real economic conditions. We believe that we are in the midst of a challenging period for asset returns as interest rates continue to be anchored close to 0% by the Fed and for numerous other reasons, including the European debt crisis, slowing Chinese growth, the impending U.S. presidential election, the upcoming fiscal cliff and debt ceiling debates in the U.S., Middle East tensions, etc. We also believe that the System's asset allocation, however, is structured to generate a long-term return that meets or exceeds the targeted actuarial rate of return assumption of the System at an acceptable level of risk.

Alan H. Van Noord, CFA
Chief Investment Officer

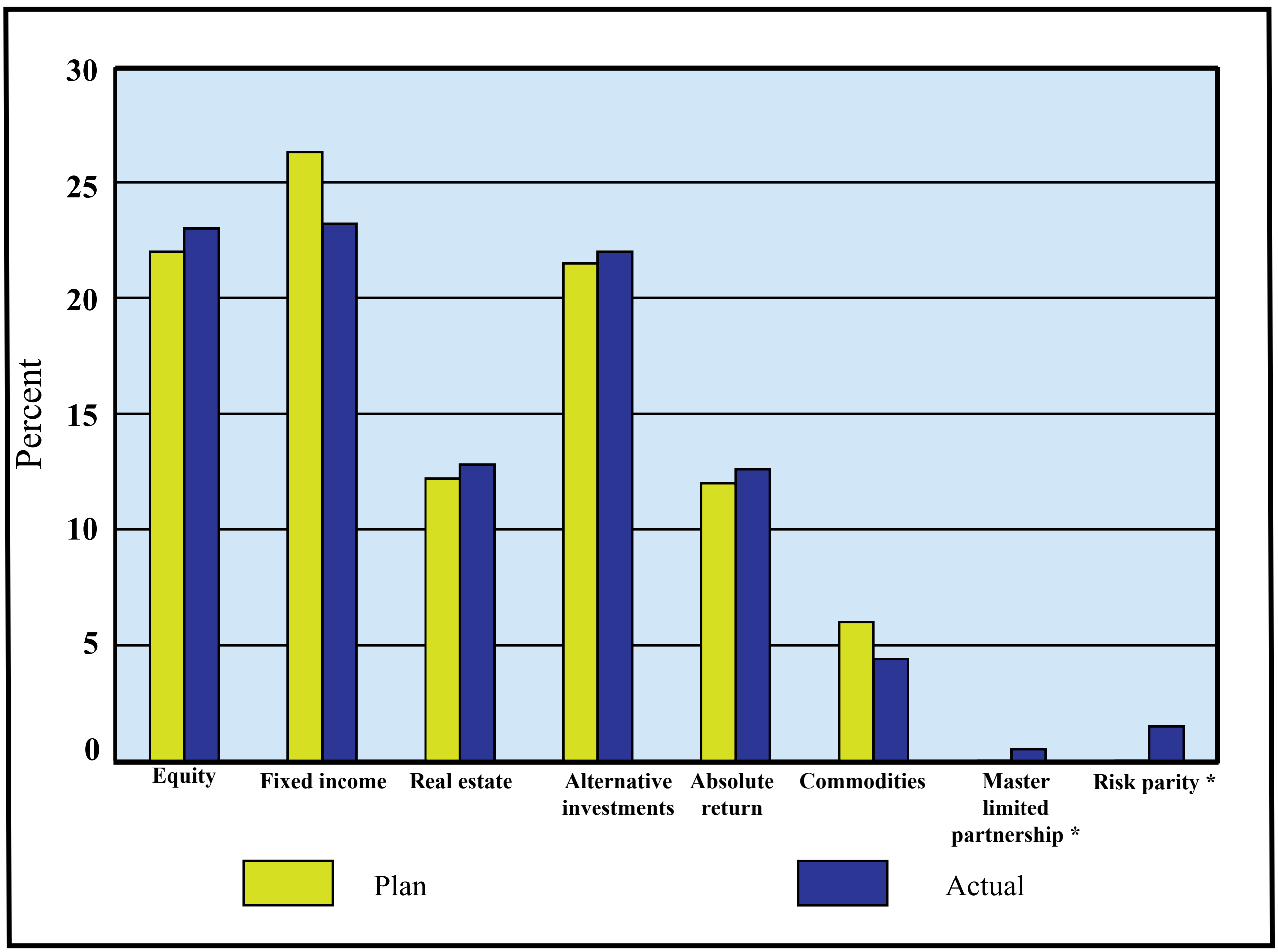
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2012
(Dollar Amounts in Thousands)

Pension investments	Fair Value ($)	% Fair Value
Common and preferred stock (Equity):		
Large cap stocks	3,321,659	6.9
Mid and small cap stocks	1,022,704	2.1
Emerging markets stocks	1,323,439	2.7
Total Non-U.S. equity	**5,667,802**	**11.7**
Large cap stocks	3,904,633	8.0
Mid and small cap stocks	1,392,875	2.9
Microcap stocks	189,487	0.4
Total U.S. equity	**5,486,995**	**11.3**
Total Common and preferred stock - Asset Allocation Basis	**11,154,797**	**23.0**
Fixed income:		
Investment grade fixed income	4,835,601	10.0
High yield fixed income	3,566,642	7.3
Total U.S. Fixed income	**8,402,243**	**17.3**
Non-U.S. developed markets fixed income	845,430	1.7
Emerging markets fixed income	881,962	1.8
Total Non-U.S. Fixed income	**1,727,392**	**3.5**
Cash and cash equivalents	**1,186,599**	**2.4**
Total Fixed income - Asset Allocation Basis	**11,316,234**	**23.2**
Real estate	**6,192,619**	**12.8**
Alternative investments:		
Private equity	8,054,170	16.6
Private debt	1,713,045	3.5
Venture capital	889,375	1.9
Total Alternative investments - Asset Allocation Basis	**10,656,590**	**22.0**
Absolute return	**6,114,471**	**12.6**
Commodities	**2,112,169**	**4.4**
Master limited partnership	**247,645**	**0.5**
Risk parity	**736,819**	**1.5**
Total Pension investments - Asset Allocation Basis	**48,531,344**	**100.0**
Net Asset Allocation Adjustment*	(213,352)	
Pension investments per Statement of Plan Net Assets	**48,317,992**	
Postemployment Healthcare investments	**222,857**	**100.0**

* Includes reclassifications of certain investments between asset classes and investment receivables\payables to adjust the Statement of Plan Net Assets classification to the basis used to measure Asset Allocation. See the table and graph which follow.

Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2012

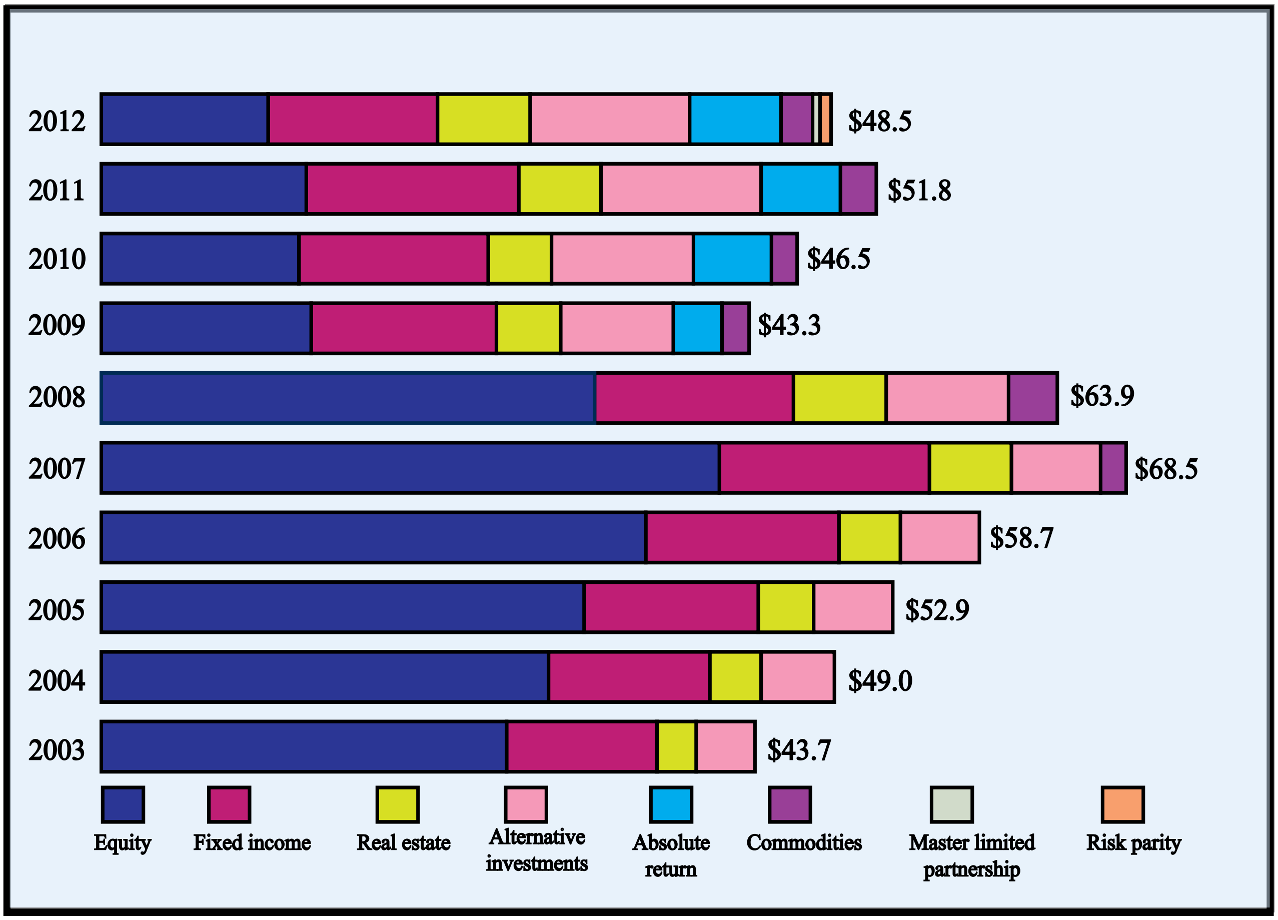
Asset Category	Plan	Actual
Common and preferred stock (Equity)	21.5%	23.0%
Fixed income	26.3%	23.2%
Real estate	12.2%	12.8%
Alternative investments	22.0%	22.0%
Absolute return	12.0%	12.6%
Commodities	6.0%	4.4%
Master limited partnership *	-	0.5%
Risk parity *	-	1.5%
Total	100.0%	100.0%



* Represent new asset classes adopted March 9, 2012; plan targets to be effective October 1, 2012.

Portfolio Distribution 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value for the largest public market asset classes. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, Press Secretary, 5 N 5th Street, Harrisburg, PA 17101-1905.

Common and Preferred Stock - Non-U.S. Equity

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2012

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
BlackRock Emerging Markets Alpha Advantage Fund Ltd.- Class D	199	186,120
The 32 Capital Fund Ltd.	98	161,205
BlackRock Emerging Markets Alpha Advantage Fund Ltd.- Class P	34	94,981
Nestle SA	935	55,871
Royal Dutch Shell PLC	1,489	50,950
BHP Billiton Ltd.	1,546	47,001
IShares Trust MSCI EAFE Index Fund	736	36,775
Shah Capital Offshore Opportunity Fund	415	35,706
Vodafone Group PLC	12,414	34,902
HSBC Holdings PLC	3,804	34,072
Total of 10 Largest Holdings		**737,583**

Common and Preferred Stock - U.S. Equity

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2012
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Security Capital Preferred Growth	13,039	185,611
Apple Computer, Inc.	290	169,279
Exxon Mobil Corporation	1,431	122,456
Microsoft Corporation	2,272	69,505
IBM	351	68,558
General Electric Company	3,220	67,102
Chevron Corporation	605	63,816
AT&T Inc.	1,782	63,536
Johnson & Johnson	833	56,260
The Coca-Cola Company	700	54,747
Total of 10 Largest Holdings		**920,870**

Fixed Income

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2012
(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
PIMCO Multi-Sector Strategy Fund Ltd.	N/A	N/A	744	751,649
BlackRock US Ext'd Core Global Alpha Bond Fund	N/A	N/A	359	575,935
Bridgewater Int'l Inflation-Linked Bond Fund	N/A	N/A	234	464,368
Bridgewater Pure Alpha Fund II Ltd.	N/A	N/A	140	407,295
Brevan Howard CMBS Fund Ltd.	N/A	N/A	2,000	206,521
Bridgewater U.S. Inflation-Linked Bond Fund	N/A	N/A	75	165,691
U.S. Treasury - Inflation Index	01/15/25	2.375	121,257	159,689
U.S. Treasury - Inflation Index	02/15/41	2.125	90,389	129,003
U.S. Treasury - Inflation Index	02/15/40	2.125	77,063	109,382
Brigade Distressed Value Offshore Fund Ltd.	N/A	N/A	100	103,979
Total of 10 Largest Holdings				**3,073,512**

Absolute Return

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2012
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Bridgewater Pure Alpha Fund II Ltd.	291	813,140
Brigade Leveraged Capital Structures Offshore Ltd.	502	689,747
AQR Offshore Multi-Strategy Fund Ltd.	6	615,659
BlackRock Global Ascent Ltd.	427	584,745
Brevan Howard Fund, Ltd.	3,095	374,309
Capula Tail Risk Fund Ltd.	2,619	262,429
Palmetto Fund Ltd. Class G	248	260,146
Black River Fixed Income Relative Value Opportunity Fund Ltd.	250	260,000
BlackRock Capital Structure Investment Fund Ltd.	198	249,195
Blue Trend Fund Limited - Class B	846	236,529
Total of 10 Largest Holdings		**4,345,899**

Postemployment Healthcare Investments

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2012
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PSERS Short-Term Investment Fund	Various	Various	110,192	110,192
M & T Bank Repurchase Agreement	07/01/12	0.010	34,183	34,183
M & T Bank Repurchase Agreement	07/01/12	0.010	23,300	23,300
M & T Bank Repurchase Agreement	07/01/12	0.010	11,997	11,997
FNMA Guaranteed REMIC 2004-83 Class HB	08/25/32	5.000	2,570	2,643
FNMA Guaranteed REMIC 2005-83 Class TJ	07/25/31	5.000	2,499	2,528
FHLMC Multiclass 3123 Class HJ	08/15/24	5.000	2,093	2,145
United Parcel Service Inc.	01/15/13	4.500	1,990	2,034
FHLMC Multiclass 3036 Class NC	03/15/31	5.000	2,000	2,033
FHLMC Multiclass 3573 Class MC	07/15/22	4.000	1,894	1,965
Total of 10 Largest Holdings				**193,020**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2012 and 2011
(Dollar Amounts in Thousands)

Investment Activity	2012	2011
Net appreciation in fair value of investments	**$ 537,586**	$ 8,614,828
Short-term	**10,677**	15,128
Fixed income	**328,492**	383,306
Common and preferred stock	**258,258**	292,475
Collective trust funds	**5,209**	4,147
Real estate	**170,991**	113,370
Alternative investments	**255,769**	331,286
Total investment activity income	**$ 1,566,982**	$ 9,754,540

Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2012 were $8.0 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2012, the System earned $42,000 from the commissions recapture program. A list of the brokers receiving fees in excess of $100,000 during the fiscal year follows:

Summary Schedule of Brokers' Fees
(Cumulative Fiscal Year Amounts Exceeding $100,000)
Fiscal Year Ended June 30, 2012

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Goldman Sachs & Company	1,122,580	Fimat USA	173,291
UBS Securities	558,832	Credit Lyonnais Securities	161,379
Jones & Associates	531,446	Barclays	159,133
Citigroup Global Markets Incorporated	484,197	Cantor, Fitzgerald & Company	158,013
Credit Suisse First Boston	421,219	Liquidnet Incorporated	156,620
JP Morgan Chase & Company	303,833	Adams Harkness & Hill Incorporated	133,391
Merrill Lynch	285,025	B-Trade Services, LLC	118,973
Instinet Corporation	278,847	Nomura Securities International	117,124
Morgan Stanley & Company	229,108	Numis Securities Limited	110,339
Knight Securities	211,896	Deutsche Bank	103,179
Macquaries Equities Limited	189,924		

Professional Consultants
External Investment Advisors
As of June 30, 2012

Absolute Return Managers

- AQR Capital Management, LLC
- Aeolus Capital Management, Ltd.
- Black River Asset Management, LLC
- BlackRock Financial Management, Inc.
- BlueCrest Capital Management, LLC
- Boston Company Asset Management, LLC (The)
- Brevan Howard Asset Management, LLP
- Bridgewater Associates, Inc.
- Brigade Capital Management
- Capula Investment Management, LLP
- Caspian Capital Advisors
- Denali Advisors, LLC
- FX Concepts, LLC
- Lazard Asset Management, LLC
- Nephila Capital, Ltd.
- Pacific Investment Management Company
- Pareto Investment Management, Ltd.
- Robeco Investment Management, Inc.

U.S. Equity Managers

- AH Lisanti Capital Growth, LLC
- Conestoga Capital Advisors
- First Pacific Advisors, Inc.
- Hellman, Jordan Management Company, Inc.
- NorthPointe Capital, LLC
- Opus Capital Management

Publicly-Traded Real Estate Securities Manager

- Security Capital Research & Management, Inc.

Non-U.S. Equity Managers

- Acadian Asset Management, Inc.
- Baillie Gifford Overseas, Ltd.
- Batterymarch Financial Management, Inc.
- BlackRock Financial Management, Inc.
- Glovista Investments, LLC
- John Hsu Capital Group, Inc.
- Marathon Asset Management, LLP
- Oberweis Asset Management, Inc.
- Pyramis Global Advisors, Inc.
- Shah Capital Management, Inc.
- Wasatch Advisors, Inc.
- Wellington Management Company, LLP
- Westwood Global Investments, LLC

Commodity Managers

- Credit Suisse Asset Management, LLC
- Deutsche Investment Management Americas, Inc.
- Gresham Investment Management, LLC
- Schroder Investment Management North America
- Wellington Management Company, LLP

U.S. Core Plus Fixed Income Managers

- BlackRock Financial Management, Inc.
- Pacific Investment Management Company
- Piedmont Investment Advisors
- Pugh Capital Management, Inc.
- Western Asset Management Company

U.S. High Yield Fixed Income Managers

- BlackRock Financial Management, Inc.
- Brevan Howard Asset Management LLP
- Brigade Capital Management
- Cerberus Institutional Partners, L.P.
- LBC Credit Partners
- MacKay-Shields Financial Corporation
- Mariner Investment Group, LLC
- Oaktree Capital Management, LP
- Sankaty Advisors, LLC
- TOP NPL(A), LP
- TPG Opportunities Partners II, LP

Non-U.S. Developed Markets Fixed Income Manager

- AllianceBernstein, LP

Emerging Markets Debt Managers

- Franklin Templeton Investments
- Stone Harbor Investment Partners, LP

Multi-Sector Fixed Income Manager

- Pacific Investment Management Company

Global Treasury Inflation - Protected Securities Manager

- Bridgewater Associates, Inc.

Active Currency Hedging Overlay Program Manager

- Pareto Investment Management, Ltd.

Risk Parity Manager

- Bridgewater Associates, Inc.

Master Limited Partnership Advisor

- Harvest Fund Advisors, LLC

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.

Professional Consultants (Continued)

- Grosvenor Fund Management US, Inc.
- L&B Realty Advisors, LLP

Real Estate Partnerships

- AG Core Plus Realty Fund III, LP
- Almanac Realty Securities V & VI, LP
- Apollo Europe Real Estate Fund III, LP
- Apollo Real Estate Finance Corp.
- Apollo Value Enhancement Fund VII, LP
- AREFIN Co-Invest Corp.
- AvalonBay Value Added Fund I & II, LP
- Avenue Real Estate Fund, LP
- Beacon Capital Strategic Partners V, LP
- Blackstone Real Estate Partners V, VI, & VII, LP
- Blackstone Real Estate Partners Europe III, LP
- BPG Investment Partnership V & VI, LP
- BPG/PSERS Co-Investment Fund, LP
- Broadway Partners Real Estate Fund II & III, LP
- Cabot Industrial Value Fund III, LP
- Carlyle Europe Real Estate Partners III-A, LP
- Carlyle Realty Partners III, IV, V, & VI, LP
- CS Strategic Partners Fund IV RE, LP
- CSFB Strategic Partners II & III RE, LP
- DRA Growth and Income Fund VI & VII, LLC
- DLJ Real Estate Capital Partners II, III, & IV, LP
- Exeter Industrial Value Fund II, LP
- Fillmore West Fund, LP
- Fortress Investment Fund I, IV, & V, LP
- Hines U.S. Office Value Added Fund, LP
- JP Morgan Strategic Property Fund
- Lazard Freres Real Estate Investors I & II, LLC
- Legg Mason Real Estate Capital I & II, Inc.
- LCCG Diversified Risk CMBS Fund II, LLC
- LCCG High Yield CMBS Fund III, LLC
- LCCG Real Estate Special Situations Mortgage Fund, LLC
- LEM Real Estate Mezzanine Fund II, LP
- Lubert-Adler Real Estate Fund II, III, IV, V, VI, & VI-A, LP
- Madison Marquette Retail Enhancement Fund, LP
- MGPA Asia Fund III, LP
- MGPA Europe Fund III, LP
- Morgan Stanley Domestic Real Estate Fund IV, LP
- Morgan Stanley Int'l. Real Estate Fund IV, V, & VI, LP
- Morgan Stanley Real Estate Fund II, LP
- Morgan Stanley Real Estate Fund VII Global, LP
- Morgan Stanley Real Estate Fund V US, LP
- O'Connor North American Property Partners I & II, LP
- Paladin Realty Latin America Investors III, LP
- Peabody Global Real Estate Partners
- PRISA
- ProLogis North American Industrial Fund, LP
- RCG Longview Debt Fund IV, LP
- RCG Longview Equity Fund, LP
- Senior Housing Partnership Fund IV, LP
- Silverpeak Legacy Partners I, II, & III, LP
- Stockbridge Real Estate Fund I, II, & III, LP
- Strategic Partners Value Enhancement Fund, LP
- UBS (US) Trumbull Property Fund, LP
- Westbrook Real Estate Fund I, LP
- Whitehall Street Real Estate V, VI, VII, & VIII, LP
- William E. Simon & Sons Realty Partners, LP

Farmland Advisor

- Prudential Agricultural Group

Private Equity/Venture Capital Partnerships

- ABS Capital Partners II, LP
- Actis Emerging Markets 3, LP
- Actis Global 4, LP
- Adams Capital Management, LP
- Aisling Capital Partners II & III, LP
- Allegheny New Mountain Partners, LP
- Apax Europe VII, LP
- Bain Capital Asia Fund II, LP
- Baring Asia Private Equity Fund III, IV, & V, LP
- Blue Point Capital Partners I & II, LP
- Bridgepoint Capital II, LP
- Bridgepoint Europe I, II, III, & IV, LP
- Bruckmann, Rosser, Sherrill & Company, LP
- Capital International Private Equity Fund V & VI, LP
- Catterton Growth Partners, LP
- Catterton Partners V & VI, LP
- Clarity Partners I & II, LP
- Co-Investment Fund 2000, LP
- Co-Investment Fund II, LP
- Coller International Partners VI, LP
- Credit Suisse Equity Partners, LP
- Credit Suisse Intl. Equity Partners, LP
- Crestview Partners I & II, LP
- Cross Atlantic Technology Fund I & II, LP
- CSFB Strategic Partners II, III-B, & III-VC, LP
- CS Strategic Partners Fund IV, IV-VC, & V, LP
- CVC Capital Partners Asia Pacific III, LP
- CVC European Equity Partners V, LP
- Denham Commodity Partners VI, LP
- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Private Equity Fund III, LP
- Edgewater Growth Capital Partners, LP
- Evergreen Pacific Partners I & II, LP
- First Reserve Fund XI & XII, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors III, LP
- Graham Partners Investments, LP
- Green Equity Investors II, LP
- Greenpark International Investors III, LP
- Greenwich Street Capital Partners II, LP
- Halifax Capital Partners, LP
- Headland Private Equity Fund 6, LP
- Incline Equity Partners IV, LP
- Irving Place Capital Partners II & III, LP
- Jefferies Capital Partners IV, LP
- Jefferson Partners Fund IV, LP
- KBL Healthcare Ventures, LP
- KKR 2006 Fund, LP
- KRG Capital Fund II, III, & IV, LP
- Landmark Equity Partners II, III, IV, V, XIII, & XIV, LP
- Landmark Mezzanine Partners, LP
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP

Professional Consultants (Continued)

- LLR Equity Partners I, II, & III, LP
- Milestone Partners II, III & IV, LP
- Morgan Stanley Dean Witter Capital Partners IV, LP
- Navis Asia Fund V, LP
- NEPA Venture Fund II, LP
- New Mountain Partners I & III, LP
- New York Life Capital Partners I, II, III, & IV, LP
- NGP Natural Resources X, LP
- Nordic Capital VII Beta, LP
- Novitas Capital I & II, LP
- Orchid Asia V, LP
- P/A Fund (APA/Fostin II) (The)
- PAI Europe III, IV, & V, LP
- Palladium Equity Partners II-A, LP
- Partners Group Secondary 2008 & 2011, LP
- Permira IV, LP
- Perseus-Soros Bio-Pharmaceutical Fund, LP
- Platinum Equity Capital Partners I, II & III, LP
- PNC Equity Partners I & II, LP
- Providence Equity Partners VI, LP
- Psilos Group Partners III, LP
- Quadrangle Capital Partners I & II, LP
- Quaker BioVentures I & II, LP
- SCP Private Equity Partners I & II, LP
- StarVest Partners I & II, LP
- Sterling Capital Partners, LP
- Sterling Venture Partners, LP
- Summit Partners Venture Capital Fund III, LP
- Summit Partners Growth Equity Fund VIII, LP
- TDH III, LP
- Tenaya Capital IV-P & V-P, LP
- The Fourth Cinven Fund
- TPG Partners V, & VI, LP
- Trilantic Capital Partners IV, LP
- Trilantic Capital Partners V (North America), LP
- U.S. Equity Partners II, LP
- Wicks Communications & Media Partners, LP

Private Debt Partnerships

- Avenue Asia Special Situations Fund II, III, & IV, LP
- Avenue Europe Special Situations Fund, LP
- Avenue Special Situations Fund III, IV, V, & VI, LP
- Cerberus Institutional Partners, LP (Series Two, Three, & Four)
- Cerberus Institutional Partners V, LP
- Gleacher Mezzanine Fund I & II
- GSC Recovery II & III, LP
- GSC Partners CDO Investors IV, LP
- Gold Hill Venture Lending, LP
- New York Life Investment Management Mezzanine Partners I & II, LP
- OCM Opportunities Fund VII & VII-B, LP
- Versa Capital Fund I & II, LP
- Windjammer Senior Equity Fund III & IV, LP

Alternative Investment Consultant

- Portfolio Advisors, LLC

Custodian Bank and Securities Lending Agent

- The Bank of New York Mellon Corporation

Hedge Fund Consultant

- Aksia, LLC

Investment Accounting Application Service Provider

- Financial Control Systems, Inc.

Investment Evaluator and General Investment Consultant

- Wilshire Associates, Inc.

Proxy Voting Agent

- Glass, Lewis & Co., LLC

Real Estate Investment Consultant

- Courtland Partners, Ltd.

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ACTUARIAL SECTION

ACTUARIAL SECTION

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January 31, 2012

The Retirement Board
Public School Employees'
Retirement System of Pennsylvania
5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

Re: Actuary's Certification Letter

Members of the Board:

An actuarial valuation of the Public School Employees' Retirement System of Pennsylvania (Retirement System or PSERS) is performed annually to measure the ongoing costs of the Retirement System and the progress towards the funding goals of the Retirement System over time. The financing objective of the Retirement System is to:

- Fully fund all current costs based on the normal contribution rate determined under the funding method; and
- Liquidate the unfunded accrued liability based on level percentage of pay amortization schedules required by the Public School Employees' Retirement Code, 24 Pa. C.S. §8101 et. seq. (Retirement Code) as amended by Act 2010-120, i.e., a schedule of 24 years for the unfunded accrued liability as of June 30, 2010 and each change in the unfunded accrued liability due to actuarial experience after the June 30, 2010 valuation. Any legislation after June 30, 2010 that increases the liability will be funded over 10 years.
- As directed by Act 2010-120, use pension rate collars to moderate the rise of annual employer pension contribution rates to reach the full actuarially determined contribution funding level in a budgetary sound manner and within a financially responsible period of time.

Based on the June 30, 2011 actuarial valuation, a total contribution rate of 22.51% of payroll payable by employers for FY2012/2013, when taken together with the contributions payable by the members, current assets, and expected future asset returns, is sufficient to achieve the financing objective. However, Act 2010-120 limits the contribution for FY 2012/2013 to 12.36% of payroll. This has the effect of deferring part of the FY 2012/2013 contribution to future years.

The valuation takes into account all of the promised benefits to which members are entitled as of June 30, 2011, including pension and survivor benefits, and as required by the Retirement Code is the basis for the contribution rate for fiscal year 2012/2013. There were no legislative or administrative changes since the prior valuation.

As required under Section 8502(j) of the Retirement Code, experience studies are performed once in every five year period, the most recent being June 30, 2010. This valuation was prepared on the basis of the revised demographic and economic assumptions that were determined from the July 1, 2005 – June 30, 2010 Experience Review and approved by the Board of Trustees at the March 11, 2011 meeting. These revised assumptions include the following:

Demographic Assumptions

- Update the rates of mortality among active members, annuitants, beneficiaries and survivors to reflect recent experience as follows:
  - Active Members: RP-2000 Employee Pre-Retirement Male Table set back 3 years and RP-2000 Employee Pre-Retirement Female Table set back 8 years.
  - Healthy Annuitants and Dependent Beneficiaries: RP-2000 Combined Healthy Annuitant Tables (Male and Female) with age set back 3 years for both genders.
  - Disabled Members: RP-2000 Disabled Male Table set back 7 years and RP-2000 Disabled Female Table set back 3 years.
- Update the rates of withdrawal, disability, and retirement from employment among active members to reflect recent experience.

Economic Assumptions

- Reduce the investment rate of return from 8.00% to 7.50%.
- Reduce the rate of inflation from 3.25% to 3.00%.
- Reduce the average rate of increase in annual salaries among active members from 6.00% to 5.50%.
- Reduce the rate of salary growth from 4.00% to 3.50%.

The actuarial assumptions and methods for financial reporting meet the parameters set forth in Governmental Accounting Standards Board (GASB) Statements No. 25, 43, and 50, and are unchanged from the prior valuation. The actuarial assumptions and methods for GASB 25 disclosure are the same as for pension funding, except that the GASB 25 amortization payment will be determined based on 30-year level-dollar funding. The Health Insurance funding provisions of the Retirement Code differ from the GASB 43 disclosure retirements. For funding purposes the actuarial liability equals the assets in the health insurance account, and a contribution is determined that will assure the solvency of the account through the third fiscal year following the valuation date. For purposes of GASB 43 disclosure the Health Insurance actuarial liability and normal cost requirements have been determined under the entry age actuarial cost method, with 30-year level dollar funding. (The entry age actuarial cost method meets the GASB 43 parameters for determining actuarial liability and normal cost, and is the cost method specified by the Retirement Code for the PSERS pension plan.)

The Retirement System reported the individual data for members of the Retirement System as of the valuation date to the actuary. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Retirement System.

The valuation does not take into account any changes in U.S. equity prices and bond yields that have occurred after the valuation date. Taking these into account may significantly change the market and actuarial value of assets shown. The effect of these events on any funded ratios shown, and on Retirement System calculations, is not known. Retirement System funding and financial accounting rules generally prohibit reflection of changes in assets and underlying economic conditions that occur after the valuation date.

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In our opinion, the attached schedules of valuation results fairly represent the status of the Public School Employees' Retirement System and present an accurate view of historical data. The underlying assumptions and methods used for both funding and GASB disclosure purposes are consistent with the statutory specifications and represent a best estimate of the aggregate future experience of the Retirement System.

The following supporting schedules in the Actuarial Section were prepared by Buck Consultants:

- Summary of Results of Actuarial Valuation as of June 30, 2011
- History and Projection of Contribution Rates and Funded Ratios
- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retired Members and Beneficiaries Added To and Removed From Rolls
- Solvency Test
- Analysis of Past Financial Experience
  Reconciliation of Employer Contribution Rates

In addition, Buck Consultants prepared the "Schedule of Funding Progress" and the "Schedule of Employer Contributions" in the Financial Section.

To the best of our knowledge, this information is complete and accurate. The valuation was performed by, and under the supervision of, independent qualified actuaries who are members of the American Academy of Actuaries with experience in performing valuations for public retirement systems.

The valuation was prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board and generally accepted actuarial procedures and methods. The calculations are based on the current provisions of the Retirement System, and on actuarial assumptions that are individually and in the aggregate internally consistent and reasonable based on the actual experience of the Retirement System.

Respectfully submitted,

Buck Consultants

Janet H. Cranna, MAAA, FSA, EA, FCA Principal, Consulting Actuary	Dana E. Spangher, MAAA. FSA, EA, FCA Principal, Consulting Actuary	Edward A. Quinn, MAAA, EA, FCA Director, Retirement Actuary

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SUMMARY OF RESULTS OF ACTUARIAL VALUATION *
AS OF JUNE 30, 2011
($ Amounts in Thousands)

Item	June 30, 2011	June 30, 2010
Member Data		
1. Number of Members		
a) Active Members	279,152	282,041
b) Inactive Members and Vestees	115,102	111,931
c) Annuitants, Beneficiaries and Survivor Annuitants	194,622	184,934
d) Total	588,876	578,906
2. Annualized Salaries ($ Amounts in Thousands)	$ 12,910,043	$ 12,788,847
3. Annual Annuities ($ Amounts in Thousands)	$ 4,650,798	$ 4,339,639
Valuation Results		
4. Present Value of Future Pension Benefits		
a) Active Members	$ 60,127,465	$ 57,927,025
b) Inactive Members and Vestees	1,095,894	1,261,485
c) Annuitants, Beneficiaries and Survivor Annuitants	45,648,780	40,284,383
d) Total	$ 106,872,139	$ 99,472,893
5. Present Value of Future Pension Normal Cost		
a) Active Members	$ 9,923,829	$ 9,960,432
b) Employer	11,307,927	10,507,033
c) Total	$ 21,231,756	$ 20,467,465
6. Pension Accrued Liability		
a) Active Members (4a) – (5c)	$ 38,895,709	$ 37,459,560
b) Inactive Members and Vestees	1,095,894	1,261,485
c) Annuitants, Beneficiaries and Survivor Annuitants	45,648,780	40,284,383
d) Total	$ 85,640,383	$ 79,005,428
7. Health Insurance Assets for Premium Assistance	$ 111,258	$ 116,831
8. Total Accrued Liability for Funding (6) + (7)	$ 85,751,641	$ 79,122,259
9. Actuarial Value of Assets	$ 59,252,389	$ 59,423,679
10. Funded Status (9) / (8)	69.1 %	75.1 %
11. Unfunded Accrued Liability (8) – (9)	$ 26,499,252	$ 19,698,580
12. Total Normal Cost Rate	16.06 %	15.49 %
13. Member Contribution Rate	7.40 %	7.37 %
14. Employer Normal Cost Rate (12) – (13)	8.66 %	8.12 %
Employer Annual Funding Requirement	**Fiscal 2012/2013**	**Fiscal 2011/2012**
15. Employer Contribution Rate Calculated by Actuary		
a) Normal	8.66 %	8.12 %
b) Unfunded Accrued Liability	12.99 %	10.15 %
c) Preliminary Pension Rate	21.65 %	18.27 %
d) Act 120 Employer Pension Rate Collar	11.50 %	8.00 %
e) Health Insurance	0.86 %	0.65 %
f) Total Rate	12.36 %	8.65 %

* The latest actuarial valuation report can be found on the Publications page of the PSERS Web site at www.psers.state.pa.us.

HISTORY AND PROJECTION OF CONTRIBUTION RATES AND FUNDED RATIOS[1]

Fiscal Year Ending June	Appropriation Payroll (thousands)	Contribution Rates[2]							
		Employee	Employer Normal Cost	Employer Unfunded Liability	Preliminary Employer Pension	Final Employer Pension	Employer Health Insurance	Total Employer	Funded Ratio
2000	$ 8,939,598	5.72 %	6.40 %	(2.04) %	4.36 %	4.36 %	0.25 %	4.61 %	123.8 %
2001	9,414,884	5.77	6.29	(4.65)	1.64	1.64	0.30	1.94	114.4
2002[3]	9,378,944	6.43	5.63	(6.05)	(0.42)	0.00	1.09	1.09	104.8
2003[4]	9,652,881	7.10	7.20	(10.03)	1.00	0.18	0.97	1.15	97.2
2004	10,030,705	7.08	7.25	(4.27)	2.98	2.98	0.79	3.77	91.2
2005[5]	11,062,589	7.12	7.48	(7.10)	0.38	4.00	0.23	4.23	83.7
2006	11,505,093	7.16	7.61	(4.28)	3.33	4.00	0.69	4.69	81.2
2007[6]	11,821,951	7.21	6.62	(0.95)	5.67	5.72	0.74	6.46	85.8
2008	12,881,244	7.25	6.68	(0.24)	6.44	6.44	0.69	7.13	86.0
2009	12,500,000	7.29	6.68	(3.37)	3.31	4.00	0.76	4.76	79.2
2010[7]	12,899,000	7.32	7.35	(3.72)	3.63	4.00	0.78	4.78	75.1
2011[7,8]	13,510,000	7.34	8.08	(0.50)	7.58	5.00	0.64	5.64	69.1
2012[9]	14,112,000	7.37	8.12	10.15	18.27	8.00	0.65	8.65	66.3
2013[9,10]	14,297,000	7.40	8.66	12.99	21.65	11.50	0.86	12.36	63.9
2014[9]	14,746,607	7.42	8.34	14.37	22.71	16.00	0.75	16.75	62.2
2015[9]	15,137,573	7.43	8.06	15.81	23.87	20.50	0.75	21.25	61.1
2016	15,553,058	7.44	7.80	17.02	24.82	24.82	0.74	25.56	60.5
2017	15,998,404	7.45	7.56	17.98	25.54	25.54	0.72	26.26	59.7
2018	16,473,589	7.46	7.35	18.74	26.09	26.09	0.71	26.80	59.4
2019	16,975,059	7.47	7.14	19.69	26.83	26.83	0.70	27.53	61.0
2020	17,499,806	7.47	6.95	20.41	27.36	27.36	0.68	28.04	62.6
2021	18,049,475	7.48	6.75	20.35	27.10	27.10	0.66	27.76	63.9
2022	18,625,435	7.48	6.58	20.35	26.93	26.93	0.65	27.58	65.4
2023	19,221,445	7.48	6.40	20.52	26.92	26.92	0.63	27.55	66.9

1. The projection of contribution rates is based on the assumption that there are no changes in demographic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets.
2. In general, the Preliminary Employer Pension Rate equals the sum of the rates for the Employer Normal Cost and the Unfunded Liability; and the Final Employer Pension Rate is the greater of the Preliminary Pension Rate and any Pension Rate Floor or Collar stated in the Retirement Code. The Total Employer Rate is the sum of the Final Employer Pension Rate and the Employer Health Insurance Rate.
3. For fiscal years ending on or before June 30, 2002, there was no floor specified in the Retirement Code, but the Final Employer Pension Rate could not be less than 0%, since money can only be removed from the trust for purposes allowed by the Retirement Code.
4. Act 2002-38 amended the Retirement Code to place a permanent 1% floor on the Employer Pension Rate, but also provided that the Total Employer Rate for the year ending June 30, 2003 could not exceed 1.15%, resulting in a 0.18% Final Employer Pension Rate (the Total Employer Rate of 1.15% minus the 0.97% Employer Health Insurance Rate).
5. Act 2003-40 amended the Retirement Code to increase the Employer Pension Rate Floor from 1% to 4%.
6. Revised actuarial assumptions based on a five-year experience review ending June 30, 2005 were used to determine the contributions for the fiscal year ending June 30, 2007. Since the benefit changes under Act 2001-9 had not been in effect throughout the entire period covered by the study the Board decided, at its December 2005 meeting, to delay making any changes to the retirement rate assumptions until further data became available. The 5.72% Final Employer Pension Rate equals the 6.46% Total Employer Rate certified by the Board at that meeting, minus the 0.74% Employer Health Insurance Rate. The 5.67% Preliminary Employer Pension Rate equals the sum of the Employer Normal Cost and Unfunded Liability rates. The Normal Cost and Unfunded Liability rates were calculated by the actuary in January 2006, based on the package of assumptions adopted at the December 2005 meeting.
7. The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.
8. Act 2010-46 recertified the fiscal year ending June 30, 2011 pension rate from 7.58% to 5.00%.
9. The Final Employer Pension rate is limited by the Act 2010-120 pension rate collar.
10. Revised actuarial assumptions based on a five-year experience review ending June 30, 2010 were used to determine the contributions for the fiscal year ending June 30, 2013.

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

ASSUMPTIONS

Investment Rate of Return: 7.50% per annum, compounded annually (adopted as of June 30, 2011). The components are 3.00% for inflation and 4.50% for the real rate of return. Actuarial equivalent benefits are determined based on 4% (since 1960).

Separation from Service: Illustrative rates of assumed separation from service are shown in the following table (adopted as of June 30, 2011).

	Annual Rate of:						
		Vested Withdrawal*					
Age	Non-Vested Withdrawal	Less Than 10 Years of Service	10 or More Years of Service	Death	Disability	Early Retirement**	Superannuation Retirement
MALES							
25	12.50%	5.50%	2.00%	.037%	.024%		
30	10.50	3.20	2.00	.038	.024		
35	11.00	3.00	1.50	.056	.100		
40	13.00	3.50	1.25	.090	.180		
45	13.00	3.50	1.25	.121	.180		25.00%
50	13.00	3.50	1.70	.173	.280		25.00
55	11.00	3.50	3.00	.245	.430	15.00%	30.00
60	10.50	3.50	4.50	.363	.580	12.00	28.00
65				.592	.100		20.00
69				.810	.100		18.00
FEMALES							
25	13.00%	8.50%	5.00%	.018%	.030%		
30	13.00	6.50	4.00	.019	.040		
35	13.00	5.50	3.00	.022	.060		
40	10.90	4.50	1.50	.035	.100		
45	10.90	4.00	1.50	.055	.150		30.00%
50	10.90	3.75	1.75	.085	.200		30.00
55	10.90	3.75	3.00	.133	.380	15.00%	30.00
60	10.90	4.50	5.50	.197	.380	15.00	30.00
65				.301	.130		25.00
69				.428	.130		20.00

* Vested Withdrawal – At least 5 years service but not eligible for Early or Superannuation retirement.
** Early Retirement – Age 55 with 25 years service, but not eligible for Superannuation retirement.

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Death after Retirement: The RP-2000 Combined Healthy Annuitant Tables (Male and Female) with age set back 3 years for both genders for healthy annuitants and for dependent beneficiaries. The RP-2000 Combined Disabled Tables (Male and Female) with age set back 7 years for males and set back 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables (Male and Female) with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Salary Increase: Effective average of 5.50% per annum, compounded annually (adopted as of June 30, 2011). The components are 3.00% for inflation, 1% for real wage growth and 1.5% for merit or seniority increases. Representative values are as follows:

Age	Annual Rate of Salary Increase
20	10.75%
30	8.25
40	6.25
50	4.25
55	3.75
60	3.75
65	3.75
70	3.75

MISCELLANEOUS

Option 4 Elections: 100% of members are assumed to elect a refund of contributions and a reduced annuity.

Withdrawal Annuity: 90% of members are assumed to commence payment immediately and 10% are assumed to defer payment to superannuation age.

Health Insurance

Elections: 66% of eligible retirees are assumed to elect premium assistance.

Administrative Expenses: Assumed equal to 2% of contributions made during the year.

METHODS

Calculations: The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Retirement System, and on actuarial assumptions that are internally consistent and reasonable based on the actual experience of the Retirement System.

Asset Valuation Method: A ten-year smoothed market average (five-year smoothed market average prior to June 30, 2010) value of assets that recognizes the 7.50% (8.00% prior to June 30, 2011, 8.25% prior to June 30, 2009, and 8.50% prior to June 30, 2008) actuarial expected investment return immediately and spreads the difference between the actual return on the market value of assets and the expected return on the actuarial value of assets over a period of ten years. The averaging period is being phased-in from fiscal year 2006.

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Actuarial Cost Method for Pension Funding: Entry Age Normal Cost Method (modified slightly as of June 30, 2005 to use a pay-weighted average normal contribution rate). The results of each June 30 valuation normally determine the employer contribution rate for the second succeeding fiscal year. Act 120 revised the funding method effective with the June 30, 2010 valuation. Act 120 mandated that the outstanding balance of the unfunded accrued liability as of June 30, 2010, including changes in the unfunded accrued liability due to the funding reforms of Act 120, be amortized over a 24-year period, as a level percent of pay, beginning July 1, 2011. Future valuation gains and losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 24-year period, as a level percent of pay. Future increases in the unfunded accrued liability due to legislation will be amortized over a 10-year period, as a level percent of pay. Act 120 also modified the employer pension contribution requirements by imposing collars on the rate at which employer contributions may rise from year to year. For the fiscal years ending June 30, 2012, June 30, 2013, and on or after June 30, 2014 the pension contribution rate can be no more than 3%, 3.5% and 4.5%, respectively, of total compensation of all active members, greater than the prior year's final contribution rate. Beginning with the fiscal year in which the actuarially required contribution rate is less than the collared rate, the final contribution rate is the actuarially determined contribution rate, provided that the final contribution rate is not less than the employer normal contribution rate.

Actuarial Cost Method for GASB 25 Accounting for Pensions: Same as for pension funding, except that the GASB 25 amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period of 30 years.

Actuarial Cost Method for Health Insurance Funding: The actuarial liability equals the assets in the health insurance account, and the results of the June 30 valuation determine the contribution rate for the second succeeding fiscal year. The rate so determined is the rate necessary to establish reserves sufficient to cover administrative expenses and provide premium assistance payments for all participating eligible annuitants during the third fiscal year that follows the valuation date.

Actuarial Cost Method for GASB 43 Accounting for Health Insurance: The actuarial liability is determined under the entry age actuarial cost method, and the Annual Required Contribution (ARC) for the second fiscal year that follows the valuation date is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years.

DATA

Census and Assets: The valuation was based on members of the Retirement System as of June 30, 2011 and does not take into account future members. All census data was supplied by the Retirement System and was subject to reasonable consistency checks. The actuary adjusts the data to account for service and pay earned by members on or before the valuation that is not reported by the Retirement System until after the actuarial valuation is performed. Asset data was supplied by the Retirement System.

SCHEDULE OF ACTIVE MEMBERS VALUATION DATA

Valuation as of June 30	Number of Active Members	Annual Compensation (Thousands)	Average Compensation	% Increase in Average
2011	279,152	$ 12,910,043	46,247	1.99 %
2010	282,041	12,788,847	45,344	1.26
2009	279,701	12,524,593	44,779	2.43
2008	272,690	11,921,469	43,718	1.16
2007	264,023	11,410,257	43,217	(0.33)
2006	263,350	11,419,049	43,361	5.22

SCHEDULE OF RETIRED MEMBERS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Valuation Date as of June 30	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Annual Allowance	Average Annual Allowance
	Number	Annual Allowance (Millions)	Number	Annual Allowance (Millions)	Number*	Annual Allowance** (Millions)		
2011	16,228	$ 453.7	6,540	$ 76.4	194,622	$ 4,650.8	7.17 %	$ 23,897
2010	12,649	372.8	5,678	77.6	184,934	4,339.6	8.59	23,466
2009	9,651	314.9	5,228	74.4	177,963	3,996.3	4.85	22,456
2008	10,911	345.3	5,397	73.9	173,540	3,811.5	8.18	21,963
2007	10,612	307.5	4,399	56.0	168,026	3,523.4	7.60	20,970
2006	10,637	N/A	5,343	N/A	161,813	3,274.5	8.16	20,236

* Excludes inactive members and vestees.

** Reflects changes in annuities for continuing payees due to finalization of benefit calculations and due to the commencement of supplemental annuity payments.

SOLVENCY TEST
COMPARATIVE SUMMARY OF ACCRUED LIABILITY AND ACTUARIAL VALUE OF ASSETS
($ Amounts in Thousands)

PENSIONS

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
2011	$ 12,242,308	$ 45,648,780	$ 27,749,295	$ 59,141,131	100 %	100 %	5 %
2010	11,850,031	40,284,383	26,871,014	59,306,848	100	100	27
2009	11,087,345	37,112,318	27,321,073	59,781,575	100	100	42
2008	10,532,683	34,617,953	25,695,001	60,922,157	100	100	61
2007	10,183,433	31,603,788	24,708,649	57,057,838	100	100	62
2006	9,571,668	29,117,164	25,938,529	52,464,726	100	100	53

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
2011	$ 0	$ 909,076	$ 430,368	$ 111,258	N/A	12 %	0 %
2010	0	767,587	394,632	116,831	N/A	15	0
2009	0	759,891	399,164	105,114	N/A	14	0
2008	0	749,070	383,941	95,785	N/A	13	0
2007	0	684,677	373,415	97,292	N/A	14	0
2006	0	684,435	371,719	92,777	N/A	14	0

The solvency test compares the actuarial accrued liabilities by various categories with the Retirement System's actuarial value of assets.

ANALYSIS OF PAST FINANCIAL EXPERIENCE
RECONCILATION OF EMPLOYER CONTRIBUTION RATES

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008
Effective Prior Year Contribution Rate	8.65%	5.64%	4.78%	4.76%	7.13%	6.46%
Prior Year Adjustment for Legislation	10.27	2.58	(0.37)	(0.69)	N/A	(0.05)
Net Change Due to:						
Change in Normal Rate	(0.22)	0.04	0.00	(0.02)	0.00	0.06
Payroll Growth and Liability Experience	(0.21)	0.40	(0.03)	0.33	(0.88)	0.47
Investment Loss/(Gain)	0.59	1.94	2.04	(1.71)	(2.25)	0.24
Health Insurance Contribution Change	0.21	0.01	(0.14)	0.02	0.07	(0.05)
Assumption Change	3.04	N/A	1.94	1.72	N/A	N/A
Act 40 4.00% Floor*	N/A	N/A	N/A	0.37	0.69	N/A
Act 120 Funding Reforms	N/A	8.31	N/A	N/A	N/A	N/A
Amortization of Prior Legislation Deferrals	0.18	N/A	N/A	N/A	N/A	N/A
Legislation Deferrals:						
Act 46 Rate Cap**	N/A	N/A	(2.58)	N/A	N/A	N/A
Act 120 Collar***	(10.15)	(10.27)	N/A	N/A	N/A	N/A
Actual Contribution Rate	12.36%	8.65%	5.64%	4.78%	4.76%	7.13%

* Act 2003-40 amended the Retirement Code to increase the Employer Pension Rate Floor from 1% to 4%.

** Act 2010-46 recertified the fiscal year ending June 30, 2011 pension rate from 7.58% to 5.00%.

*** The Final Employer Pension rate is limited by the Act 2010-120 pension rate collar. For the fiscal years ending June 30, 2012, June 30, 2013, and on or after June 30, 2014 the pension contribution rate can be no more than 3%, 3.5% and 4.5%, respectively, of total compensation of all active members, greater than the prior year's final contribution rate. Beginning with the fiscal year in which the actuarially required contribution rate is less than the collared rate, the final contribution rate is the actuarially determined contribution rate, provided that the final contribution rate is not less than the employer normal contribution rate.

SCHEDULE OF FUNDING PROGRESS FOR PENSIONS*
GASB STATEMENT NO. 25 DISCLOSURE
($ Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2011	$ 59,141,131	$ 85,640,383	$ 26,499,252	69.1%	$ 12,910,043	205.3%
2010	59,306,848	79,005,428	19,698,580	75.1	12,788,847	154.0
2009	59,781,575	75,520,736	15,739,161	79.2	12,524,593	125.7
2008	60,922,157	70,845,637	9,923,480	86.0	11,921,469	83.2
2007	57,057,838	66,495,870	9,438,032	85.8	11,410,257	82.7
2006	52,464,726	64,627,361	12,162,635	81.2	11,419,049	106.5

*The amounts reported above include assets and liabilities for Pensions.

SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*
GASB STATEMENT NO. 43 DISCLOSURE
($ Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2011	$ 111,258	$ 1,339,444	$ 1,228,186	8.3%	$ 12,910,043	9.5%
2010	116,831	1,162,219	1,045,388	10.1	12,788,847	8.2
2009	105,114	1,159,055	1,053,941	9.1	12,524,593	8.4
2008	95,785	1,133,011	1,037,226	8.5	11,921,469	8.7
2007	97,292	1,058,092	960,800	9.2	11,410,257	8.4
2006	92,777	1,056,154	963,377	8.8	11,419,049	8.4

* The amounts reported above include assets and liabilities for Health Insurance Premium Assistance. The health insurance liabilities for GASB 43 disclosure have been calculated under the entry age normal cost method, which provides liabilities that differ from those determined under the funding requirements of the Retirement Code.

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR PENSIONS
GASB STATEMENT NO. 25 DISCLOSURE
($ Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2011	$ 2,436,602	$ 647,000	27%
2010	1,928,278	527,212	27
2009	1,761,295	503,227	29
2008	1,852,238	753,532	41
2007	1,708,821	659,545	39
2006	1,328,373	456,878	34

The Annual Required Contribution (ARC) presented above was determined as part of the actuarial valuation as of two years prior to the dates indicated (i.e., the ARC for the fiscal year ended June 30, 2011 was determined by the valuation completed as of June 30, 2009 which was based on an 8.00% interest rate).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2011
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Dollar, Open
Remaining Amortization Period:	30 Years
Asset Valuation Method:	10 Year Smoothed Market
Actuarial Assumptions:	
- Investment Rate Return*	7.50%
- Projected Salaried Increases*	5.50%
*Includes Inflation at:	3.00%

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS GASB STATEMENT NO. 43 DISCLOSURE ($ Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2011	$ 119,320	$ 88,796	74%
2010	117,187	102,703	88
2009	109,531	92,493	84
2008	101,352	81,317	80
2007	94,970	86,763	91

The Annual Required Contribution (ARC) beginning with the fiscal year ended June 30, 2009 was determined as part of the actuarial valuation as of two years prior to the date indicated (i.e., the ARC for the fiscal year ended June 30, 2011 was determined by the valuation completed as of June 30, 2009, which was based on an 8.00% interest rate). Prior to the fiscal year which ended June 30, 2009, the ARC was determined as part of the actuarial valuation as of one year prior to the dates indicated.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2011
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Dollar, Open
Remaining Amortization Period:	30 Years
Asset Valuation Method:	Market
Actuarial Assumptions:	
- Investment Rate Return*	7.50%
- Projected Salaried Increases*	5.50%
*Includes Inflation at:	3.00%

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STATISTICAL SECTION

STATISTICAL SECTION

Statistical Section Narrative

To assist readers in the assessment of the System's economic condition, the Statistical Section of this Comprehensive Annual Financial Report presents information to add historical perspective, context, and detail to the financial statements, notes to financial statements, and required supplementary information presented in the preceding sections. To provide historical perspective and a sense of trend, the exhibits in this Section are presented in multiple-year formats. The information is categorized into four topical groups: *Financial Trends, Revenue Capacity, Demographic and Economic Information, and Operating Information.*

Financial Trends

The ***Schedule of Trend Data*** provides key financial, actuarial, and demographic information for a ten-year period ended June 30, 2012.

The ***Schedules of Total Changes in Pension Plan Net Assets*** and ***Total Changes in Postemployment Healthcare Plans Net Assets*** show the historical combined effects of the additions and deductions of the plans' net assets over the ten-year period ended June 30, 2012.

The graphs of ***Additions to Pension Plan Net Assets*** and ***Additions to Postemployment Healthcare Plans Net Assets*** provide visual details of the additions to the plans' net assets over the ten-year period ended June 30, 2012.

The graphs of ***Deductions from Pension Plan Net Assets*** and ***Deductions from Postemployment Healthcare Plans Net Assets*** provide visual details of the deductions from the plans' net assets over the ten-year period ended June 30, 2012.

Revenue Capacity

The ***Schedules of Pension Investment Income, Premium Assistance Investment Income***, and ***Health Options Program Investment Income*** provide a ten-year perspective on the System's largest source of revenue, Net Investment Income, over the ten-year period ended June 30, 2012.

Demographic and Economic Information

The ***Schedule of Summary Membership Data*** provides general populations and statistics relating to the System's active membership over the ten-year period ended June 30, 2011.

The ***Schedule of Summary Annuity Data*** provides general populations and statistics relating to the System's annuitants over the ten-year period ended June 30, 2011.

The ***Schedule of Pension Benefit and Refund Deductions from Plan Net Assets*** provides summary statistics by payment type relating to retirement and refunds over the ten-year period ended June 30, 2012.

The ***Schedule of Average Monthly Pension Benefit Payments*** provides summary statistics of monthly average pension benefits and counts of recipients, by payment type, grouped in five-year increments of member credited service over the ten-year period ended June 30, 2011.

The ***Schedule of Average Monthly Pension Benefit Payments by Type*** provides summary statistics of monthly average pension benefits and counts of recipients, by payment type, grouped in five-year increments of member credited service over the ten-year period ended June 30, 2011.

The ***Schedules of Average Monthly Pension Benefit Payments and Average Final Average Salary*** provides summary statistics of average monthly pension benefits and postemployment healthcare benefits, counts of recipients with benefit effective dates within the designated fiscal year, and the recipients' average final average salary grouped in five-year increments of member credited service over the ten-year period ended June 30, 2011.

Operating Information

The list of ***Ten Largest Employers*** shows the System's ten largest employers based on number of PSERS members during FY 2012 and the ***Schedule of Employers*** provides the full list of PSERS' employers.

Schedule of Trend Data
(Dollar Amounts in Thousands)*

For years ended June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Contribution Rates:										
Total Pension %	8.00	5.00	4.00	4.00	6.44	5.72	4.00	4.00	2.98	.18
Health Care Insurance Premium Assistance %	.65	.64	.78	.76	.69	.74	.69	.23	.79	.97
Total Employer %	8.65	5.64	4.78	4.76	7.13	6.46	4.69	4.23	3.77	1.15
Average Member %	7.37	7.34	7.32	7.29	7.25	7.21	7.16	7.12	7.08	7.10
Contributions:										
Member - Pension $	952,887	1,042,707	952,047	911,118	879,598	855,322	827,647	788,310	783,691	752,110
Member - HOP $	213,642	201,014	191,184	178,801	159,563	144,185	155,199	167,199	160,731	145,197
Employer - Pension $	1,004,584	658,511	535,331	515,889	753,532	659,545	456,878	431,556	321,091	20,831
Employer - Health Care Insurance Premium Assistance $	81,343	89,242	102,703	92,483	81,317	86,763	74,065	26,252	85,631	95,625
CMS $ ***	33,462	32,080	33,901	31,556	28,426	27,789	13,941	-	-	-
Average Annual Member Compensation $ *	46,487	46,247	45,344	44,779	43,718	43,217	43,361	41,210	40,463	39,128
Market Value of Assets $	48,628,000	51,311,000	45,715,000	43,101,000	62,569,000	67,438,000	57,328,000	52,033,534	48,484,506	42,446,826
Actuarial Value of Assets $	**	59,252,000	59,424,000	59,887,000	61,018,000	57,155,000	52,558,000	51,219,300	52,094,500	52,900,500
Accrued Actuarial Liability $	**	85,752,000	79,122,000	75,626,000	70,941,000	66,593,000	64,720,000	61,129,444	56,978,143	54,313,328
Funded Ratio %	**	69.1	75.1	79.2	86.0	85.8	81.2	83.7	91.2	97.2
Total Benefits & Refunds $	5,992,979	5,617,247	5,269,175	4,931,854	4,941,681	4,320,440	4,115,865	3,877,842	3,497,365	3,102,684
Average Pension $ *	24,122	23,897	23,466	22,456	21,963	20,970	20,236	19,343	18,464	17,469
Annuitants & Beneficiaries	202,015	194,622	184,934	177,963	173,540	168,026	161,813	156,519	151,552	145,693
Active Members	273,504	279,152	282,041	279,701	272,690	264,023	263,350	255,465	247,901	246,700

* All dollar amounts are in thousands, except Average Annual Member Compensation and Average Pension.
** Data for these categories relate to the actuarial valuation for fiscal year ended June 30, 2012. Results for this valuation were not available at publication date.
*** Centers for Medicare and Medicaid Services

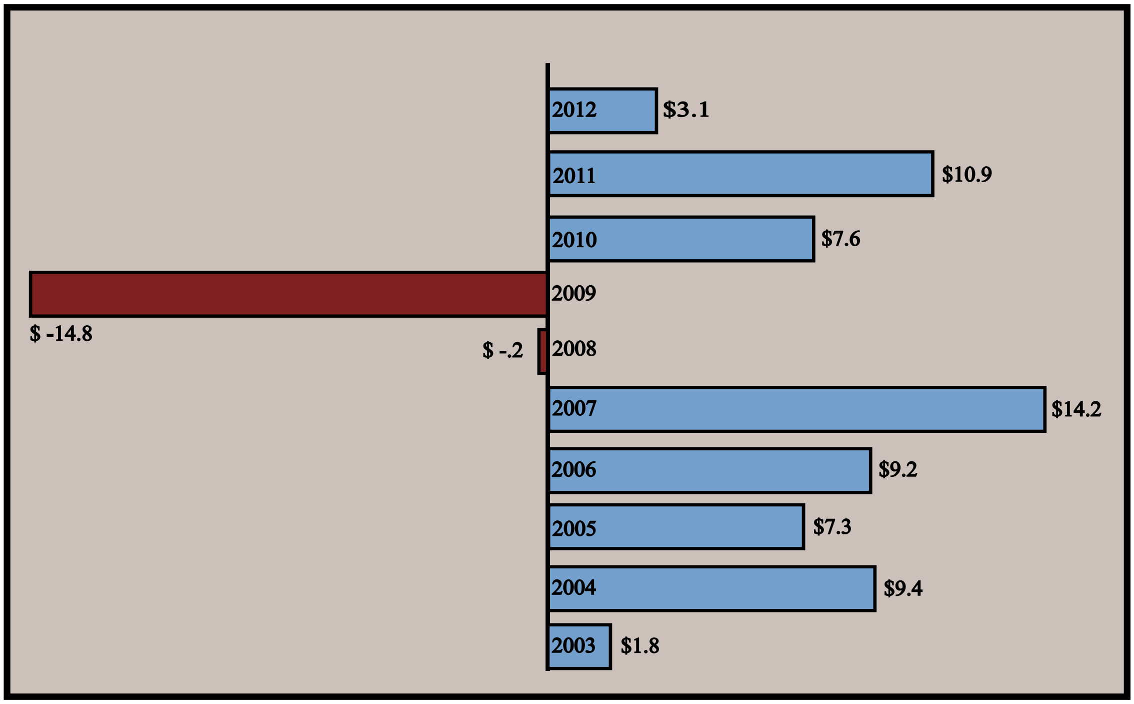
Schedule of Total Changes in Pension Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

	Additions to Plan Net Assets				Deductions from Plan Net Assets						
Year Ended June 30	Member Contributions	Employer Contributions	Net Investment Income	Total Additions	Monthly Benefits	Lump-Sum and Installment	Refunds of Contributions	Administrative*	Net Transfers**	Total Deductions	Net Increase / (Decrease)
2012	$ 952,887	$ 1,004,584	$ 1,093,319	$ 3,050,790	$ 4,691,250	$ 964,056	$ 24,675	$ 34,242	$ 2,765	$ 5,716,988	$ (2,666,198)
2011	1,042,707	658,511	9,246,091	10,947,309	4,322,520	958,703	17,695	37,028	9,844	5,345,790	5,601,519
2010	952,047	535,331	6,113,679	7,601,057	4,095,334	866,888	16,720	12,105	7,015	4,998,062	2,602,995
2009	911,118	515,889	(16,201,701)	(14,774,694)	3,885,286	754,011	20,369	35,639	7,947	4,703,252	(19,477,946)
2008	879,598	753,532	(1,782,628)	(149,498)	3,623,652	1,012,688	28,713	35,863	17,157	4,718,073	(4,867,571)
2007	855,322	659,545	12,694,327	14,209,194	3,189,004	855,431	18,180	35,239	6,010	4,103,864	10,105,330
2006	827,647	456,878	7,935,586	9,220,111	3,030,297	830,361	16,330	35,391	8,462	3,920,841	5,299,270
2005	788,310	431,556	6,076,482	7,296,348	2,947,749	692,089	16,233	32,670	10,859	3,699,600	3,596,748
2004	783,691	321,091	8,242,008	9,346,790	2,692,485	559,939	14,767	40,014	16,315	3,323,520	6,023,270
2003	752,110	20,831	1,020,733	1,793,674	2,404,697	485,495	13,943	34,293	12,116	2,950,544	(1,156,870)

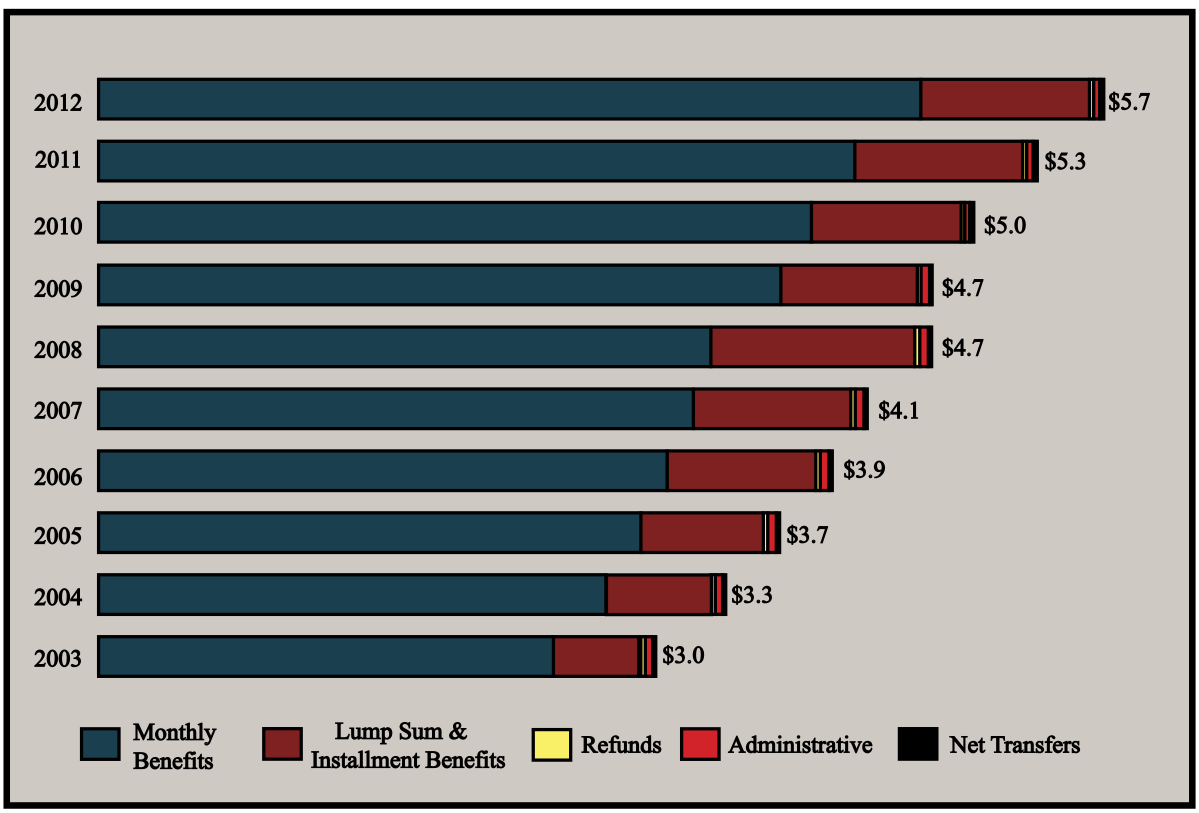
* Reporting of administrative expenses for fiscal year ended June 30, 2010 includes effects of the capitalization of intangible assets as a result of PSERS' implementation of GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*.

** Net transfers to the Commonwealth of Pennsylvania State Employees' Retirement System.

Additions to Pension Plan Net Assets
10 Year Trend
(Dollar Amounts in Billions)



Deductions from Pension Plan Net Assets
10 Year Trend
(Dollar Amounts in Billions)



Schedule of Total Changes in Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Premium Assistance

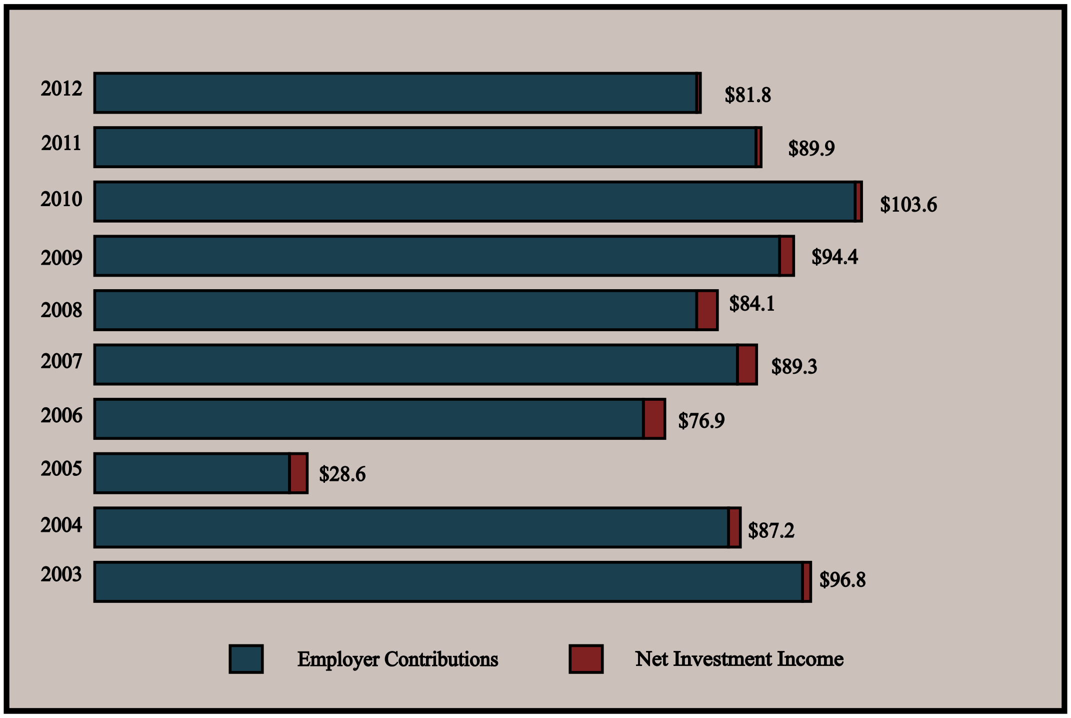
	Additions to Plan Net Assets			Deductions from Plan Net Assets			
Year Ended June 30	Employer Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2012	$ 81,343	$ 423	$ 81,766	$ 97,206	$ 2,065	$ 99,271	$ (17,505)
2011	89,242	691	89,933	93,518	1,988	95,506	(5,573)
2010	102,703	869	103,572	89,911	1,944	91,855	11,717
2009	92,493	1,861	94,354	83,206	1,819	85,025	9,329
2008	81,317	2,755	84,072	84,335	1,244	85,579	(1,507)
2007	86,763	2,573	89,336	82,031	2,790	84,821	4,515
2006	74,065	2,850	76,915	79,298	1,977	81,275	(4,360)
2005	26,252	2,369	28,621	74,465	1,876	76,341	(47,720)
2004	85,631	1,591	87,222	71,098	1,714	72,812	14,410
2003	95,625	1,138	96,763	67,688	1,932	69,620	27,143

Health Options Program

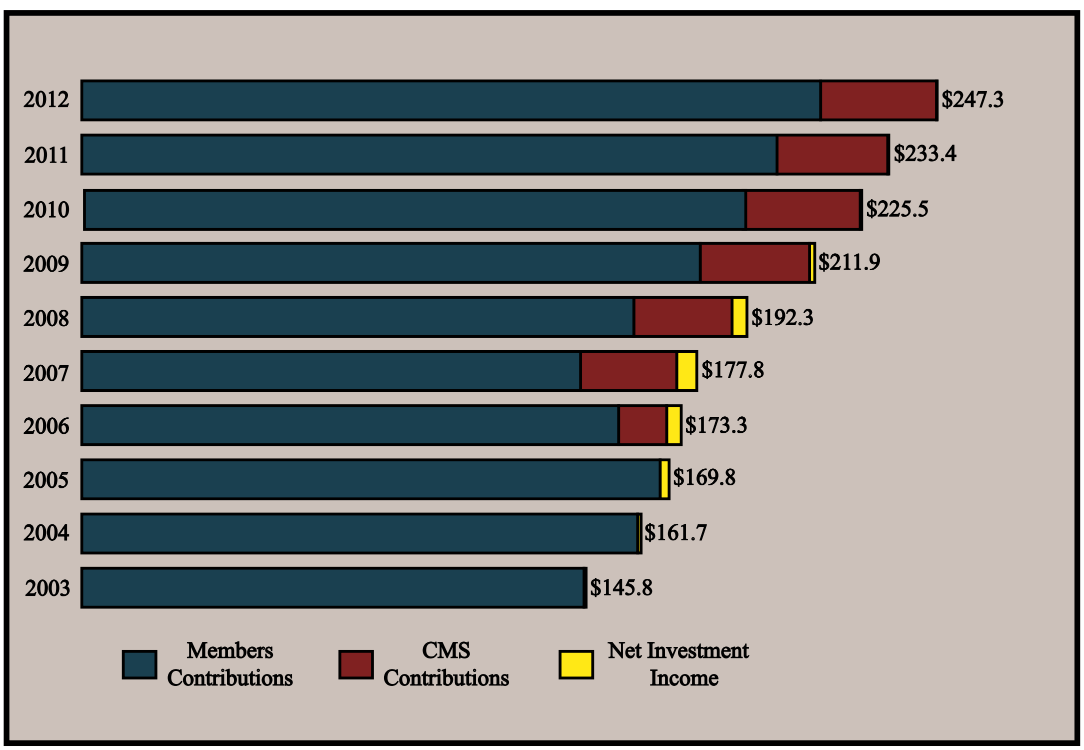
	Additions to Plan Net Assets				Deductions from Plan Net Assets			
Year Ended June 30	Member Contributions	CMS Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2012	$ 213,642	$ 33,462	$ 237	$ 247,341	$ 213,027	$ 20,213	$ 233,240	$ 14,101
2011	201,014	32,080	310	233,404	214,967	18,729	233,696	(292)
2010	191,184	33,901	440	225,525	193,307	16,443	209,750	15,775
2009	178,801	31,556	1,528	211,885	181,035	13,817	194,852	17,033
2008	159,563	28,426	4,288	192,277	175,136	12,143	187,279	4,998
2007	144,185	27,789	5,821	177,795	169,784	12,453	182,237	(4,442)
2006	155,199	13,941	4,203	173,343	151,117	11,261	162,378	10,965
2005	167,199	-	2,646	169,845	136,447	8,099	144,546	25,299
2004	160,731	-	1,005	161,736	142,761	7,474	150,235	11,501
2003	145,197	-	596	145,793	118,745	6,053	124,798	20,995

Additions to Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Millions)

Premium Assistance

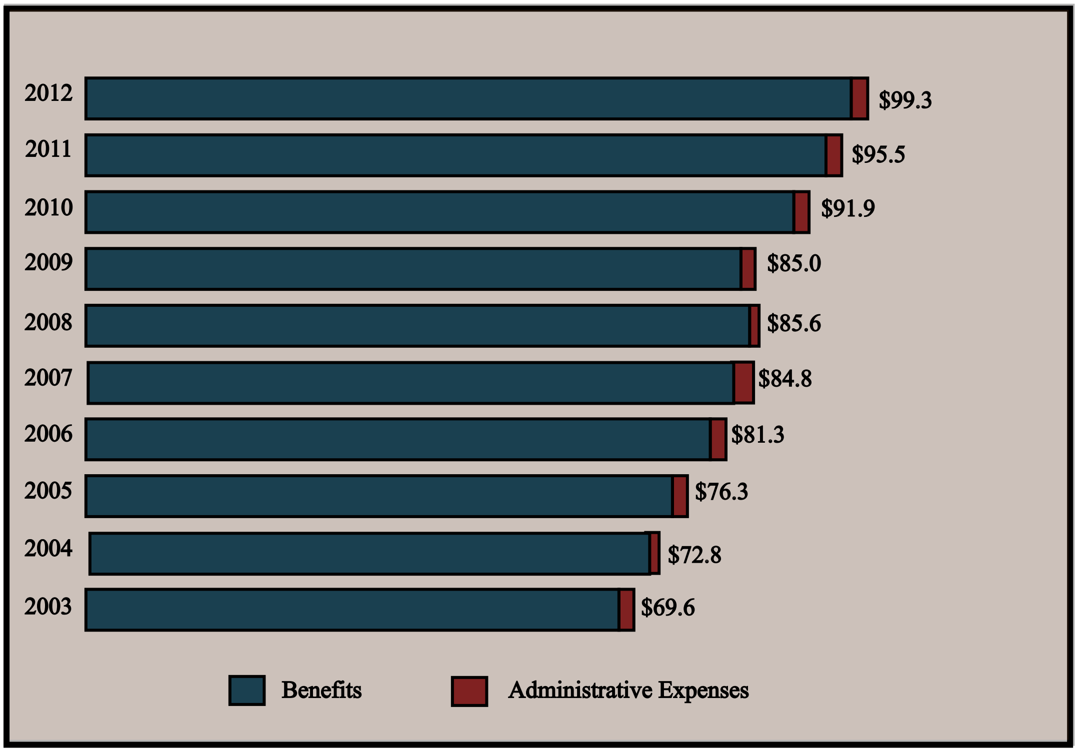


Health Options Program

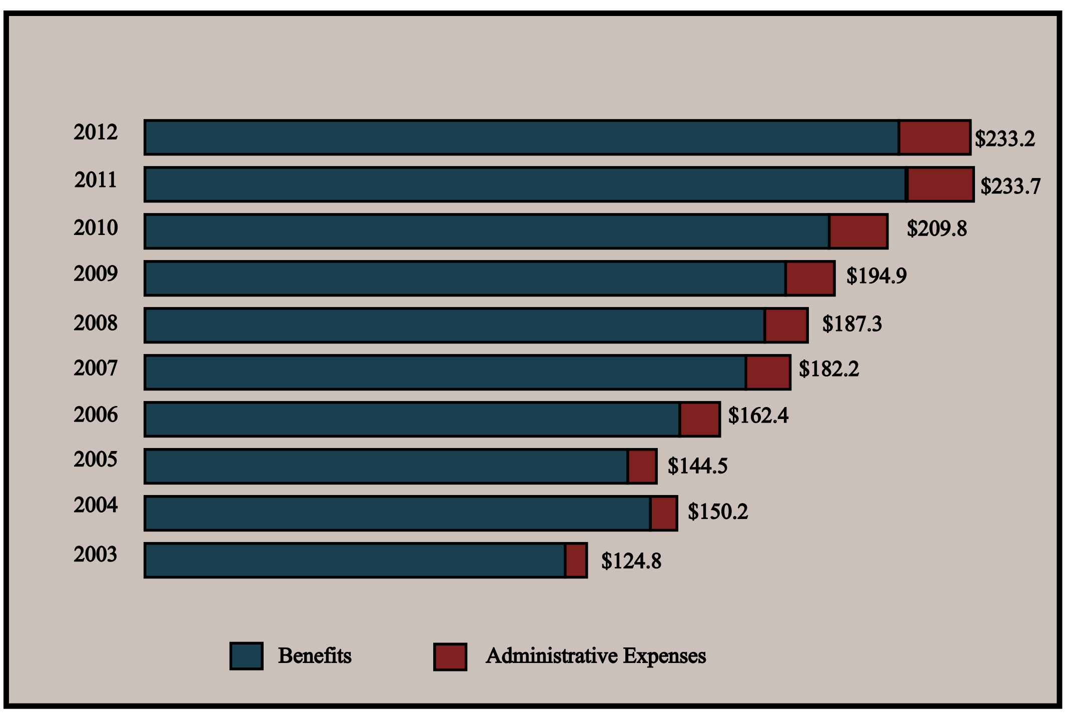


Deductions from Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Millions)

Premium Assistance



Health Options Program



Schedule of Pension Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ended June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ 539,129	$ 8,616,152	$ 5,561,419	$ (17,007,821)	$ (3,763,649)	$ 10,457,473	$ 5,969,223	$ 4,463,930	$ 6,874,420	$ (170,101)
Investment Income	1,027,141	1,137,339	1,066,017	1,310,460	2,331,266	2,524,655	2,154,654	1,789,078	1,544,159	1,354,835
Total investment activity income (loss)	1,566,270	9,753,491	6,627,436	(15,697,361)	(1,432,383)	12,982,128	8,123,877	6,253,008	8,418,579	1,184,734
Investment expenses	(481,234)	(514,647)	(522,268)	(477,520)	(399,098)	(313,726)	(211,247)	(192,629)	(191,267)	(179,033)
Net income (loss) from investing activities	1,085,036	9,238,844	6,105,168	(16,174,881)	(1,831,481)	12,668,402	7,912,630	6,060,379	8,227,312	1,005,701
From securities lending activities:										
Securities lending income	9,457	8,251	9,574	55,574	319,107	419,762	270,447	125,882	46,075	43,870
Securities lending expense	(1,174)	(1,004)	(1,063)	(82,394)	(270,254)	(393,837)	(247,491)	(109,779)	(31,379)	(28,838)
Net income (loss) from securities lending activities	8,283	7,247	8,511	(26,820)	48,853	25,925	22,956	16,103	14,696	15,032
Total net investment income (loss)	$ 1,093,319	$ 9,246,091	$ 6,113,679	$ (16,201,701)	$ (1,782,628)	$ 12,694,327	$ 7,935,586	$ 6,076,482	$ 8,242,008	$ 1,020,733

Schedule of Premium Assistance Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ended June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ (1,543)	$ (1,324)	$ (1,039)	$ (363)	$ 268	$ 88	$ (480)	$ (2,218)	$ (3,003)	$ (2,405)
Investment Income	2,018	2,063	1,955	2,269	2,525	2,517	3,362	4,635	4,627	3,566
Total investment activity income	475	739	916	1,906	2,793	2,605	2,882	2,417	1,624	1,161
Investment expenses	(52)	(48)	(47)	(45)	(38)	(32)	(32)	(48)	(33)	(23)
Total net investment income	$ 423	$ 691	$ 869	$ 1,861	$ 2,755	$ 2,573	$ 2,850	$ 2,369	$ 1,591	$ 1,138

Schedule of Health Options Program Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ended June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Investment Income:										
From investing activities:										
Net appreciation in fair value of investments	$ -	$ -	$ -	$ -	$ -	$ -	$ 123	$ 672	$ -	$ -
Investment Income	237	310	440	1,528	4,288	5,821	4,080	1,974	1,005	596
Total investment activity income	237	310	440	1,528	4,288	5,821	4,203	2,646	1,005	596
Investment expenses	-	-	-	-	-	-	-	-	-	-
Total net investment income	$ 237	$ 310	$ 440	$ 1,528	$ 4,288	$ 5,821	$ 4,203	$ 2,646	$ 1,005	$ 596

Schedule of Summary Membership Data
10 Year Trend *

For year ended June 30	Male Average Age	Male Average Service	Male Average Annual Salaries	Female Average Age	Female Average Service	Female Average Annual Salaries	Total Number of Active Members
2011	44.1	10.8	$ 51,678	44.6	10.3	$ 44,209	279,152
2010	44.2	10.9	50,770	44.6	10.3	43,306	282,041
2009	44.4	11.2	50,613	44.7	10.3	42,606	279,701
2008	44.5	11.4	49,818	44.7	10.4	41,440	272,690
2007	44.5	11.7	49,220	44.7	10.5	40,958	264,023
2006	44.6	12.0	49,153	44.7	10.7	41,155	263,350
2005	44.9	12.6	47,416	45.0	11.0	38,832	255,465
2004	45.1	13.0	47,103	45.1	11.1	37,901	247,901
2003	45.1	13.5	45,947	45.0	11.2	36,465	246,700
2002	45.2	14.0	45,182	44.9	11.3	36,073	242,616

* Actuarial Valuation for year ended June 30, 2011 is most current valuation completed at publication date.

Schedule of Summary Annuity Data
10 Year Trend *

For year ended June 30	Number of Annuitants & Beneficiaries	Total Annual Annuities**	Average Annual Annuity
2011	194,622	$ 4,650,798	$ 23,897
2010	184,934	4,339,639	23,466
2009	177,963	3,996,000	22,456
2008	173,540	3,812,000	21,963
2007	168,026	3,523,000	20,970
2006	161,813	3,274,000	20,236
2005	156,519	3,027,550	19,343
2004	151,552	2,798,211	18,464
2003	145,693	2,545,135	17,469
2002	141,414	2,248,291	15,899

* Actuarial Valuation for year ended June 30, 2011 is most current valuation completed at publication date.

**Total Annual Annuities dollar amounts expressed in thousands.

Schedule of Pension Benefit and Refund Deductions from Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

	Retirements *										
For year ended June 30	Normal	Early	Disability	Pension Lump Sum Benefits	Death	Beneficiary	Survivor	Net Transfers	Total Pension Benefits Deductions	Refunds	Total Pension Benefits and Refund Deductions
2012	$ 2,629,151	$ 1,758,581	$ 149,000	$ 887,244	$ 65,086	$102,406	$ 63,838	$ 2,765	$ 5,658,071	$ 24,675	$ 5,682,746
2011	2,420,883	1,664,903	141,273	847,482	55,479	91,318	59,885	9,844	5,291,067	17,695	5,308,762
2010	2,273,819	1,600,435	136,174	733,333	52,409	109,656	56,396	7,015	4,969,237	16,720	4,985,957
2009	2,110,018	1,538,421	130,820	666,827	53,695	86,164	53,352	7,947	4,647,244	20,369	4,667,613
2008	4,636,340	**	**	**	**	**	**	17,157	4,653,497	28,713	4,682,210
2007	4,044,435	**	**	**	**	**	**	6,010	4,050,445	18,180	4,068,625
2006	3,860,658	**	**	**	**	**	**	8,462	3,869,120	16,330	3,885,450
2005	3,639,838	**	**	**	**	**	**	10,859	3,650,697	16,233	3,666,930
2004	3,252,424	**	**	**	**	**	**	16,315	3,268,739	14,767	3,283,506
2003	2,890,192	**	**	**	**	**	**	12,116	2,902,308	13,943	2,916,251

* Data presented in Normal column for years 2003 to 2008 are aggregate amounts for all Retirement Types.

** Data for these years is not readily available in the format adopted for the year ended June 30, 2009 and thereafter.

Schedule of Average Monthly Pension Benefit Payments **
Grouped by Years of Credited Service
10 Year Trend

	Years of Credited Service									
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	Total
Fiscal year ended June 30, 2011										
Normal and Early	3,695	12,263	21,497	18,343	18,199	21,042	42,507	33,045	5,045	**175,636**
	$ 114	$ 174	$ 305	$ 656	$ 1,158	$ 1,921	$ 3,064	$ 4,041	$ 4,133	**$ 2,091**
Disability	-	1,629	1,798	1,473	1,366	1,216	523	15	9	**8,029**
	$ -	$ 680	$ 839	$ 1,136	$ 1,686	$ 2,548	$ 3,476	$ 2,878	$ 2,147	**$ 1,441**
Beneficiary and Survivor	-	4,389	817	819	804	842	1,322	1,362	602	**10,957**
	$ -	$ 652	$ 239	$ 372	$ 583	$ 842	$ 1,170	$ 1,322	$ 1,383	**$ 796**
Fiscal year ended June 30, 2010										
Normal and Early	4,695	11,529	20,812	17,777	17,356	19,973	40,625	30,716	4,755	**168,238**
	$ 1,023	$ 349	$ 287	$ 613	$ 1,093	$ 1,839	$ 3,004	$ 3,933	$ 3,896	**$ 2,037**
Disability	-	1,633	1,761	1,453	1,352	1,227	517	18	11	**7,972**
	$ -	$ 694	$ 819	$ 1,098	$ 1,654	$ 2,513	$ 3,475	$ 2,563	$ 1,958	**$ 1,424**
Beneficiary and Survivor	-	2,604	772	735	755	773	1,192	1,280	613	**8,724**
	$ -	$1,008	$ 217	$ 336	$ 525	$ 770	$ 1,075	$ 1,200	$ 1,241	**$ 872**
Fiscal year ended June 30, 2009										
Normal and Early	4,395	10,474	20,503	17,544	17,134	19,821	39,700	28,187	4,448	**162,206**
	$ 376	$ 178	$ 279	$ 602	$ 1,090	$ 1,828	$ 2,966	$ 3,780	$ 3,720	**$ 1,945**
Disability	-	1,566	1,713	1,417	1,313	1,205	485	12	2	**7,713**
	$ -	$ 661	$ 802	$ 1,103	$ 1,658	$ 2,507	$ 3,461	$ 3,318	$ 2,348	**$ 1,412**
Beneficiary and Survivor	-	1,824	788	744	767	786	1,207	1,304	624	**8,044**
	$ -	$ 838	$ 218	$ 336	$ 524	$ 770	$ 1,070	$ 1,201	$ 1,248	**$ 820**
Fiscal year ended June 30, 2008										
Normal and Early	4,054	9,541	20,539	17,450	16,748	19,166	38,331	27,318	4,509	**157,656**
	$ 355	$ 165	$ 270	$ 584	$ 1,032	$ 1,733	$ 2,904	$ 3,732	$ 3,629	**$ 1,896**
Disability	-	1,468	1,664	1,364	1,280	1,178	466	14	1	**7,435**
	$ -	$ 876	$ 949	$ 1,205	$ 1,854	$ 2,714	$ 3,707	$ 3,681	$ 4,550	**$ 1,595**
Beneficiary and Survivor	789	402	964	874	879	917	1,381	1,522	721	**8,449**
	$ 1,127	$ 121	$ 223	$ 347	$ 533	$ 783	$ 1,083	$ 1,223	$ 1,255	**$ 817**
Fiscal year ended June 30, 2007										
Normal and Early	2,812	8,675	20,554	17,448	16,304	18,664	37,422	25,100	5,382	**152,361**
	$ 54	$ 149	$ 256	$ 553	$ 971	$ 1,662	$ 2,821	$ 3,574	$ 3,488	**$ 1,820**
Disability	-	1,437	1,689	1,370	1,307	1,154	430	11	1	**7,399**
	$ -	$ 595	$ 770	$ 1,044	$ 1,569	$ 2,476	$ 3,466	$ 3,576	$ 4,550	**$ 1,356**
Beneficiary and Survivor	94	430	1,025	930	936	980	1,453	1,628	790	**8,266**
	$ 47	$ 119	$ 218	$ 342	$ 530	$ 768	$ 1,075	$ 1,201	$ 1,234	**$ 767**

** Actuarial valuation for year ended June 30, 2011 is the most current valuation completed at the publication date.

Schedule of Average Monthly Pension Benefit Payments Grouped by Years of Credited Service 10 Year Trend (Continued)

	Years of Credited Service									
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	Total
Fiscal year ended June 30, 2006										
Normal and Early	2,723	7,810	20,380	17,198	15,979	18,140	35,227	23,660	5,465	**146,582**
	$ 53	$ 147	$ 249	$ 537	$ 945	$ 1,611	$ 2,747	$ 3,474	$ 3,397	**$ 1,756**
Disability	-	1,375	1,655	1,339	1,261	1,136	398	10	1	**7,175**
	$ -	$ 579	$ 750	$ 1,023	$ 1,510	$ 2,429	$ 3,422	$ 3,549	$ 4,550	**$ 1,320**
Beneficiary and Survivor	88	413	1,000	902	911	951	1,404	1,572	815	**8,056**
	$ 47	$ 116	$ 212	$ 327	$ 516	$ 742	$ 1,027	$ 1,154	$ 1,182	**$ 739**
Fiscal year ended June 30, 2005										
Normal and Early	2,654	7,117	20,423	17,022	15,827	17,732	33,402	21,971	5,615	**141,763**
	$ 67	$ 147	$ 244	$ 523	$ 921	$ 1,561	$ 2,669	$ 3,326	$ 3,278	**$ 1,679**
Disability	8	1,321	1,641	1,281	1,232	1,113	357	10	1	**6,964**
	$ 1,301	$ 550	$ 723	$ 975	$ 1,464	$ 2,377	$ 3,340	$ 3,546	$ 4,550	**$ 1,271**
Beneficiary and Survivor	79	400	976	881	876	913	1,322	1,530	814	**7,791**
	$ 47	$ 110	$ 204	$ 316	$ 496	$ 709	$ 987	$ 1,075	$ 1,099	**$ 700**
Fiscal year ended June 30, 2004										
Normal and Early	3,111	6,585	20,407	16,821	15,637	17,285	31,443	20,313	5,699	**137,301**
	$ 224	$ 148	$ 240	$ 509	$ 901	$ 1,516	$ 2,592	$ 3,191	$ 3,198	**$ 1,602**
Disability	24	1,256	1,589	1,205	1,225	1,083	305	8	1	**6,696**
	$ 873	$ 527	$ 700	$ 937	$ 1,435	$ 2,342	$ 3,212	$ 3,227	$ 4,550	**$ 1,229**
Beneficiary and Survivor	123	408	946	861	830	881	1,235	1,444	826	**7,554**
	$ 224	$ 107	$ 196	$ 303	$ 465	$ 680	$ 944	$ 997	$ 1,042	**$ 658**
Fiscal year ended June 30, 2003										
Normal and Early	2,762	6,165	20,389	16,688	15,509	16,761	29,365	18,553	5,813	**132,005**
	$ 131	$ 149	$ 236	$ 496	$ 879	$ 1,463	$ 2,501	$ 3,021	$ 3,104	**$ 1,516**
Disability	20	1,182	1,524	1,167	1,198	1,011	268	7	1	**6,378**
	$ 749	$ 505	$ 673	$ 903	$ 1,397	$ 2,267	$ 3,044	$ 3,035	$ 4,550	**$ 1,176**
Beneficiary and Survivor	111	396	916	857	815	827	1,166	1,379	842	**7,309**
	$ 180	$ 104	$ 190	$ 287	$ 452	$ 654	$ 889	$ 941	$ 979	**$ 622**
Fiscal year ended June 30, 2002										
Normal and Early	2,443	5,891	20,446	16,670	15,398	16,430	27,659	17,341	5,925	**128,203**
	$ 46	$ 146	$ 227	$ 472	$ 830	$ 1,367	$ 2,302	$ 2,737	$ 2,849	**$ 1,378**
Disability	-	1,137	1,487	1,144	1,172	940	208	8	1	**6,097**
	$ -	$ 472	$ 630	$ 827	$ 1,308	$ 2,067	$ 2,598	$ 2,901	$ 4,174	**$ 1,060**
Beneficiary and Survivor	89	398	891	835	783	796	1,112	1,347	862	**7,113**
	$ 52	$ 98	$ 184	$ 277	$ 430	$ 625	$ 821	$ 889	$ 924	**$ 588**

Schedule of Average Monthly Pension Benefit Payments and Average Final Average Salary *

	Years of Credited Service								
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+
Fiscal year ended June 30, 2011									
Number of retired members	380	1,591	1,323	1,131	1,247	1,418	2,309	2,023	281
Final Average Salary	$17,212	$30,174	$34,363	$44,577	$52,788	$64,398	$73,905	$79,420	$79,799
Monthly Benefit	$ 98	$ 315	$ 645	$ 1,238	$ 1,908	$ 2,893	$ 4,031	$ 4,981	$ 5,491
Fiscal year ended June 30, 2010									
Number of retired members	312	1,294	989	826	947	1,035	1,992	1,731	218
Final Average Salary	$21,528	$28,957	$34,500	$42,207	$52,104	$63,290	$72,258	$79,239	$80,405
Monthly Benefit	$ 312	$ 269	$ 634	$ 1,140	$ 1,906	$ 2,833	$ 3,979	$ 4,963	$ 5,550
Fiscal year ended June 30, 2009									
Number of retired members	259	1,213	857	753	835	902	1,959	1,757	165
Final Average Salary	$18,802	$27,718	$31,600	$39,456	$48,973	$61,459	$71,256	$76,947	$77,351
Monthly Benefit	$ 106	$ 230	$ 556	$ 1,063	$ 1,726	$ 2,764	$ 3,915	$ 4,834	$ 5,343
Fiscal year ended June 30, 2008									
Number of retired members	253	1,304	903	857	798	1,038	2,318	1,936	139
Final Average Salary	$18,146	$26,404	$31,479	$38,271	$47,220	$57,595	$70,232	$75,942	$75,041
Monthly Benefit	$ 104	$ 210	$ 556	$ 1,010	$ 1,647	$ 2,551	$ 3,863	$ 4,775	$ 5,164
Fiscal year ended June 30, 2007									
Number of retired members	274	1,348	920	884	836	1,163	2,702	2,105	142
Final Average Salary	$17,233	$26,678	$29,390	$38,155	$45,934	$56,810	$68,962	$73,165	$77,381
Monthly Benefit	$ 85	$ 231	$ 502	$ 1,011	$ 1,591	$ 2,534	$ 3,800	$ 4,604	$ 5,421
Fiscal year ended June 30, 2006									
Number of retired members	256	1,184	816	889	788	1,063	2,654	1,908	132
Final Average Salary	$16,172	$25,512	$28,360	$35,156	$43,902	$54,791	$66,976	$72,236	$75,847
Monthly Benefit	$ 88	$ 222	$ 475	$ 947	$ 1,536	$ 2,467	$ 3,725	$ 4,571	$ 5,255
Fiscal year ended June 30, 2005									
Number of retired members	199	931	770	867	711	1,121	2,903	2,234	166
Final Average Salary	$16,899	$24,980	$28,573	$35,081	$42,144	$53,664	$66,212	$70,328	$73,362
Monthly Benefit	$ 85	$ 232	$ 519	$ 938	$ 1,488	$ 2,436	$ 3,684	$ 4,454	$ 5,096
Fiscal year ended June 30, 2004									
Number of retired members	171	804	753	736	702	989	2,647	1,849	141
Final Average Salary	$15,913	$22,502	$27,392	$33,361	$40,589	$52,181	$62,708	$68,374	$69,609
Monthly Benefit	$ 79	$ 229	$ 505	$ 861	$ 1,503	$ 2,376	$ 3,480	$ 4,339	$ 4,916
Fiscal year ended June 30, 2003									
Number of retired members	150	641	669	628	590	894	2,130	1,383	124
Final Average Salary	$14,079	$22,793	$25,867	$32,917	$37,832	$50,223	$62,936	$66,993	$66,185
Monthly Benefit	$ 69	$ 250	$ 458	$ 865	$ 1,368	$ 2,279	$ 3,484	$ 4,266	$ 4,704
Fiscal year ended June 30, 2002									
Number of retired members	171	775	1,067	938	1,102	1,622	2,998	2,696	310
Final Average Salary	$13,116	$21,376	$26,805	$32,646	$38,066	$49,993	$60,427	$64,811	$63,227
Monthly Benefit	$ 68	$ 215	$ 436	$ 835	$ 1,370	$ 2,291	$ 3,302	$ 4,181	$ 4,488

* Actuarial valuation for year ended June 30, 2011 is the most current valuation completed at the publication date.

Schedule of Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary *

	Years of Credited Service								
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+
Fiscal year ended June 30, 2011									
Number of retired members		24	39	325	475	853	1,543	1,402	207
Final Average Salary		$41,609	$51,763	$48,062	$54,261	$67,086	$74,658	$79,436	$77,751
Monthly Benefit		$ 100	$ 100	$ 98	$ 99	$ 97	$ 96	$ 97	$ 98
Fiscal year ended June 30, 2010									
Number of retired members		20	21	227	381	597	1,371	1,253	165
Final Average Salary		$36,052	$48,277	$45,245	$55,323	$65,244	$73,207	$80,413	$80,328
Monthly Benefit		$ 100	$ 100	$ 98	$ 98	$ 98	$ 97	$ 97	$ 100
Fiscal year ended June 30, 2009									
Number of retired members		32	33	202	353	555	1,324	1,273	129
Final Average Salary		$30,120	$44,926	$44,889	$49,416	$62,449	$72,314	$76,742	$79,676
Monthly Benefit		$ 100	$ 96	$ 99	$ 98	$ 97	$ 95	$ 96	$ 97
Fiscal year ended June 30, 2008									
Number of retired members		32	36	242	336	609	1,686	1,435	114
Final Average Salary		$31,419	$41,391	$41,714	$49,709	$59,708	$70,486	$75,903	$72,718
Monthly Benefit		$ 97	$ 100	$ 99	$ 99	$ 97	$ 95	$ 95	$ 96
Fiscal year ended June 30, 2007									
Number of retired members		29	36	271	370	741	1,986	1,609	101
Final Average Salary		$36,165	$39,981	$37,907	$46,781	$59,682	$69,722	$73,808	$78,288
Monthly Benefit		$ 9	$ 99	$ 98	$ 99	$ 96	$ 93	$ 93	$ 98
Fiscal year ended June 30, 2006									
Number of retired members		35	29	288	343	713	1,931	1,491	113
Final Average Salary		$27,700	$40,994	$37,316	$43,608	$56,647	$68,662	$72,726	$74,851
Monthly Benefit		$ 97	$ 100	$ 97	$ 98	$ 98	$ 93	$ 92	$ 92
Fiscal year ended June 30, 2005									
Number of retired members		32	42	265	297	751	2,143	1,759	136
Final Average Salary		$31,231	$32,470	$37,651	$41,099	$56,000	$68,328	$71,690	$74,802
Monthly Benefit		$ 78	$ 99	$ 100	$ 97	$ 94	$ 89	$ 87	$ 94
Fiscal year ended June 30, 2004									
Number of retired members		33	44	232	322	661	1,974	1,536	116
Final Average Salary		$27,158	$35,190	$34,821	$43,361	$54,435	$64,237	$69,087	$69,369
Monthly Benefit		$ 99	$ 98	$ 100	$ 100	$ 96	$ 95	$ 93	$ 96
Fiscal year ended June 30, 2003									
Number of retired members		27	28	197	249	586	1,666	1,159	101
Final Average Salary		$33,030	$35,265	$36,195	$38,325	$53,729	$63,796	$68,781	$66,844
Monthly Benefit		$ 99	$ 100	$ 96	$ 100	$ 99	$ 95	$ 94	$ 97
Fiscal year ended June 30, 2002									
Number of retired members		21	36	267	442	1,086	2,303	2,353	250
Final Average Salary		$27,002	$32,137	$35,038	$38,346	$52,710	$61,955	$65,753	$64,852
Monthly Benefit		$ 99	$ 100	$ 100	$ 100	$ 100	$ 96	$ 97	$ 100

* Actuarial valuation for year ended June 30, 2011 is the most current valuation completed at the publication date.

Ten Largest Employers *
As of June 30, 2012
(Based on number of reported members)

	Employer	Number of Reported Members	Percentage of Total
1.	Philadelphia City School District	20,539	7.26%
2.	Pittsburgh School District	4,478	1.58%
3.	Central Bucks School District	2,776	0.98%
4.	Allentown City School District	2,617	0.93%
5.	North Penn School District	2,177	0.77%
6.	Reading School District	2,174	0.77%
7.	Bethlehem Area School District	2,121	0.75%
8.	Council Rock School District	1,900	0.67%
9.	Pocono Montain School District	1,868	0.66%
10.	Pennsbury School District	1,718	0.61%

* Due to the stable comparable populations of school employees in PSERS' employers over the years, a single presentation provides perspective for a ten-year period.

Schedule of Employers

School Districts

A

Abington
Abington Heights
Albert Gallatin
Aliquippa
Allegheny Valley
Allegheny-Clarion Valley
Allentown City
Altoona Area
Ambridge Area
Annville-Cleona
Antietam
Apollo-Ridge
Armstrong
Athens Area
Austin Area
Avella Area
Avon Grove
Avonworth

B

Bald Eagle Area
Baldwin-Whitehall
Bangor Area
Beaver Area
Bedford Area
Belle Vernon Area
Bellefonte Area
Bellwood-Antis
Bensalem Township
Benton Area
Bentworth
Berlin Brothersvalley
Bermudian Springs
Berwick Area
Bethel Park
Bethlehem Area
Bethlehem-Center
Big Beaver Falls Area
Big Spring
Blackhawk
Blacklick Valley
Blairsville-Saltsburg
Bloomsburg Area
Blue Mountain
Blue Ridge
Boyertown Area
Bradford Area
Brandywine Heights Area
Brentwood Borough
Bristol Borough
Bristol Township
Brockway Area
Brookville Area
Brownsville Area
Burgettstown Area
Burrell
Butler Area

C

California Area
Cambria Heights
Cameron County
Camp Hill
Canon-McMillan
Canton Area
Carbondale Area
Carlisle Area
Carlynton
Carmichaels Area
Catasauqua Area
Centennial
Central Bucks
Central Cambria
Central Columbia
Central Dauphin
Central Fulton
Central Greene
Central Valley
Central York
Chambersburg Area
Charleroi Area
Chartiers Houston
Chartiers Valley
Cheltenham Township
Chester-Upland
Chestnut Ridge
Chichester
Clairton City
Clarion Area
Clarion-Limeston Area
Claysburg-Kimmel
Clearfield Area
Coatesville Area
Cocalico
Colonial
Columbia Borough
Commodore Perry
Conemaugh Township Area
Conemaugh Valley
Conestoga Valley
Conewago Valley
Conneaut
Connellsville Area
Conrad Weiser Area
Cornell
Cornwall-Lebanon
Corry Area
Coudersport Area
Council Rock
Cranberry Area
Crawford Central
Crestwood
Cumberland Valley
Curwensville Area

D

Dallas
Dallastown Area
Daniel Boone Area
Danville Area
Deer Lakes
Delaware Valley
Derry Area
Derry Township
Donegal
Dover Area
Downingtown Area
Dubois Area
Dunmore
Duquesne City

E

East Allegheny
East Lycoming
East Penn
East Pennsboro Area
East Stroudsburg Area
Eastern Lancaster County
Eastern Lebanon County
Eastern York
Easton Area
Elizabeth Forward
Elizabethtown Area
Elk Lake
Ellwood City Area
Ephrata Area
Erie City
Everett Area
Exeter Township

F

Fairfield Area
Fairview
Fannett Metal
Farrell Area
Ferndale Area
Fleetwood Area
Forbes Road
Forest Area
Forest City Regional
Forest Hills
Fort Cherry
Fort LeBoeuf
Fox Chapel Area
Franklin Area
Franklin Regional
Frazier
Freedom Area
Freeport Area

Schedule of Employers (Continued)

G
- Galeton Area
- Garnet Valley
- Gateway
- General McLane
- Gettysburg Area
- Girard
- Glendale
- Governor Mifflin
- Great Valley
- Greater Johnstown
- Greater Latrobe
- Greater Nanticoke Area
- Greencastle-Antrim
- Greensburg Salem
- Greenville Area
- Greenwood
- Grove City Area

H
- Halifax Area
- Hamburg Area
- Hampton Township
- Hanover Area
- Hanover Public
- Harbor Creek
- Harmony Area
- Harrisburg City
- Hatboro-Horsham
- Haverford Township
- Hazelton Area
- Hempfield
- Hempfield Area
- Hermitage
- Highlands
- Hollidaysburg Area
- Homer-Center
- Hopewell Area
- Huntingdon Area

I
- Indiana Area
- Interboro
- Iroquois

J
- Jamestown Area
- Jeannette City
- Jefferson-Morgan
- Jenkintown
- Jersey Shore Area
- Jim Thorpe Area
- Johnsonburg Area
- Juniata County
- Juniata Valley

K
- Kane Area
- Karns City Area
- Kennett Consolidated
- Keystone
- Keystone Central
- Keystone Oaks
- Kiski Area
- Kutztown Area

L
- Lackawana Trail
- Lakeland
- Lake-Lehman
- Lakeview
- Lampeter-Strasburg
- Lancaster
- Laurel
- Laurel Highlands
- Lebanon
- Leechburg Area
- Lehighton Area
- Lewisburg Area
- Ligonier Valley
- Line Mountain
- Littlestown Area
- Lower Dauphin
- Lower Merion
- Lower Moreland Township
- Loyalsock Township

M
- Mahanoy Area
- Manheim Central
- Manheim Township
- Marion Center Area
- Marple Newtown
- Mars Area
- McGuffey
- McKeesport Area
- Mechanicsburg Area
- Mercer Area
- Methacton
- Meyersdale Area
- Mid Valley
- Middletown Area
- Midd-West
- Midland Borough
- Mifflin County
- Mifflinburg Area
- Millcreek Township
- Millersburg Area
- Millville Area
- Milton Area
- Minersville Area
- Mohawk Area
- Monessen
- Moniteau
- Montgomery Area
- Montour
- Montoursville Area
- Montrose Area
- Moon Area
- Morrisville Borough
- Moshannon Valley
- Mount Carmel Area
- Mount Pleasant Area
- Mount Union Area
- Mountain View
- Mt. Lebanon
- Muhlenberg
- Muncy

N
- Nazareth
- Neshaminy
- Neshannock Township
- New Brighton Area
- New Castle Area
- New Hope-Solebury
- New Kensington-Arnold
- Newport
- Norristown Area
- North Allegheny
- North Clarion County
- North East
- North Hills
- North Penn
- North Pocono
- North Schuykill
- North Star
- Northampton Area
- Northeast Bradford
- Northeastern York
- Northern Bedford County
- Northern Cambria
- Northern Lebanon
- Northern Lehigh
- Northern Potter
- Northern Tioga
- Northern York County
- Northgate
- Northwest Area
- Northwestern
- Northwestern Lehigh
- Norwin

Schedule of Employers (Continued)

O

Octorara Area
Oil City Area
Old Forge
Oley Valley
Oswayo Valley
Otto-Eldred
Owen J. Roberts
Oxford Area

P

Palisades
Palmerton Area
Palmyra Area
Panther Valley
Parkland
Pen Argyl Area
Penn Cambria
Penn Hills
Penn Manor
Penncrest
Penn-Delco
Pennridge
Penns Manor
Penns Valley Area
Pennsbury
Penn-Trafford
Pequea Valley
Perkiomen Valley
Peters Township
Philadelphia City
Philipsburg-Osceola Area
Phoenixville Area
Pine Grove Area
Pine-Richland
Pittsburgh
Pittston Area
Pleasant Valley
Plum Borough
Pocono Mountain
Port Allegany
Portage Area
Pottsgrove
Pottstown
Pottsville Area
Punxsutawney Area
Purchase Line

Q

Quaker Valley
Quakertown Community

R

Radnor Township
Reading
Red Lion Area
Redbank Valley
Reynolds
Richland
Ridgway Area
Ridley
Ringgold
Riverside
Riverside Beaver County
Riverview
Rochester Area
Rockwood Area
Rose Tree Media

S

Saint Clair Area
Saint Marys Area
Salisbury Township
Salisbury-Elk Lick
Saucon Valley
Sayre Area
Schuylkill Haven Area
Schuylkill Valley
Scranton
Selinsgrove Area
Seneca Valley
Shade Central City
Shaler Area
Shamokin Area
Shanksville-Stoneycreek
Sharon City
Sharpsville Area
Shenandoah Valley
Shenango Area
Shikellamy
Shippensburg Area
Slippery Rock Area
Smethport Area
Solanco
Somerset Area
Souderton Area
South Allegheny
South Butler County
South Eastern
South Fayette Township
South Middleton
South Park
South Side Area
South Western
South Williamsport Area
Southeast Delco
Southeastern Greene
Southern Columbia Area
Southern Fulton
Southern Huntingdon County
Southern Lehigh
Southern Tioga
Southern York County
Southmoreland
Spring Cove
Spring Grove Area
Springfield
Springfield Township
Spring-Ford Area
State College Area
Steel Valley
Steelton-Highspire
Sto-Rox
Stroudsburg Area
Sullivan County
Susquehanna Community
Susquehanna Township
Susquenita

T

Tamaqua Area
Titusville Area
Towanda Area
Tredyffrin-Easttown
Trinity Area
Tri-Valley
Troy Area
Tulpehocken Area
Tunkhannock Area
Turkeyfoot Valley Area
Tuscarora
Tussey Mountain
Twin Valley
Tyrone Area

U

Union
Union Area
Union City Area
Uniontown Area
Unionville-Chadds Ford
United
Upper Adams
Upper Darby
Upper Dauphin Area
Upper Dublin
Upper Merion Area
Upper Moreland Township
Upper Perkiomen
Upper Saint Clair

Schedule of Employers (Continued)

V

Valley Grove
Valley View

W

Wallenpaupack Area
Wallingford-Swarthmore
Warren County
Warrior Run
Warwick
Washington
Wattsburg Area
Wayne Highlands
Waynesboro Area
Weatherly Area
Wellsboro Area
West Allegheny
West Branch Area
West Chester Area
West Greene
West Jefferson Hills
West Middlesex Area
West Mifflin Area
West Perry
West Shore
West York Area
Western Beaver County
Western Wayne
Westmont Hilltop
Whitehall-Coplay
Wilkes Barre Area
Wilkinsburg Borough
William Penn
Williams Valley
Williamsburg Community
Williamsport Area
Wilmington Area
Wilson
Wilson Area
Windber Area
Wissahickon
Woodland Hills
Wyalusing Area
Wyoming Area
Wyoming Valley West
Wyomissing Area

Y

York City
York Suburban
Yough

Area Vocational Technical Schools

A. W. Beattie Career Center
Admiral Peary AVTS
Beaver County AVTS
Bedford County Technical Center
Berks CTC
Bethlehem AVTS
Bucks CountyTechnical High School
Butler County AVTS
Carbon Career & Technical Institute
Career Institute of Technology
Center for Technical Studies of Montgomery County
Central PA Institute of Science & Technology
Central Westmoreland CTC
Clarion County Career Center
Clearfield County CTC
Columbia-Montour AVTS
Crawford County CTC
CTC of Lackawanna County
Cumberland-Perry AVTS
Dauphin County Technical School
Delaware County AVTS
Eastern Center for Arts & Technology
Eastern Westmoreland CTC
Erie County Technical School
Fayette County AVTS
Forbes Road CTC
Franklin County CTC
Fulton County AVTS
Greater Altoona CTC
Greater Johnstown AVTS
Green County CTC
Huntingdon County CTC
Indiana County Technology Center
Jefferson County-DuBois AVTS
Lancaster County CTC
Lawrence County CTC
Lebanon County CTC
Lehigh Career & Technical Institute
Lenape Tech
Lycoming CTC
Mercer County Career Center
Middle Bucks Institute of Technology
Mifflin-Juniata CTC
Mon Valley CTC
Monroe Career & Tech Institute
North Fayette County AVTS
North Montco Technical Career Center
Northern Tier Career Center
Northern Westmoreland CTC
Northumberland County AVTS
Parkway West CTC
Reading-Muhlenberg CTC
Schuykill Technology Center
Somerset County Technology Center
Steel Center AVTS
SUN Area CTC
Susquehanna County CTC
Upper Bucks County AVTS
Venango Technology Center
West Side AVTS
Western Area CTC
Western Center for Technical Studies
Wilkes-Barre CTC
York County School of Technology

Schedule of Employers (Continued)

Intermediate Units

Allegheny #3
Appalachia #8
Arin #28
Beaver Valley #27
Berks County #14
Blast #17
Bucks County #22
Capital Area #15
Carbon-Lehigh #21
Central #10
Central Susquehanna #16
Chester County #24
Colonial #20
Delaware County #25
Intermediate Unit #1
Lancaster-Lebanon #13
Lincoln #12
Luzerne #18
Midwestern #4
Montgomery County #23
Northeastern Educational #19
Northwest Tri-County #5
Pittsburgh-Mt. Oliver #2
Riverview #6
Schuylkill #29
Seneca Highlands #9
Tuscarora #11
Westmoreland #7

Colleges / Universities

Bloomsburg University
Bucks County Community College
Butler County Community College
California University
Cheyney University
Clarion University of Pennsylvania
Community College of Allegheny County
Community College of Beaver County
Community College of Philadelphia
Delaware County Community College
East Stroudsburg University
Edinboro University
Education Resource
Harrisburg Area Community College
Indiana University
Kutztown University
Lehigh Carbon Community College
Lock Haven University
Luzerne County Community College
Mansfield University
Millersville University
Montgomery County Community College
Northhampton County Community College
Penn State University
Pennsylvania College of Technology
Reading Area Community College
Shippensburg University
Slippery Rock University
State System of Higher Education
West Chester University
Westmoreland County Community College

Other

Berks County Earned Income Tax Bureau
Department of Corrections - Commonwealth of Pennsylvania
Department of Education - Commonwealth of Pennsylvania
Lancaster County Academy
Overbrook School for the Blind
Pennsylvania School Boards Association
Pennsylvania School for the Deaf
Thaddeus Stevens College of Technology
Western Pennsylvania School for the Blind
Western Pennsylvania School for the Deaf
York Adams Academy

Charter Schools (C S)

21st Century Cyber C S
Achievement House C S
Ad Prima C S
Agora Cyber C S
Alliance For Progress C S
Antonia Pantoja C S
Architecture and Design Charter High School
Arise Academy Charter High School
Aspira Bilingual Cyber C S
Avon Grove C S
Bear Creek Community C S
Beaver Area Academic C S
Belmont C S
Birney Preparatory Academy C S
Boys Latin of Philadelphia C S
Bucks County Montessori C S
Career Connections C S
Center for Student Learning Charter School at Pennsbury
Central Pennsylvania Digital Learning Foundation C S
Centre Learning Community C S
Chester County Family Academy C S
Christopher Columbus C S
City Charter High School
Collegium C S
Commonwealth Connections Academy C S

Schedule of Employers (Continued)

Community Academy of Philadelphia C S
Crispus Attucks Youthbuild C S
Delaware Valley C S
Discovery C S
Dr. Robert Ketterer C S
Eastern University Academy C S
Environmental Charter School at Frick Park
Erie Rise Leadership Academy C S
Eugenio Maria de Hostos Community Bilingual C S
Evergreen Community C S
Family C S
Fell C S
First Philadelphia Charter School for Literacy
Folk Arts-Cultural Treasures C S
Franklin Towne Charter Elementary School
Franklin Towne Charter High School
Freire C S
Frontier Virtual Charter High School
Gettysburg Montessori C S
Gillingham C S
Global Leadership Academy C S
Graystone Academy C S
Green Woods C S
Hardy Williams Academy C S
Helen Thackston C S
Hope C S
Hope for Hyndman C S
I-Lead C S
Imani Education Circle C S
IMHOTEP Institute C S
Independence C S
Infinity C S
John B Stetson C S
Keystone Education Center C S
Khepera C S
Kipp Academy C S
Kipp West Philadelphia Preparatory C S
La Academia: The Partnership C S
Laboratory C S
Lehigh Valley Academy Regional C S
Lehigh Valley Charter School for the Performing Arts
Lehigh Valley Dual Language C S
Lincoln C S
Lincoln Leadership Academy C S
Lincoln Park Performing Arts C S
Manchester Academic C S
Mariana Bracetti Academy C S
Maritime Academy C S
Master C S - Simon Gratz
Mastery Charter School - Clymer Elementary
Mastery Charter School - Harrity Elementary
Mastery Charter School - Mann Elementary
Mastery Charter School - Smedley Elementary
Mastery Charter High School
Mastery Charter School - Pickett Campus
Mastery Charter School - Shoemaker Campus
Mastery Charter School - Thomas Campus
Math Civics and Sciences C S
Mathematics, Science & Technology Community C S
Montessori Regional C S
Multi-Cultural Academy C S
New Day Charter School
New Foundations C S
New Hope Academy
New Media Technology C S
Nittany Valley C S
Northside Urban Pathways C S
Northwood Academy C S
Nueva Esperanza Academy C S
Olney Charter High School
Pan American Academy C S
Penn Hills C S for Entrepreneurship
Pennsylvania Cyber C S
Pennsylvania Distance Learning C S
Pennsylvania Leadership C S
Pennsylvania Learners Online Regional Cyber C S
Pennsylvania Virtual C S
People for People C S
Perseus House Charter School of Excellence
Philadelphia Academy C S
Philadelphia Electrical & Technology Charter High School
Philadelphia Harambee Institute of Science and Technology C S
Philadelphia Montessori C S
Philadelphia Performing Arts C S
Planet Abacus C S
Pocono Mountain C S
Preparatory Charter School of Mathematics,
Science, Technology & Careers
Propel - East C S
Propel - Northside
Propel - Sunrise CS
Propel Charter School - Homestead
Propel Charter School - McKeesport
Propel Charter School - Montour
Renaissance Academy-Edison C S
Richard Allen Prepratory C S
Robert Benjamin Wiley Community C S
Roberto Clemente C S
Russell Byers C S
Sankofa Academy C S
Sankofa Freedom Academy C S
School Lane C S
Seven Generations C S
Souderton Charter School Collaborative
Spectrum C S
Stone Valley Community C S
Sugar Valley Rural C S
SUSQ-CYBER C S
Sylvan Heights Science C S
Tacony Academy C S
Tidioute Community C S
Truebright Science Academy C S
Universal Audenried C S
Universal Bluford C S
Universal Daroff C S
Universal Institute C S
Universal Vare C S
Urban League of Pittsburgh C S
Vida C S
Wakisha C S
Walter D. Palmer Leadership Learning Partnership C S
West Oak Lane C S
West Philadelphia Achievement Charter Elementary School
Wissahickon C S
Wonderland C S
World Communications C S
York Academy Regional C S
Young Scholars C S
Young Scholars Frederick Douglas C S
Young Scholars of Central Pennsylvania C S
Young Scholars of Western Pennsylvania C S

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