

# **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 Years Ended June 30, 2016 and 2015

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*Board of Trustees*

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*Vice Chairman*  
*Board of Trustees*

**Glen R. Grell**  
*Executive Director*

*Report prepared by the Public School Employees' Retirement System  
Office of Financial Management Staff*

## Table of Contents

<b>Section One – Introductory .....</b>	<b>5</b>
Letter of Transmittal .....	6
Pension Benefit Disbursement by County .....	14
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	15
Public Pension Coordinating Council Public Pension Standards Award .....	16
Mission Statement.....	17
Administrative Organization	
PSERS Board of Trustees .....	18
Board Committees .....	20
Organizational Chart.....	21
Administrative Staff.....	22
PSERS Regional Offices.....	23
PSERS Headquarters Building .....	24
<b>Section Two – Financial .....</b>	<b>25</b>
Report of Independent Public Accountants.....	27
Management’s Discussion and Analysis .....	29
Financial Statements	
Statements of Fiduciary Net Position as of June 30, 2016 and 2015.....	38
Statements of Changes in Fiduciary Net Position Years ended June 30, 2016 and 2015 .....	40
Notes to Financial Statements.....	42
Required Supplementary Schedules	
Schedule of Changes in the Employer Net Pension Liability.....	62
Schedule of Employer Net Pension Liability.....	63
Schedule of Employer Contributions.....	63
Schedule of Investment Returns .....	64
Schedule of Funding Progress .....	64
Notes to Required Supplementary Information .....	65
Supplementary Schedules	
Schedule of Operating Expenses .....	66
Summary of Investment Expenses.....	67
Schedule of Payments to Non-Investment Consultants .....	68
<b>Section Three – Investment .....</b>	<b>69</b>
Chief Investment Officer Letter .....	70
Portfolio Summary Statistics Asset Allocation as of June 30, 2016.....	78
Comparison of Actual Portfolio Capital Distribution to Asset Allocation Plan as of June 30, 2016.....	79
Graph – Comparison of Actual Portfolio Distribution to Asset Allocation Plan .....	79
Graph – Portfolio Capital Distribution 10 Year Trend.....	80
10 Largest Holdings Schedules	
Common and Preferred Stock – Non - U.S. Equity.....	80
Common and Preferred Stock – U.S. Equity .....	81
Fixed Income .....	81
Absolute Return .....	82
Postemployment Healthcare Investments .....	82

## Table of Contents (Continued)

Comparison of Investment Activity Income Fiscal Years Ended June 30, 2016 and 2015 .....	83
Summary Schedule of Brokers' Fees .....	83
Professional Consultants .....	84
<b>Section Four – Actuarial.....</b>	<b>87</b>
Actuary's Certification Letter .....	88
Summary of Results of Actuarial Valuation as of June 30, 2015.....	91
History and Projection of Contribution Rates and Funded Ratios.....	92
Description of Actuarial Assumptions and Methods .....	93
Schedule of Active Members .....	95
Schedules of Retired Members and Beneficiaries .....	96
Solvency Tests.....	97
Analysis of Past Financial Experience Reconciliation of Employer Contribution Rates .....	98
Schedule of Funding Progress for Pensions.....	99
Schedule of Funding Progress – GASB Statement No. 43 Disclosure.....	99
Schedule of Employer Contributions for Pensions.....	100
Schedule of Employer Contributions – GASB Statement No. 43 Disclosure .....	101
<b>Section Five – Statistical.....</b>	<b>103</b>
Narrative.....	104
Schedule of Trend Data.....	105
10 Year Trend Schedules	
Total Changes in Fiduciary Net Position - Pension .....	106
Additions to Fiduciary Net Position - Pension .....	107
Deductions from Fiduciary Net Position - Pension .....	107
Total Changes in Fiduciary Net Position - Postemployment Healthcare Plans .....	108
Additions to Fiduciary Net Position - Postemployment Healthcare Plans .....	109
Deductions from Fiduciary Net Position - Postemployment Healthcare Plans .....	109
Summary Membership Data .....	110
Summary Annuity Data.....	110
Pension Benefit and Refund Deductions from Fiduciary Net Position.....	111
Average Monthly Pension Benefit Payments.....	112
Average Monthly Pension Benefit Payments and Average Final Average Salary .....	114
Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary.....	115
Ten Largest Employers .....	116
Schedule of Employers .....	117



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# INTRODUCTORY SECTION

Letter of Transmittal.....	6
Pension Benefit Disbursement by County .....	14
GFOA Certificate of Achievement for Excellence in Financial Reporting .....	15
Public Pension Coordinating Council Public Pension Standards Award.....	16
Mission Statement.....	17
Administrative Organization	
PSERS Board of Trustees.....	18
Board Committees .....	20
Organizational Chart .....	21
Administrative Staff.....	22
PSERS Regional Offices .....	23
PSERS Headquarters Building .....	24



5 North 5th Street  
Harrisburg PA 17101-1905

**Letter of Transmittal**  
COMMONWEALTH OF PENNSYLVANIA  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

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*Toll-Free - 1-888-773-7748  
(1-888-PSERS4U)  
Local - 717-787-8540  
Web Address: [www.pfers.state.pa.us](http://www.pfers.state.pa.us)*

October 27, 2016

The Honorable Thomas W. Wolf, Governor of Pennsylvania  
Members of the PA 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 Wolf, Legislators, Members, Employer Board members, and PSERS Board of Trustees:

We are pleased to present the ninety-seventh edition of the Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal years ended June 30, 2016 (FY 2016) and 2015 (FY 2015). This report is intended to provide financial, investment, actuarial, and statistical information in a single publication.

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

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania (PA). 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 781 reporting entities in Pennsylvania. As of June 30, 2016, the System had over 257,000 active members with an estimated annualized active payroll of \$13.0 billion.

The annuitant membership at June 30, 2016 was comprised of approximately 225,000 retirees and beneficiaries who receive over \$476 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is \$25,203. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report.

In addition to retirement benefits, PSERS administers the Premium Assistance Program that provides a health insurance premium subsidy of up to \$100 per month for those retirees who qualify. Currently, there are approximately 90,000 retirees receiving this benefit. PSERS also manages a health insurance program, PSERS Health Options Program, that is entirely funded through participating member premiums and provides Medicare Supplemental, Prescription Drug, and Medicare Advantage plans to over 105,000 retirees and their dependents.

PSERS provides a stable source of revenue for local economies throughout Pennsylvania. In FY 2016, PSERS distributed \$5.7 billion, or over 90%, in pension benefits to retired members who reside in Pennsylvania. These pension disbursements are a significant economic driver that benefit the economy of the Commonwealth. See the Pension Benefit Disbursement by County map in the Introductory Section of this report.

The System is a governmental cost-sharing, multiple-employer defined benefit pension plan, to which all members and 781 reporting units contribute. PSERS is administered by a staff of 322. 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 SB & Company, LLC for this audit of its financial statements and has received an unmodified opinion as evidenced in the Report of Independent Public Accountants in the Financial Section of this CAFR. An unmodified opinion means that PSERS' financial statements fairly present, in all material respects, its financial condition. In addition, no significant findings were noted during the audit and therefore, a management letter was not issued. This is the seventh consecutive year that a management letter was not issued by the independent public accountants 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**

Economically, the fiscal year was a tale of two halves. The first seven and a half months (July 1, 2015 to February 11, 2016) were weak, marked by a Fed rate hike in December, expectations of multiple interest rate hikes in 2016, and risk assets falling in price. The MSCI All Country World Index, a global equity index, fell by 16.6% during this period, only to rebound 13.0% from the middle of February to June 30, 2016, for a total return of negative 3.1% for the fiscal year. Commodities fell by 27.9% during the first seven and a half months, but rebounded 20.3% during the remainder of the year for a total return of negative 13.3%. U.S. long-term treasuries were up 14.0% during the first half and continued to rise another 4.6% during the second half for a total return of 19.3%.

The U.S. economy has shown continued, albeit slow, growth this past fiscal year. Low interest rates have provided a low cost of borrowing so that the economy, housing, and employment conditions can continue to improve. The U.S. real Gross Domestic Product (GDP) increased an average of 1.2% per quarter during the past fiscal year with a range of 0.8% to 2.0%. Housing during the past fiscal year has shown continued improvement, up around 4.6% as measured by the S&P Case-Shiller 20-City Home Price Index.

Economic conditions continue to be very weak in Europe as aggressive European Central Bank policies have been unable to generate any significant improvements in economic growth, employment, and inflation. The United Kingdom (U.K.) held a non-binding referendum to determine if the U.K. would remain in or leave the European Union (EU), where the U.K. had been a member since being admitted in 1973. The polls all suggested prior to the vote that the U.K. would remain; however, its citizens voted to leave. Global risk markets (equities, commodities, credit) heavily sold off for a couple days immediately following the vote; however, they rebounded quickly. The long-term impacts have yet to be determined. While the Euro Area economy is weak, Japan's economy may be even weaker. As of the first quarter 2016 (the latest data available), Japan's real GDP increased by 0.1% over the past year. China had robust growth compared to the other developed regions of the world. China's real GDP increased by 6.7% over the past year, slightly slower than the 7.0% pace as of June 2015. Inflation in China has remained relatively stable over the past year at 1.8% compared to 1.4% last year.

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. The annualized time-weighted rate of return for the twenty-five year period ended June 30, 2016 was 8.18% and exceeded the Fund's long-term investment rate of return assumption. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

### **Status of Pension Funding Initiatives**

As the annual savings from the reduced Act 120 benefit structure increase and higher employer contributions are paid by school employers and the Commonwealth, PSERS is approaching a turning point.

As noted in the FY 2015 CAFR, for many years the Commonwealth and school employers paid below the annual required contribution (ARC) that was necessary to pay down the unfunded liability of the System. The ARC percentage received fell to a low of 27% before significant pension reform was enacted in 2010.

## Introductory Section

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Act 120 of 2010 made dramatic progress toward addressing the funding issue at PSERS. Since 2010, Act 120 increased employer contributions to the System and for the first time in 15 years, the employer contribution rate for the fiscal year ending June 30, 2017 (FY2017) provides 100% of the actuarially required rate based on sound actuarial practices and principles.

As a result of the increased funding, in approximately two years, PSERS' funded ratio is projected to slowly improve after declining for many years and has put PSERS on a path to eventual full funding.

As of June 30, 2016, approximately 58,000 of PSERS' active membership is under the reduced benefit structure of Act 120. The annual savings from the reduced benefit structure continue to grow and exceeded \$90 million in FY 2016.

Act 120 also provided for an innovative shifting of investment risk to members through a "shared risk" concept. New members hired after July 1, 2011 now share a portion of the investment risk of the Fund, giving PSERS a defined contribution element. Under the "shared risk" concept, members share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted; but could increase or decrease by 0.5% every three years, dependent on investment performance of PSERS.

The first risk share measurement occurred in 2014. As a result of the Fund's 8.66% three year return through June 30, 2014 exceeding the investment performance hurdle mandated by Act 120, the member rate did not change. The next measurement to determine risk share will occur in FY 2017.

### **Pension Legislation Update**

Throughout FY2016, PSERS staff was actively engaged in providing actuarial data, legislative analyses, and related technical information to members of the General Assembly and Executive Branch Officials on a range of pension policy proposals while remaining policy neutral on plan design elements of legislative proposals.

Significant discussion on additional pension reform continues to take place. As of the date of this letter, there has been no consensus on pension reform and no pension legislation beyond Act 120 of 2010 has been enacted.

The current Legislative Session ends Sine Die (without a day remaining) at midnight, November 30, 2016. Any pension bills that have been introduced but not enacted will be disposed of at the end of the Legislative Session.

## **Major Initiatives**

### **Pension Administration System Upgrade**

The multi-year effort to upgrade the System's entire core client-server based pension administration system continues. This mission critical system is used by PSERS' staff members and employers to execute PSERS' primary pension administration functions for its members. These functions include, but are not limited to: enrolling new members; processing membership class elections; reporting and processing employee and employer contribution data; processing member demographic, salary, and service data; processing purchase of service, multiple service, disability, retirement, and refund applications; processing death benefits; supporting the Health Options Program; processing premium assistance applications and payments; issuing benefit payments related to the above activities; calculating and posting interest and delinquencies, and payments and receipts related to the above activities; providing self-service functionality to PSERS' members via the internet; calculating, submitting, and reporting tax information and dollars to the Internal Revenue Service (IRS); and reporting information to PSERS' actuary.

This upgrade from the existing "classic" version to a new "browser-based" version not only helps ensure the viability of PSERS' core pension administration system into the future, but also provides an enhanced "baseline" platform with built-in features that will make future enhancements much easier to implement. Enhancements included with the initial introduction of this upgraded pension administration will provide opportunities for members and employers to conduct transactions for themselves that would have previously required staff intervention. Some of these initial self-service features include: updating home mailing address, phone number and email information; setting preferences for receiving paper or electronic documents; electing Class T-E or T-F at qualification; electing multiple service membership; designating and updating beneficiaries; creating personalized retirement estimates by using an online calculator; viewing disbursements; calculating federal



tax withholding using an online calculator; viewing and updating pension payment tax withholding; viewing correspondence from PSERS such as letters, newsletters, Statement of Accounts, and 1099Rs; and receiving PSERS-related news and alerts. These changes will not only directly increase customer service opportunities, but will also generate financial savings while possibly enabling PSERS to redeploy staff to other critical needs as workloads shift.

### **Budgetary and Financial Governance**

PSERS submits its administrative budget request to the Governor's Office of the Budget each October to be reviewed and evaluated. Any changes proposed by the Governor's Budget Office are made and a final amount is provided to the Legislature for their consideration. The Legislature passes the final budget and submits it to the Governor for his signature, after which it becomes law. The administrative budget is not funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself. Historically, PSERS has underspent its approved budget, keeping more funds available to invest for PSERS' members.

PSERS continues to be prudent in its use of funds and managing its annual budget. In FY 2016, PSERS entered into a new agreement for its hardware and server maintenance resulting in significant savings. PSERS reduced mailings to members, producing savings in both printing and postage costs. Working with its actuary, PSERS continues to save actuarial fees by completing various analyses in-house. Other reductions were made to wages, overtime, travel, and training, all part of PSERS' ongoing efforts to control costs and improve operational efficiency.

PSERS participates in an independent, international benchmarking survey evaluating its costs and service performance in comparison to other similar public pension funds. Based on the most recent survey, PSERS had a 16% lower pension administration cost per member than the average cost for its peer group. By running a lean and efficient operation, PSERS saves the Commonwealth and school employers approximately \$7.3 million annually in administrative expenses compared to its peers.

In addition, during FY 2016, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received \$2.8 million in settlements from these cases in FY 2016.

### **Reduction in Investment Manager Fees**

As fiduciaries, PSERS constantly monitors investment manager fees, as well as return expectations, investment risk, diversification, and cash flow needs.

For the third year in a row, PSERS' investment manager fees have declined. PSERS' investment expenses decreased by over \$142 million, from \$558 million in FY 2013 to \$416 million in FY 2016, which is a reduction of over 25%. This was accomplished by reducing external investment management fees through strategically decreasing PSERS' alternative investment and real estate allocations through secondary market sales, continued careful negotiation of fees, and by increasing the amount of assets being managed in-house by PSERS' internal investment professionals. PSERS currently manages \$19.2 billion or 34% of its assets internally.

Governor Wolf made reducing investment manager fees at the Commonwealth's pension systems a priority. PSERS continues to cooperate with Governor Wolf and his staff to look for ways to reduce investment fees in the future, including bringing additional asset classes in-house to be managed internally by PSERS' investment staff. This approach would lessen the need for external investment managers in those instances where the Board believes PSERS' internal staff could produce higher net investment returns with similar investment risk.

### **Customer Service**

PSERS has continued to make enhancements to its processes to operate more efficiently and provide quality customer service to our stakeholders.

PSERS continued its efforts to provide retirement benefits in an efficient manner through a one-step process. Approximately 87% of the retirement benefits processed in FY 2016 were paid in one-step. In the past, PSERS processed most initial retirements in two steps. The first step was the calculation and payment of an estimated monthly benefit and the second step was the calculation and payment of a finalized monthly benefit which occurred later.

## Introductory Section

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As a part of the ongoing effort to ensure the accuracy of member accounts, PSERS expanded its program of reviewing 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. Nearly 24,000 accounts were reviewed in FY 2016, which included the milestone of all members identified as having 35 or more years of service.

PSERS continued the automatic billing of members who became qualified during the fiscal year and from whom contributions were not previously withheld. In FY 2016 alone, this enhancement streamlined the process for approximately 11,000 members who became qualified during the year.

In an effort to continually look for new areas of improving service and operations, PSERS engaged a third party consultant to conduct comprehensive studies of PSERS' disability benefit process, call center operations, and communications structure and efforts. The multiple studies are expected to result in many positive changes for enhanced customer service and operational efficiencies.

### **Technology Upgrade**

In October 2015, the technology platforms running all mission critical systems supporting the PSERS operation were moved from the DataPowerhouse location to a new Commonwealth Office of Administration/Office of Information Technology contract with Unisys known as the Pennsylvania Compute Services (PACS) located in Ashburn, Virginia. The project was a huge success and epitomized team excellence. Given the complexity, risk, and impact of the PACS migration, transitions like this are rarely as triumphant.

This project involved not only migrating production and test systems to new equipment, it also gave PSERS access to a modernized data facility equipped with the latest IT tools. After nearly two years of planning and preparation, the migration was performed over a long holiday weekend. Executing a 72-hour implementation plan that consisted of hundreds of steps and the coordination of scores of PSERS employees, vendors, and service providers, the transformation was completed within one hour of the originally projected time frame. Benefits include faster processing, state-of-the-art disk backups and disaster recovery, a better financial model, and enhanced security.

### **Financial Highlights**

The fair value of the System's fiduciary net position totaled \$50.2 billion as of June 30, 2016. The System is the 20th largest state-sponsored public defined benefit pension fund in the nation and the 31st largest among public and corporate pension funds in the nation. More specific information on the System's net position is detailed in the Statements of Fiduciary Net Position 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 2016, PSERS provided nearly \$6.8 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the PA General Assembly and funded by the investment income of the System. For FY 2016, the appropriation was \$44.0 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 current and future 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, 2015) 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 for all benefits payable under the System at that date. The total funded status as of the latest actuarial valuation was 60.6%. Additional comparative information on the funded status of PSERS can be found in the Financial Section and in the Actuarial Section of this report.

PSERS' actuary, Buck Consultants LLC, completed a five-year experience study as required by the Retirement Code and presented the results at the June 10, 2016 Board meeting. Based on the recommendations of the actuary, the Board adopted revised demographic and economic assumptions effective with the June 30, 2016 actuarial valuation and results will be available at the end of the 2016 calendar year. The revised demographic assumptions include new mortality, retirement, and withdrawal assumptions and updated option factors to match the new mortality tables. The revised economic assumptions include reducing the salary growth from 5.50% to 5.00%, reducing inflation from 3.00% to 2.75%, and reducing the investment rate of return from 7.50% to 7.25%.

### **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 decreasing 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 65% of total revenues over the twenty-year period from FY 1997 to FY 2016. During FY 2016, net investment income was \$474 million. The investment portfolio, which is one part of the System's net position, totaled \$48.0 billion, at fair value, as of June 30, 2016. For FY 2016, the time-weighted net rate of return on the System's investments was 1.29%.

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 that exceeds the Policy Index (the Policy Index is a custom benchmark, 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.

#### **Act 93 of 2015**

On December 28, 2015, Governor Wolf signed into law House Bill Number 1332, Printer's Number 1814, as Act 93 of 2015. This legislation amends the Retirement Codes of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) to ensure that PSERS and SERS will remain a tax-qualified 401(a) governmental plan under the Internal Revenue Code (IRC).

### **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.

## Introductory Section

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A system of internal controls provides reasonable, but not absolute, assurance that assets are properly safeguarded and that financial statements are reliable. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of the cost and benefits requires estimates and judgments by management.

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 68 Pension Reporting for Employers**

In June 2016, PSERS sent information to its employers to assist them in complying with the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The information sent to employers included a memo explaining PSERS' role, descriptions of the material provided, and the employers' responsibilities. In addition to the memo, PSERS provided a variety of schedules audited by PSERS' independent public accountants as well as unaudited schedules. PSERS strives to incorporate all the information necessary for employers to comply with GASB 68 reporting requirements in these audited and unaudited schedules. Additionally, PSERS continues to make itself available to assist employers and their auditors should they have any additional requests in order to comply with GASB 68.

### **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 an 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. 43, No. 18). This information can be found at <http://www.pabulletin.com/secure/data/vol43/43-18/841.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, 2015. 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 33 consecutive years from FY 1983 to FY 2015. 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 2016 certificate.

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**Public Pension Coordinating Council Public Pension Standards Award**

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2015. 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.

**Institutional Investor Asset Management Award**

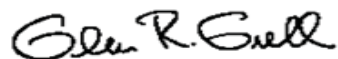
On April 28, 2016, at the Institutional Investor's 3rd annual Investor Intelligence Awards for Public Plan Sponsors, PSERS was presented with the Asset Management Award. This award is given to one asset allocator who demonstrates excellence in investing, long-term performance, and overall ability to construct and manage a complex portfolio.

The Investor Intelligence Awards were created to recognize the most outstanding and innovative Corporate and Public Plan sponsors and Endowments and Foundations in North America.

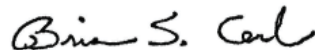
**Acknowledgements**

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,

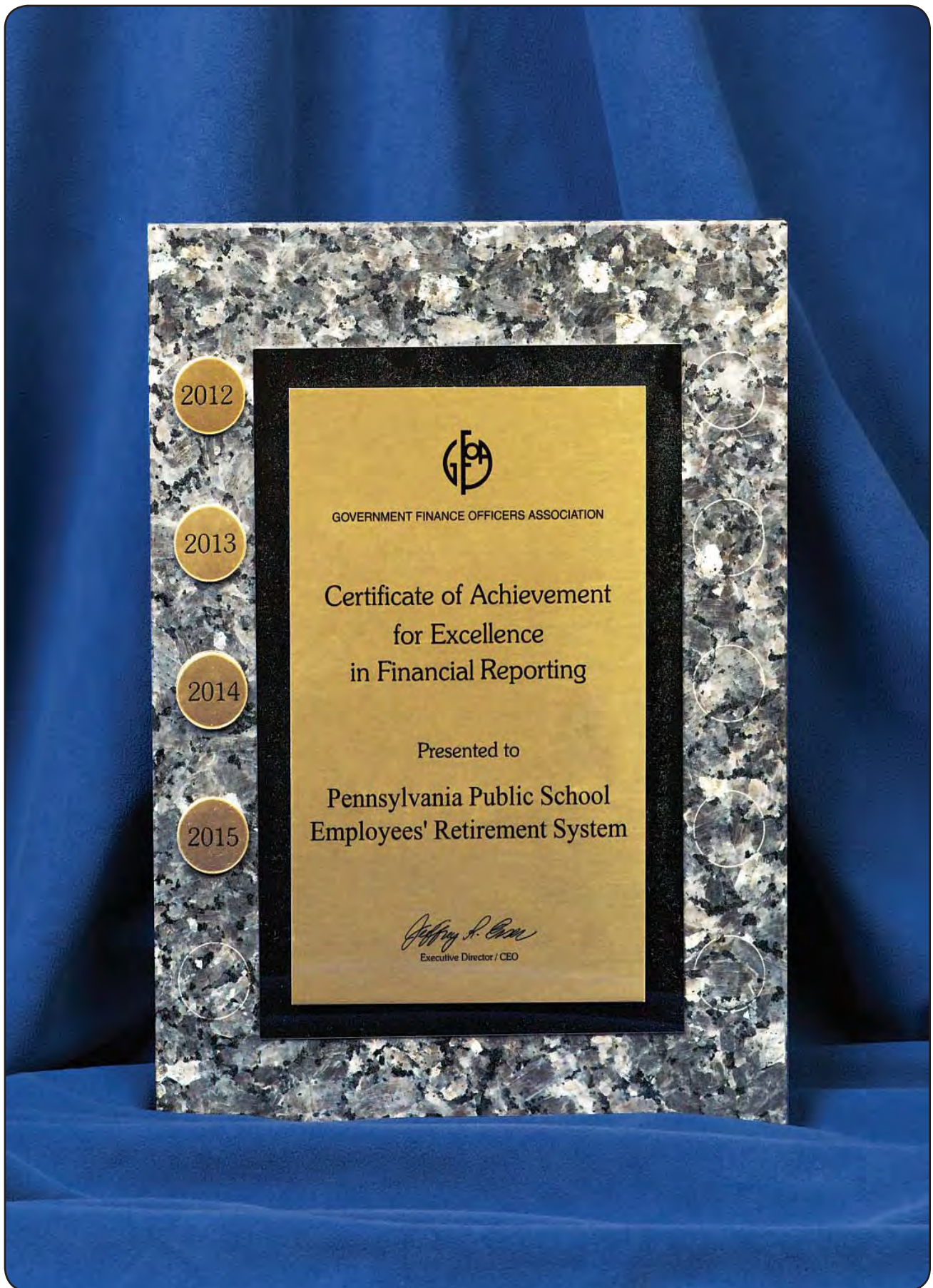


Glen R. Grell  
Executive Director



Brian S. Carl, CPA, CTP  
Chief Financial Officer





  
GOVERNMENT FINANCE OFFICERS ASSOCIATION

Certificate of Achievement  
for Excellence  
in Financial Reporting

Presented to

Pennsylvania Public School  
Employees' Retirement System

  
Executive Director / CEO

2012

2013

2014

2015



Public Pension Coordinating Council

*Public Pension Standards Award  
For Funding and Administration  
2015*

Presented to

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

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style.

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 June 20, 2008

## Administrative Organization PSERS Board of Trustees



**Seated, front row:** Sally Keaveney, designee for Honorable Lawrence M. Farnese; Glen R. Grell, PSERS' Executive Director, Board Secretary; Melva S. Vogler, Board Chairman; Susan C. Lemmo; Honorable Timothy A. Reese; Deborah J. Beck

**Standing, second row:** Miriam Fox, designee for Honorable Joseph F. Markosek; Larry B. Breech (term ended June 10, 2016); Frederick T. Berestecky; James M. Sando; Honorable Stephen Bloom; Stacey Connors, designee for Honorable Patrick M. Browne; Nathan G. Mains

**Not pictured:** James R. Biery; Pedro A. Rivera, Virginia Lastner, and Ambassador Martin J. Silverstein

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## PSERS Board of Trustees

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

Mr. Pedro A. Rivera

### **Treasurer of the Commonwealth of Pennsylvania (ex officio)**

Honorable Timothy A. Reese

### **Executive Director of the Pennsylvania School Boards Association, Inc. (ex officio)**

Mr. Nathan G. Mains

### **Two members appointed by the Governor of the Commonwealth of Pennsylvania for a term of three years**

Mr. James R. Biery (term expired 12/31/15)\*

Ambassador Martin J. Silverstein (term expires 12/31/17)

### **Three members elected from among the Active Certified Contributors of the System for a term of three years**

Mr. Frederick T. Berestecky (term expires 12/31/16)

Ms. Susan C. Lemmo (term expires 12/31/18)

Mr. James M. Sando (term expires 12/31/17)

### **One member elected from among the Active Non-Certified Contributors of the System for a term of three years**

Ms. Deborah J. Beck (term expires 12/31/18)

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

Ms. Melva S. Vogler (term expires 12/31/16)

### **One member elected by the members of Pennsylvania Public School Boards from among their number for a term of three years**

Ms. Virginia Lastner (term expires 12/31/17)

### **Two members appointed by the Speaker of the House from the Pennsylvania House of Representatives, one representing the Majority Party and one representing the Minority Party**

Honorable Stephen Bloom (term expires 12/31/16)

Honorable Joseph F. Markosek (term expires 12/31/16)

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

Honorable Patrick M. Browne (term expires 12/31/16)

Honorable Lawrence M. Farnese (term expires 12/31/16)

\*Mr. Biery will remain on the Board until the Governor appoints a replacement, subject to Senate confirmation.

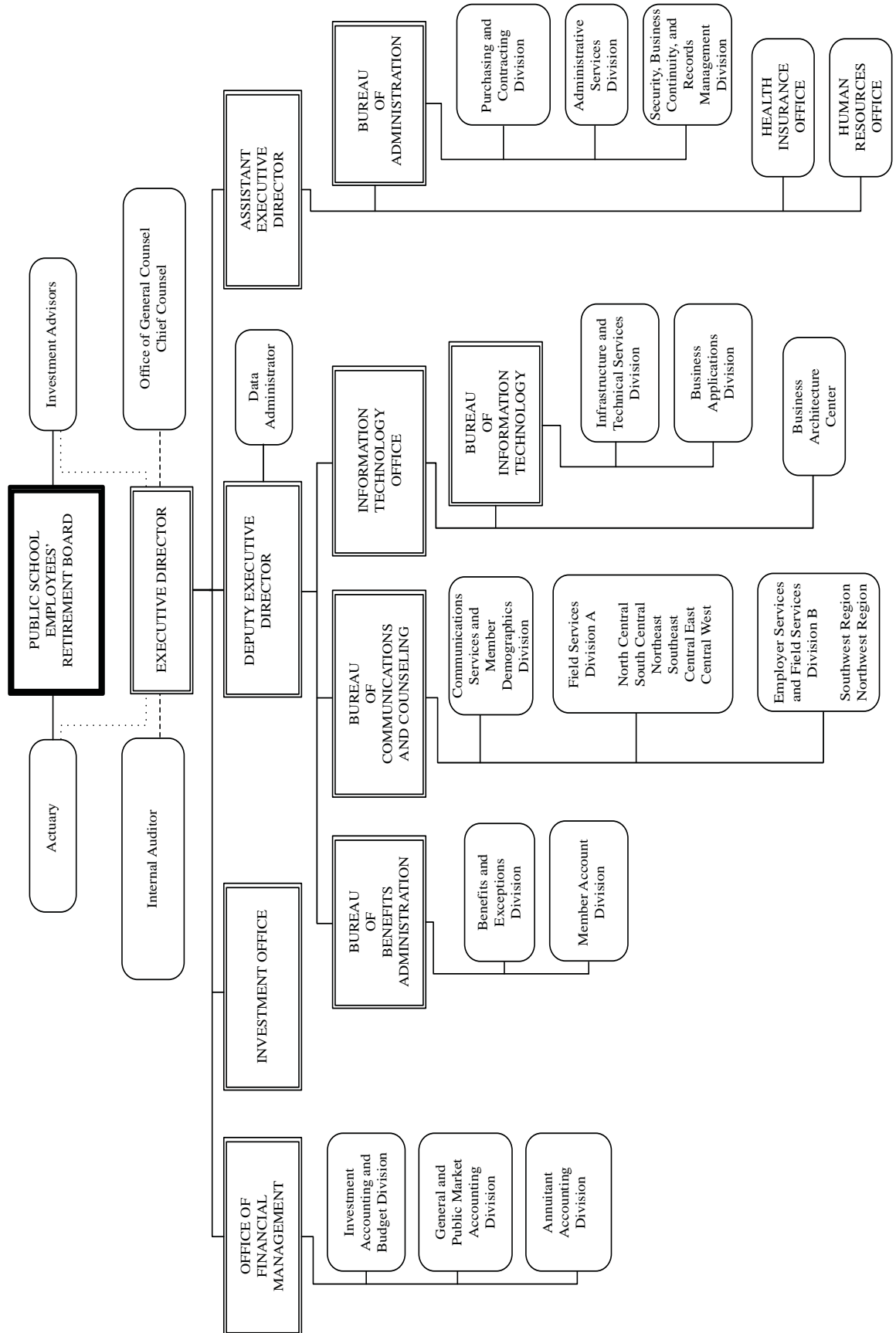
**2016 Board Committees**

<p><b>Appeals/Member Services</b></p> <p>Ms. Beck, Chair          Mr. Berestecky          Representative Bloom          Senator Farnese          Ms. Lemmo          Mr. Sando</p>	<p><b>Audit/Budget</b></p> <p>Representative Bloom, Chair          Ms. Beck          Mr. Berestecky          Mr. Mains          Representative Markosek          Treasurer Reese</p>	<p><b>Bylaws/Policy</b></p> <p>Representative Markosek, Chair          Ms. Beck          Senator Browne          Ms. Lemmo          Mr. Mains          Mr. Rivera</p>
<p><b>Corporate Governance</b></p> <p>Senator Browne, Chair          Mr. Biery          Senator Farnese          Representative Markosek          Treasurer Reese          Mr. Sando          Ambassador Silverstein</p>	<p><b>Elections</b></p> <p>Ambassador Silverstein, Chair          Senator Browne          Senator Farnese          Ms. Lastner          Ms. Lemmo          Mr. Rivera</p>	<p><b>Finance</b></p> <p>Mr. Mains, Chair          Mr. Sando</p> <p>Committee is comprised of all Board Members</p>
<p><b>Health Care</b></p> <p>Ms. Lemmo, Chair          Ms. Beck          Mr. Berestecky          Mr. Biery          Representative Bloom          Ms. Lastner</p>	<p><b>Personnel</b></p> <p>Treasurer Reese, Chair          Mr. Berestecky          Senator Farnese          Mr. Mains          Representative Markosek          Mr. Sando</p>	<p><b>Technology Steering</b></p> <p>Mr. Rivera, Chair          Mr. Biery          Senator Browne          Ms. Lastner          Mr. Sando          Ambassador Silverstein</p>

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

# Organizational Chart of the Public School Employees' Retirement System

As of June 30, 2016



## Administrative Staff



James H. Grossman Jr.  
Chief Investment Officer



Glen R. Grell  
Executive Director



Terrill J. Sanchez  
Deputy Executive Director



Charles K. Serine  
Chief Counsel



Brian S. Carl  
Chief Financial Officer



Joseph E. Wasiak  
Assistant Executive Director



Richard R. Spinks  
Chief Technology Officer



Edward G. Rohrbaugh  
Director of Administration



Mark F. Schafer  
Director of Health  
Insurance



Eugene W. Robison  
Director of Communications  
and Counseling



Steven C. Goldstein  
Director of Information  
Technology



Tammy L. Meshey  
Director of Human  
Resources



Marla Cattermole  
Director of Benefits  
Administration



Alicia James  
Internal Auditor

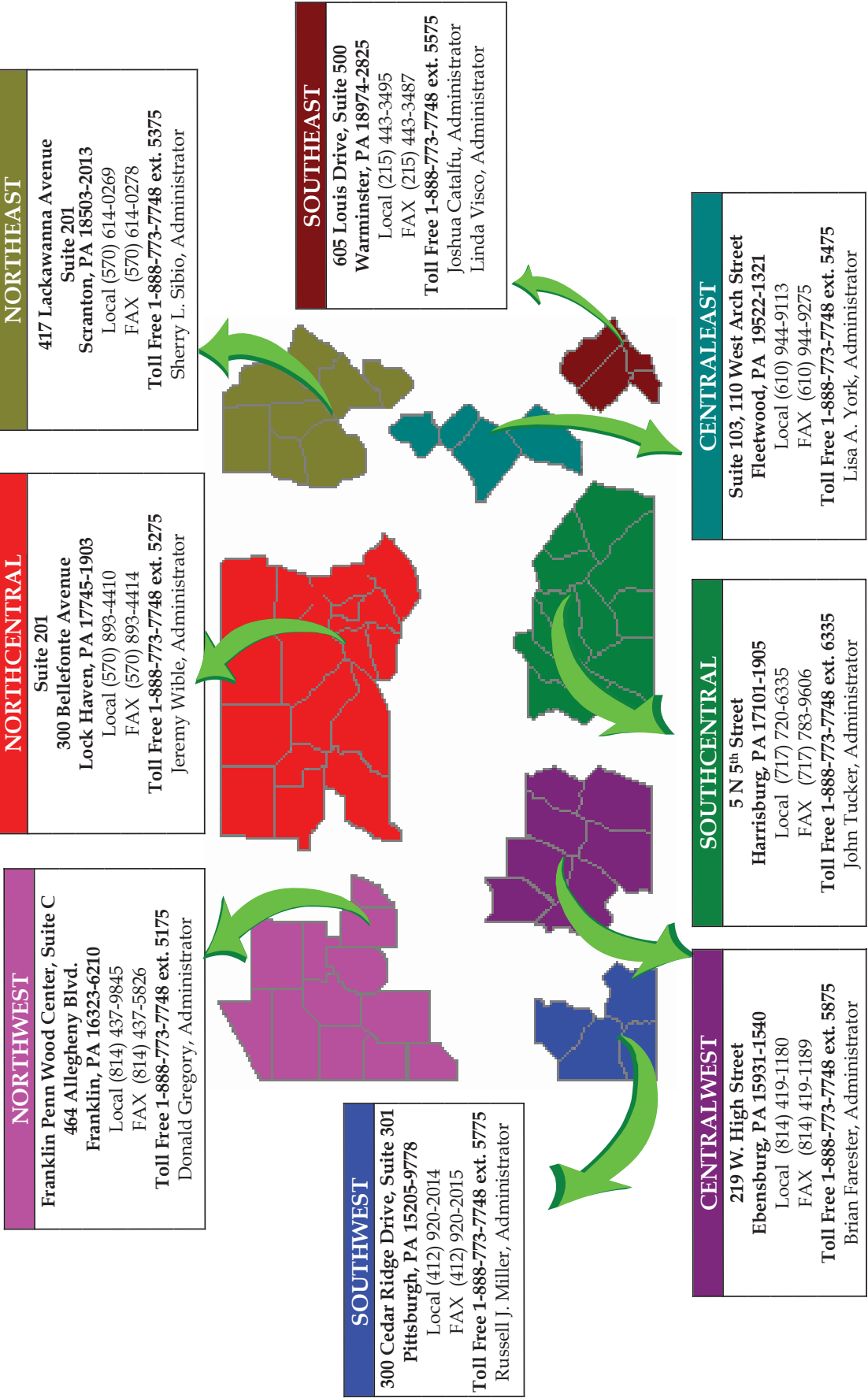


Tony Parisi  
Director of Government  
Relations



Evelyn M. Williams  
Press Secretary

**PSERS REGIONAL OFFICES**  
*Public School Employees' Retirement System of Pennsylvania*  
**PSERS FIELD SERVICES DIVISION**  
*Serving You in the 21<sup>st</sup> Century*



## PSERS Headquarters Building



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

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