



Pennsylvania Public School Employees' Retirement System

Annual Comprehensive Financial Report

Fiscal Years Ended June 30, 2023 and 2022

A Component Unit of the Commonwealth of Pennsylvania

Pennsylvania Public School Employees' Retirement System

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5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

Telephone:

Toll-Free 888-773-7748
888-PSERS4U

Local 717-787-8540

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for the
Fiscal Years Ended June 30, 2023 and 2022

Christopher Santa Maria

***Chair
Board of Trustees***

Richard Vague

***Vice Chair
Board of Trustees***

Terrill J. Sanchez

Executive Director

*Report prepared by the Public School Employees' Retirement System
Office of Financial Management Staff with support from many areas of PSERS*

Introductory Section

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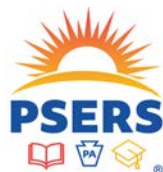
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5 North 5th Street
Harrisburg PA 17101-1905

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

*Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - 717-787-8540
Web Address: www.psers.pa.gov*

December 13, 2023

The Honorable Joshua D. Shapiro, 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 Shapiro, Legislators, Members, Employers' Board Members, and PSERS Board of Trustees:

We are pleased to present the 104th edition of the Annual Comprehensive Financial Report (ACFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal years ended June 30, 2023, (FY 2023) and 2022 (FY 2022). This report provides financial, investment, actuarial, and statistical information in a single publication in accordance with the Government Finance Officers Association standards.

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.psers.pa.gov.

This year's theme highlights PSERS' dedication to and ongoing partnership with its members from the very first day of their career in public education and every day thereafter. When one becomes a PSERS member, they join one of the oldest and largest public pension funds in the United States. Our goal is to make navigating this relationship as seamless as possible for our members, which is why PSERS partners with school employers to provide planning assistance through their eventual retirement. When that milestone is reached, members can count on PSERS to be there, guiding members through the first steps of the journey and answering their questions about retirement options, post-employment programs and other services needed throughout retirement.

The System was established on July 18, 1917, to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania (PA). Eligible members include all full-time public school employees, part-time hourly employees who render at least 500 hours of service in the school year, and part-time per diem employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. As of June 30, 2023, the System had approximately 251,000 active members with an estimated annual active payroll of \$15.3 billion.

The annuitant membership at June 30, 2023, was comprised of approximately 250,000 retirees and beneficiaries who receive approximately \$552 million in monthly pension and healthcare premium assistance benefits. The average yearly benefit paid to annuitants is \$26,197. (The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the Statistical Section of this report. See the Distribution of Annual Pension Amounts chart in the Introductory Section of this report.)

PSERS benefit payments provide a stable source of revenue for local economies throughout Pennsylvania. In FY 2023, PSERS distributed \$6.7 billion or 90% of total pension benefits to annuitants who resided in Pennsylvania. These pension benefits are a significant driver that benefit the Commonwealth's economy. (See the Pension Benefits by County Map in the Introductory Section of this report.)

PSERS also administers the Premium Assistance Program providing a health insurance premium subsidy of up to \$100 per month for qualifying retirees. On June 30, 2023, there were approximately 93,000 members participating in the Premium Assistance Program. Additionally, PSERS manages the Health Options Program (HOP), a dedicated health insurance program which is entirely funded through participating member premiums. HOP provides Medicare Supplemental, Medicare Advantage, Prescription Drug, Dental, and Vision plans to over 123,000 annuitants and their dependents.

The System is a governmental cost-sharing, multiple-employer defined benefit pension plan to which most members and reporting units contribute. PSERS also administers a defined contribution plan to which all new members and reporting units contribute. PSERS is administered by a staff of 382 and has 770 reporting units as of June 30, 2023. The System is headquartered in Harrisburg, Pennsylvania, and is supported by seven regional 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 15-member 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 the fiscal year 2023 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 ACFR. An unmodified opinion means that PSERS' financial statements fairly present, in all material respects, its financial condition. No significant findings were noted during the audit and, therefore, a management letter was not issued. This is the fourteenth consecutive year that a management letter was not issued by the independent auditors and is reflective of the hard work and dedication of PSERS' Board and staff to continue to improve the internal controls, operations, and efficiency of the System.

Economic Summary

PSERS constructs its asset allocation plan balancing the return, risk, and correlation with each asset class as well as the financial objectives of the Fund. A primary element of PSERS' investment philosophy is diversification among various asset classes as an effective method to realize its goals while addressing uncertainty across capital markets from shifting macroeconomic and geopolitical environments. Over the past year, several such shifts emerged, with three themes (rising interest rates, tighter credit markets, and geopolitical uncertainty) having particular significance.

- *Rising Interest Rates* – This fiscal year witnessed a significant shift higher of 350 basis points in the over-night interest rates from 1.50%-1.75% to 5.00%-5.25%. This represents a continuation of rate hikes from last fiscal year as the Federal Reserve seeks to address concerns over higher inflation rates resulting from the fiscal responses to COVID-19 and supply-chain challenges. While inflation concern has subsided somewhat from its highs (core inflation peaked at 6.6% in September 2022, compared to 4.8% as of June 30, 2023), it remains elevated in the face of strong labor markets and buoyant economic activity, making the future of monetary policy direction uncertain. However, the resulting higher rates on cash have implications across the entire PSERS portfolio, most notably on the return for holding cash, the cost for employing leverage, and risk-return value proposition for all other asset classes relative to cash.
- *Tighter Credit Markets* – Partially because of the higher interest rates described above, Silicon Valley Bank collapsed and was taken over in March 2023. This was followed by takeovers of Signature Bank that same weekend and then First Republic in May. The initial market turbulence and concerns about contagion of cash withdrawals in other regional banks was quickly quelled through decisive government action. However, these events highlighted and exacerbated a shift towards tighter credit markets, particularly for Commercial Real Estate (CRE), as regional banks demonstrated a reduced appetite for this long-term debt given the short-term, and potentially uncertain nature of deposits relied on to fund such debt. Lending for office and retail related inventory has been most acutely impacted as employers have proven reluctant to require employees to return to the office

following the shift to online working that occurred in response to COVID-19. Fewer employees coming into the traditional office centers has also translated into less foot traffic for traditional retail located in these centers. The implications of tighter credit markets, together with higher interest rates, lower occupancies and less foot traffic presents risk to the equity holders, particularly where the degree of leverage underlying such properties is high and the related maturities are relatively near. However, this disruption among bank lenders, presents opportunity for lenders with longer term capital to be more discerning within sectors of real estate with better outlooks, such as multifamily and industrial use properties.

- *Geopolitical Uncertainty* - While Russia's invasion of Ukraine most directly impacted capital markets in the prior fiscal year, the resulting geopolitical uncertainty has influenced how investors frame investment choices across geographic regions. The long-standing theme of globalization based on the economics of comparative advantages, has more recently given way to more pragmatic discussions regarding supply chain resiliency or nearshoring/onshoring of activities that had previously been offshored. This further complicates the assessment of relative value across regional classifications, which were already clouded given differences in sector composition, financial reporting transparency, and basic investor rights across jurisdictions. Accordingly, some investors (including PSERS) have revisited and revised long standing strategic over/underweights to certain geographical regions (e.g., Public U.S. relative to Emerging Market equity allocations). We believe this trend will influence the flow of capital across regional classifications and likely impact relative market valuations over the next three to five years.

Status of Pension Funding Initiatives

The ongoing budgetary commitment of Governor Josh Shapiro and the Legislature authorizing state and school employers to pay the full amount of the actuarially determined contributions continues to help improve PSERS' funded status.

From FY 2017 to FY 2023, PSERS received full actuarial funding from school employers and the Commonwealth after 15 previous years of underfunding. Full actuarial funding from employers, along with member contributions and investment income, are all necessary sources of funds that will pay down the unfunded liability and return PSERS to fully funded status.

During FY 2023, investment market volatility proved to be challenging. PSERS achieved a fiscal year return of 3.54% which was below the Fund's long-term earnings assumption of 7.00%. Pension plans like PSERS are well-diversified and built to generate long-term returns, so one single year's result is not expected to have a significant impact on the System's funded status.

On an actuarial basis, the funded ratio was 61.6% at June 30, 2022, the most recent actuarial valuation. Subject to future investment returns and continued commitment to making employer contributions, the actuarial funded ratio is expected to climb to near 80% by 2032. The System's funded ratio on a market-value basis was 61.85% at June 30, 2023. The FY 2023 funded ratio decreased on a market-value basis due to lower investment returns in FY 2023. The longer-term trends remain positive. Since June 30, 2016, when full actuarial funding began, the System's market value unfunded ratio increased from 50.14% to 61.85% at June 30, 2023.

Major Initiatives

Organizational Changes and Developments in 2023

Organizational change and implementation of governance reforms continued during FY 2023.

FY 2023 included the hiring of a new Chief Investment Officer, a Chief Compliance Officer (CCO), and a Director of Governance and Strategic Initiatives, as well the development of a Strategic Plan for the Agency.

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- PSERS Board hired **Ben Cotton** as PSERS Chief Investment Officer in January 2023 to oversee PSERS' multi-billion-dollar contributory defined benefit governmental pension fund. He provides investment counsel to the Board, and as a member of the senior leadership team, serves as the central point of responsibility and accountability for the investment program.
- **Elizabeth Goldstein** was hired as PSERS first Chief Compliance Officer in July 2023. The CCO coordinates compliance with respect to all activities of the System, including participating in the review of the existing investment compliance program and processes, and more broadly ensuring compliance with various laws, regulations, and policies, including ethics, and other related policies and/or procedures.
- **Eric Decker** joined PSERS as Director of Governance and Strategic Initiatives. In this role, he facilitates the Board's strategic planning process and implementation, oversees policy governance at both the Board and staff level, and manages the System's Enterprise Risk Management program.
- PSERS is actively engaged in the process of filling two positions within senior leadership: a Chief Financial Officer and a Director of Government Affairs and Stakeholder Engagement.

Strategic Plan

In late 2022, PSERS hired a consultant to assist PSERS with developing a strategic plan for the Agency. The Board formally adopted a strategic plan framework for our organization in August 2023. The strategic plan represents months of hard work by both members of the Board and staff to better define and plan the work the agency is committed to doing each and every day, now and into the future.

The Board identified six strategic priorities:

- Enhance member satisfaction throughout the customer experience.
- Enhance comprehensive and transparent financial reporting and forecasting.
- Develop the organizational culture and staff/leadership competencies to meet the demands of the future.
- Implement a robust enterprise risk management program.
- Enhance communications, collaboration, and the education of all critical stakeholders.
- Align all organizational units and functions with PSERS' strategic priorities.

These strategic priorities are supported by 25 initiatives, many of which are either already under way or will begin soon. These clearly articulated priorities and initiatives provide the focus we need to efficiently work together on the right things at the right time. PSERS strategic plan is available on PSERS website at www.psers.pa.gov.

Updated Mission, Vision and Values

To ensure that PSERS' strategic plan was created with a sense of purpose and built on a strong foundation, we revisited and ultimately revised PSERS' mission, vision, and values. This marked the first revision of PSERS' mission, vision and values statement since 2008. We strongly believe that by committing to this new mission, vision, and set of values, we will accomplish everything that we set out to achieve.

Member Communication and Services

Member Customer Service

PSERS continues to make improvements to its member service offerings, its pension administration system, and the associated online functionality.

The agency continues to utilize monthly targeted email messages to all members including aspects unique to DC plan participants. Multiple surveys have been completed to solicit feedback on a variety of topics including: the online portal, the DC Plan experiences, and overall engagement and satisfaction. The results of these surveys will assist in developing PSERS' short-term and long-term communication plans and the redesign of existing communication materials. Additional proactive efforts are being conducted through various means to promote the accuracy of

beneficiary and address information, the availability of online counseling and education services, and the opportunity for new members to make a class election.

To continue enhancing the services available to our members, PSERS is conducting the large group educational presentations (Foundations for Your Future) virtually instead of only providing them on-site. As new services and online functionality have been added, the number of interactions with members has continued to grow through the years.

PSERS completed a study to determine what the staffing complement should be for the member focused customer service areas. There were also a series of operational efficiencies suggested that have been evaluated and are being implemented where feasible. Based on the results of this study the PSERS Board of Trustees has approved increasing staffing in this business area by up to 20 additional positions. PSERS will be easing into this increase in member focused customer service staff to ensure it is an efficient use of resources while also ensuring optimal customer service.

Member Self-Service

The PSERS Member Self-Service (MSS) Portal continues to be a tremendous success. Since being implemented in April 2018, more than 250,000 members have created an online account and conducted nearly 500,000 transactions for themselves. The most common actions taken are to create their own retirement estimates, update their beneficiaries, address, and generate their own income verification. MSS has facilitated nearly 91% of all MSS accounts to go paperless and receive information from PSERS electronically. This paperless opportunity has generated more than \$2,000,000 in cumulative savings since inception in FY 2018.

New functionality was added to enable PSERS members to update their banking information online. The IRS' revisions to the W-4P for federal tax withholding were also incorporated. Likewise, our office is exploring the feasibility of creating an online calculator so that members can determine their own tax withholding amounts.

Work is underway to enable members to submit a refund application online, expediting the process and reducing the need for manual intervention, and then eventually to allow members to submit their retirement application online as well. PSERS is also in the process of moving to a cloud-based pension administration system which is anticipated to enhance system performance and provide the opportunity for improved services to our members and employers.

PSERS Health Options Program Update

The PSERS Health Options Program (HOP) continued to see steady growth in enrollment and had more than 123,000 PSERS retirees, spouses, and dependents enrolled as of June 30, 2023. Within the plan, there is a Dental Program offering and a Vision Program offering, each of which had over 34,600 enrollees as of June 30, 2023.

- In addition, the Centers for Medicare and Medicaid Services (CMS) bestowed a 4.5 Star Rating on HOP's Prescription Drug Employer Group Waiver Plan for the second straight year. By comparison, the average CMS plan rating was 3.11 in CMS' annual review of 48 prescription drug plans. PSERS HOP program was one of only six plans evaluated to rate at 4.5 Stars or higher. CMS' Medicare Star rating program evaluates Medicare Advantage (MA) and Prescription Drug Programs (PDP) based on a number of metrics around quality and performance. Rating criteria is based on a 1-to-5 point system. The ratings help members select the best plans for themselves or their families.

Investment Office Developments

FY 2022 and FY 2023 was a time of continued development in the Investment Office. In addition to new leadership and the heightened focus on internal controls noted above, the investment staff continues its focus on implementing the Strategic Asset Allocation (SAA) targets approved by the PSERS Board, on August 11, 2023, effective from October 1, 2023. While continuing the prudent reductions to more expensive strategies approved for the previous targets, the new targets reduce leverage from 7.5% to zero, increase investment grade fixed income assets from 10%

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to 14%, and make other adjustments within public equity and real assets that better reflect present economic environment described above.

As a result of the Board's direction to prudently reduce allocations to more expensive strategies, investment related expenses relative to net assets continues to decline. As the Fund's net assets rose 23 percent to \$72.8 billion between FY2020 and FY2023, Investment Related Expenses declined 31 basis points (bps), from 87 bps to 56 bps, representing a go-forward annualized savings of \$215 million assuming present plan asset values. Prospectively, investment related expenses as a percent of net assets should reduce further to approximately 39 bps once the investment staff brings allocations in line with the SAA targets.

Over the past several years, the investment staff has also focused on increasing internal management of assets where to do so resulted in lower investment related expenses overall, without compromising return expectations. As a result, internally managed assets increased from 46% of the Funds assets in 2022 to 50% as of June 30, 2023. Going forward, however, we expect that this trend will stabilize, and in some instances reverse, as the investment staff reaches the limits of prudently available saving through internal management. The Board's recent approval for the outsourcing of PSERS derivatives trading exemplifies this shift. The increased operational cost associated with evolving regulations over such activities combined with the availability of highly qualified, well-resourced, lower-cost external solutions, in this case results in improved efficiencies and a more robust control environment through outsourcing.

Financial Highlights

The fair value of the System's fiduciary net position increased by \$1.6 billion during FY 2023 to \$72.8 billion as of June 30, 2023. The System is the 16th largest state-sponsored public defined benefit pension fund in the nation and the 34th largest among public and corporate pension funds in the nation as reported in the latest Pension and Investment survey published February 13, 2023. (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 2023, PSERS provided approximately \$8.2 billion in pension and healthcare benefits to its members.

Budgetary and Financial Governance

PSERS manages multiple budget appropriations which support its ongoing operations. Each October, the agency submits its budget requests to the Governor's Office of the Budget. PSERS' Administrative and Defined Contribution budgets require legislative approval. None of PSERS' budgets are funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself or participant charges. For FY 2023, the budgets for the System's two largest appropriations, the Administrative and the Investment Related Expenses, were \$55.5 million and \$36.2 million, respectively. Historically, the agency has underspent its approved budgets, keeping more funds available to invest for PSERS' members.

PSERS continues to be a leader among large U.S. public pension funds of similar size and complexity in its effective control of expenses while providing necessary services to its membership. During the last several years, the number of active and retired members electing to receive newsletters, statement of accounts, 1099-Rs, and other publications electronically has continued to grow, which saves the agency over \$275,000 per year in postage, printing, and paper costs. During FY 2023, the agency lowered its consultant and legal fees, reduced real estate rental expenses, and decreased electricity costs, all of which preserve more of PSERS' assets for the benefit of the Fund and its members.

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, the agency had an 11% 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 \$6.4 million annually in administrative expenses compared to its peers.

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, 2022) 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 61.6%. (Additional comparative information on the funded status of PSERS can be found in the Financial Section and in the Actuarial Section of this report.)

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for 53% of total revenues over the 25-year period from FY 1999 to FY 2023. The investment portfolio, which is one part of the System's net position, totaled \$71.7 billion, at fair value, as of June 30, 2023. For FY 2023, the time-weighted net rate of return on the System's investments was 3.54%.

The Board has continued to fulfill its mission to maintain the 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 10-year period ended June 30, 2023, was 7.46% and exceeded the Fund's current long-term investment rate of return assumption (7.00%). Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

The Board is responsible for the formulation of investment policies for the System. Professional Staff and consultants are responsible for the implementation of those investment policies. The overall investment objectives of the System are as follows:

- to generate returns to support the System's actuarial soundness so it may provide its members with benefits as required by law;
- to earn a long-term total return, net of fees, investment, and administrative expenses, that equals or exceeds the actuarial assumed rate approved by the Board;
- to earn a long-term total return, net of fees, and investment expenses, that equals or exceeds the Policy Index approved by the Board; and
- to prudently manage investment risks that are related to the achievement of investment goals.

(Additional information on the System's investments is contained in the Investment Section of this report.)

Defined Contribution Plan

The Defined Contribution (DC) Plan has continued to rapidly grow. As of June 30, 2023, there were approximately 64,000 participants with a total DC Plan balance nearing \$202 million. The Retirement Code requires the DC Plan to provide no less than 10 investment options offered by three or more investment providers. Currently, the DC Plan lineup includes seven providers offering six asset classes and a portfolio of target funds, totaling 19 investment options among which participants can choose to diversify their portfolio. If participants do not select individual investment options for themselves, they automatically default into a T. Rowe Price target date investment based on their date of birth.

In building upon the communication efforts within the relatively new defined contribution program, PSERS continues to create multiple new education pieces on topics varying from general plan overviews, diversification, data security, maximizing savings and retirement readiness. PSERS also continues to solicit feedback and conduct specialized surveys to better understand participants' opinions regarding their financial wellness and investment preferences.

Federal and State Tax Status

The System's defined benefit and defined contribution plans are qualified trust funds under Section 401(a) of the Internal Revenue Code (IRC). As a result of the qualified status, the trust funds are entitled to an exemption, under Section 501(a) of the IRC, from federal income taxation on their investment earnings. Additionally, contributions made on behalf of the active members are tax deferred under Section 414(h) of the IRC. The trust funds and any benefits accruing to PSERS members are exempt from Pennsylvania state and municipal taxes. The Internal Revenue Service (IRS) issued a determination letter dated March 16, 2017, which stated that the defined benefit plan and its underlying trust qualify under the provisions of Section 501(a) of the IRC and therefore are exempt from federal income taxes. A similar letter from the IRS dated April 3, 2019, was received for the defined contribution plan.

Internal Controls and Reporting

PSERS' management is responsible for internal controls which are 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.)

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.

In addition, PSERS undergoes a thorough and robust internal controls assessment annually. This year, the assessment is focused on eight areas of PSERS operations: Actuarial Reporting, Actuarial Valuation, Financial Reporting, Human Resources, Information Technology, Investments, DC Plan, and Governance. Each internal control assessment is based on five major components as described by the Committee on Sponsoring Organizations (COSO): Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

As required by the Commonwealth, PSERS will submit the assessment and monitoring plan to the Commonwealth's Office of Budget by December 2023. No significant deficiencies have been identified in past internal control assessments.

PSERS has started a multi-year plan to conduct a SOC 1/Type 2 Review and Audit, a rigorous review/audit of operations and controls. This initiative is on the agency's strategic plan and the audit is scheduled to finish in 2025.

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, SB & Company, LLC,

and an annual valuation by Buck Global LLC attest to the financial and actuarial soundness of PSERS. The investment performance of the System was calculated by investment valuation firm, Aon Investments USA Inc. on a quarterly basis. The Board's general investment consultant was Verus Advisory, Inc. (Other consultants who provided services to the System are listed in the Financial Section and Investment Section of this report.)

Litigation and Contingencies

In 2021, the System received subpoenas from two federal agencies regarding the certification of the shared risk member contribution rate in December 2020, as well as the purchase and valuation of certain directly-owned properties. In August 2022, PSERS was informed by the U.S. Department of Justice that it had closed its investigation of PSERS. PSERS is cooperating fully with the remaining federal investigation which is ongoing. PSERS initiated a lawsuit in November of 2022 against Aon Investments USA, Inc. alleging, among other things, breach of contract for its services relating to PSERS' investment performance reporting.

The System is subject to various threatened and pending lawsuits. The System had a lawsuit filed by a board member regarding access to various documents and communications related to investments. It is the opinion of management that the ultimate liability arising from such threatened, pending litigation and investigations will not have a material effect on the financial position of the System.

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. 52, No. 26). This information can be found at: <http://pacodeandbulletin.gov/Display/pabull?file=/secure/pabulletin/data/vol52/52-26/967.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 Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. 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 annual comprehensive financial report whose contents conform to program standards. Such an annual comprehensive 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 40 consecutive years, from FY 1983 to FY 2022. 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 Annual Comprehensive 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 2023 certificate.

GFOA Popular Annual Financial Reporting Award

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to PSERS for its Popular Annual Financial Report

Introductory Section

for the fiscal year ended June 30, 2022, which PSERS refers to as its Summary Annual Financial Report. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

A Certificate of Achievement is valid for a period of one year. PSERS has received a Certificate of Achievement for seven consecutive years, from FY 2016 to FY 2022. Its attainment represents an important accomplishment by the System.

Public Pension Coordinating Council Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award for Funding and Administration to PSERS for 2022. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards. Achievement of the Funding portion of this award is in recognition of the commitment of the Governor and General Assembly to fund 100% of the actuarially determined contributions.

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.

Acknowledgments

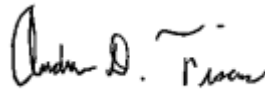
The preparation of this report reflects the combined efforts of PSERS' staff under the direction of the PSERS Board. Our sincere appreciation is extended to all who assisted in and contributed to the completion of this document. This report is intended to provide complete and reliable information in conformance with accepted standards and to document responsible stewardship of the System's assets.

We embrace our responsibilities of being prudent stewards and to proactively prepare for the future. We will continue to work closely with our Board, members, employers and stakeholders and are committed to a collaborative, positive approach to move the Agency forward for the benefit of our members.

Respectfully submitted,



Terrill J. Sanchez
Executive Director

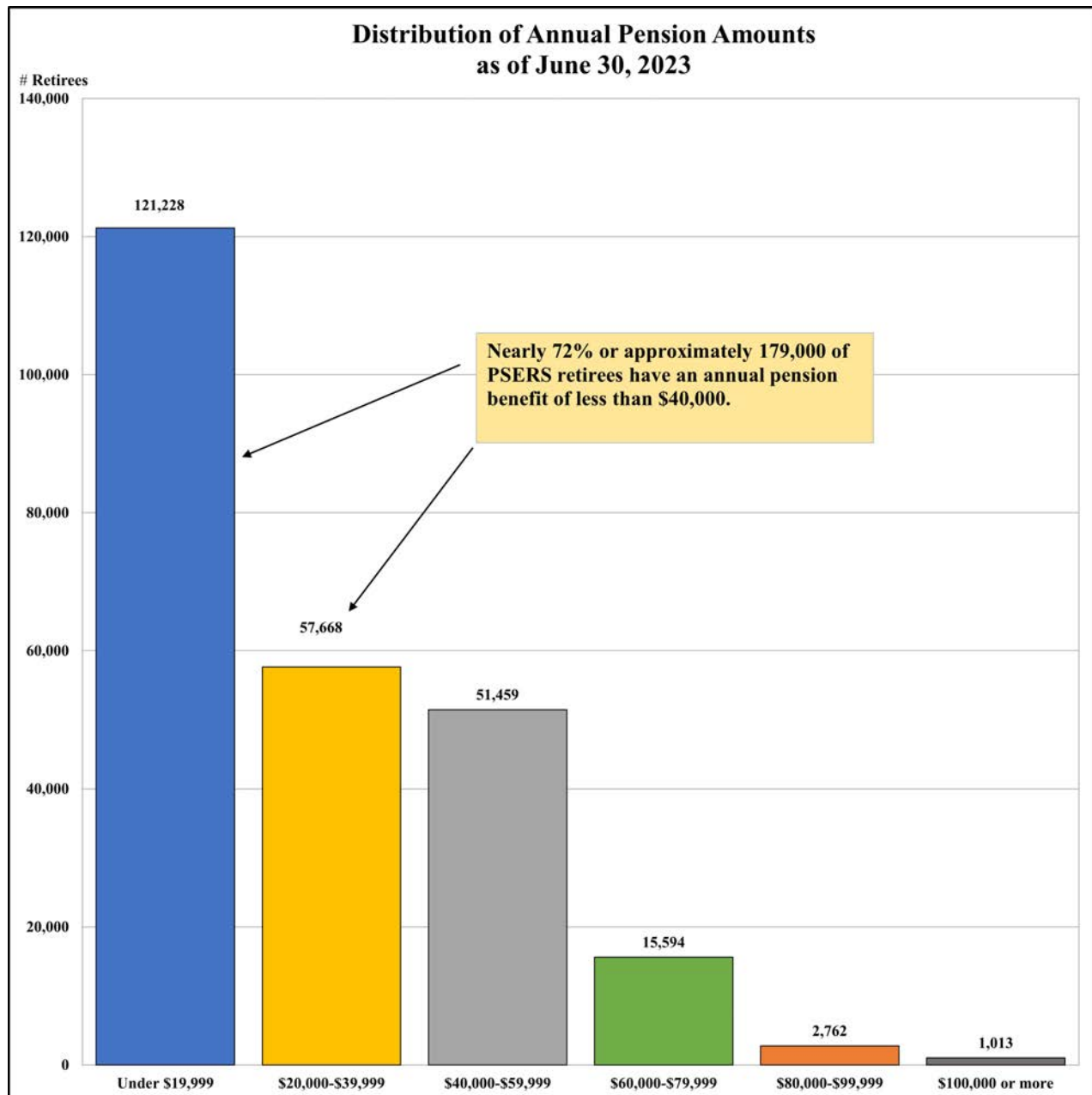


Andrew D. Fiscus, CPA
Acting Chief Financial Officer

Pension Benefit Amounts Fiscal Year 2023 (Dollar Amounts in Millions)

The average PSERS retiree receives a modest pension of \$26,197 on an annual basis, a benefit earned through a lengthy career averaging 23 years in public education. During their career, members make mandatory contributions, most of which are between 7.50% and 10.80% of their pay, depending on their class of membership to help fund their own retirement benefit. In accordance with Act 120 and Act 5 of 2017, new members hired as of July 1, 2011 and July 1, 2019, respectively, are funding the majority of the cost of their benefit. This is in contrast to many non-public (private) pension plans. In over 90% of such plans, members do not contribute and the employers bear 100% of the cost of the benefit.*

Six-figure pensions are rare. At June 30, 2023, there were 1,013 retired members receiving an annual benefit over \$100,000 out of approximately 250,000 PSERS retirees. These six-figure pension retirees spent an average of 38 years working in their public education careers and contributing to their benefit.



*Based on a query of private plan IRS Form 5500 filing



Government Finance Officers Association

*Certificate of Achievement
for Excellence
in Financial Reporting*

Presented to

**Pennsylvania Public School Employees'
Retirement System**

2022



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2022**

Presented to

**Pennsylvania Public School Employees
Retirement System**

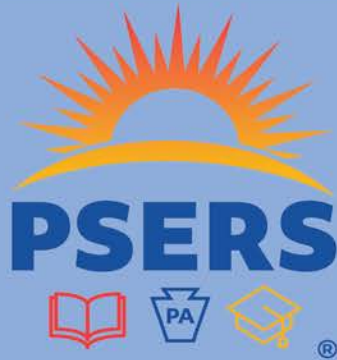
In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

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".

Alan H. Winkle
Program Administrator



Our Mission:

To be a partner with our members to fulfill the promise of a secure retirement.

Our Vision:

To be a trusted partner in delivering exceptional retirement services and benefits.

Our Values:

Public accountability and transparency

We are committed to holding ourselves to the highest standards of ethics and accountability and believe that openness and honesty are fundamental to PSERS' success.

Staff growth and development

We are committed to cultivating a human-centered organizational culture and developing team-member competencies to meet the needs of today and tomorrow.

Exceptional levels of service

We are committed to continuous improvement and exploring innovative ways to increase productivity and enhance the customer experience.

Respect for our members, stakeholders, and staff

We are committed to creating an organizational culture that fosters diversity, equity, and inclusion where everyone receives fair treatment and civility.

Stewardship of resources and investments

We are committed to prudently investing the assets and effectively managing the resources entrusted to our care.

adopted August 11, 2023

**PSERS Board of Trustees
as of June 30, 2023**

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

Secretary Dr. Khalid N. Mumin

Secretary of Banking and Securities of the Commonwealth of Pennsylvania (ex officio)

Secretary Wendy S. Spicher

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Stacy Garrity

Chief Executive Officer of the Pennsylvania School Boards Association, Inc. (ex officio)

Mr. Nathan G. Mains

One member appointed by the Governor of the Commonwealth of Pennsylvania for a term of three years

Mr. Richard Vague

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

Mr. Jason M. Davis (term expires 12/31/25)

Mr. Brian A. Reiser (term expires 12/31/24)

Mr. Christopher Santa Maria (term expires 12/31/23)

One member elected from among the Active Non-Certified Members for a term of three years

Ms. Ann Monaghan (term expires 12/31/24)

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

Ms. Susan C. Lemmo (term expires 12/31/25)

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

Mr. Eric DiTullio (term expires 12/31/23)

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 Matthew D. Bradford

Honorable Torren Ecker

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

Honorable Katie J. Muth

Honorable Greg Rothman

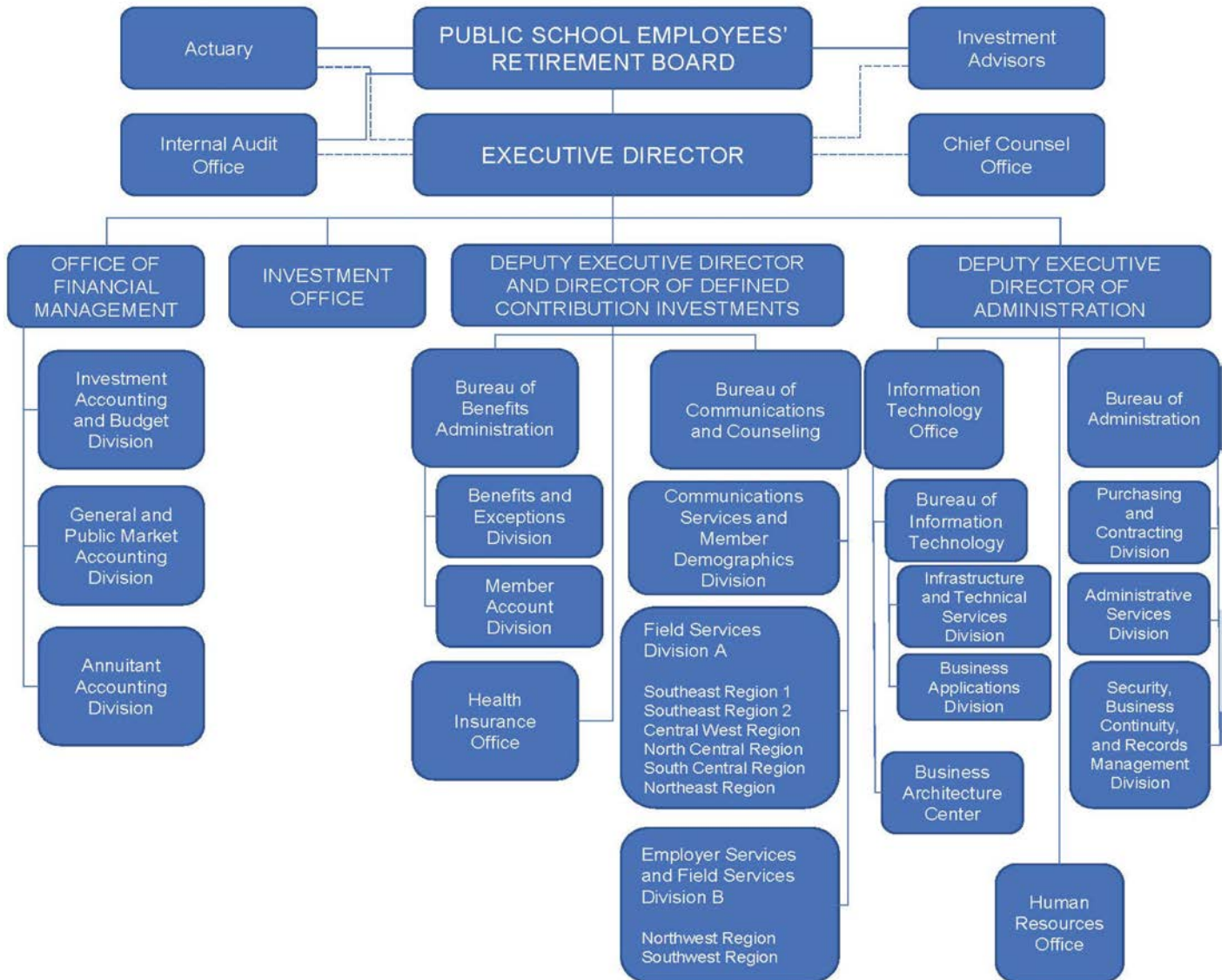
*The legislative members consisting of two House and two Senate members, shall serve on the board for the duration of their legislative terms and shall continue to serve until 30 days after the convening of the next regular session of the General Assembly after the expiration of their respective legislative terms or until a successor is appointed for the new term, whichever occurs first.



2023 Board Committees

| | | |
|---|---|--|
| <p>Audit, Compliance & Risk</p> <p>Treasurer Garrity, Chair Representative Ecker, Vice Chair Mr. Davis Mr. Mains Secretary Spicher</p> | <p>Benefits & Appeals</p> <p>Ms. Monaghan, Chair Mr. DiTullio, Vice Chair Ms. Lemmo Senator Muth Mr. Reiser</p> | <p>Board Governance & Administration</p> <p>Representative Bradford, Chair Secretary Spicher, Vice Chair Mr. Mains Mr. Reiser Mr. Vague</p> |
| <p>Defined Contribution</p> <p>Representative Ecker, Chair Senator Rothman, Vice Chair Mr. Mains Senator Muth Secretary Spicher</p> | <p>Finance & Actuarial</p> <p>Mr. DiTullio, Chair Senator Rothman, Vice Chair Secretary Mumin Mr. Reiser Mr. Vague</p> | <p>Health Care</p> <p>Ms. Lemmo, Chair Mr. Davis - Vice Chair Representative Bradford Ms. Monaghan Secretary Mumin</p> |
| | <p>Investment</p> <p>Mr. Davis, Chair Treasurer Garrity, Vice Chair</p> <p>Committee is comprised of all Board Members</p> | |

Organizational Chart of the Public School Employees' Retirement System



For Schedules of Fees and Commissions please refer to the Financial section page 94 and Investment section page 109.

As of June 30, 2023

Administrative Staff



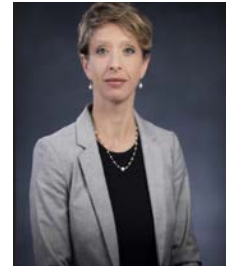
Terrill J. Sanchez
Executive Director



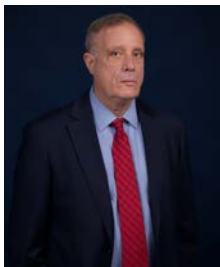
Benjamin L. Cotton
Chief Investment
Officer



Beverly Hudson
Deputy Executive Director
of Administration



Jennifer A. Mills
Deputy Executive Director
and Director of Defined
Contribution Investments



Joseph J. Indelicato, Jr.
Chief Counsel



Brian S. Carl
Chief Financial Officer



Steven C. Goldstein
Chief Technology Officer



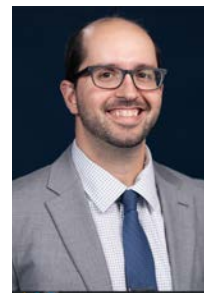
Patricia Dence
Director of
Administration



Mei Gentry
Chief Audit Officer



Eugene W. Robison
Director of
Communications
and Counseling



Eric Decker,
Director of
Governance &
Strategic Initiatives



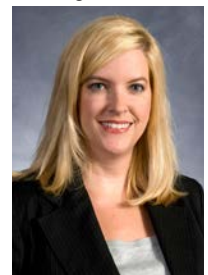
Caitlin Witmer
Director of Human
Resources



Todd Fulton
Director of Benefits
Administration



Peter Camacci
Director of Health
Insurance



Evelyn M. Williams
Communications
Director/Board
Information Officer

PSERS REGIONAL OFFICES

Northwest

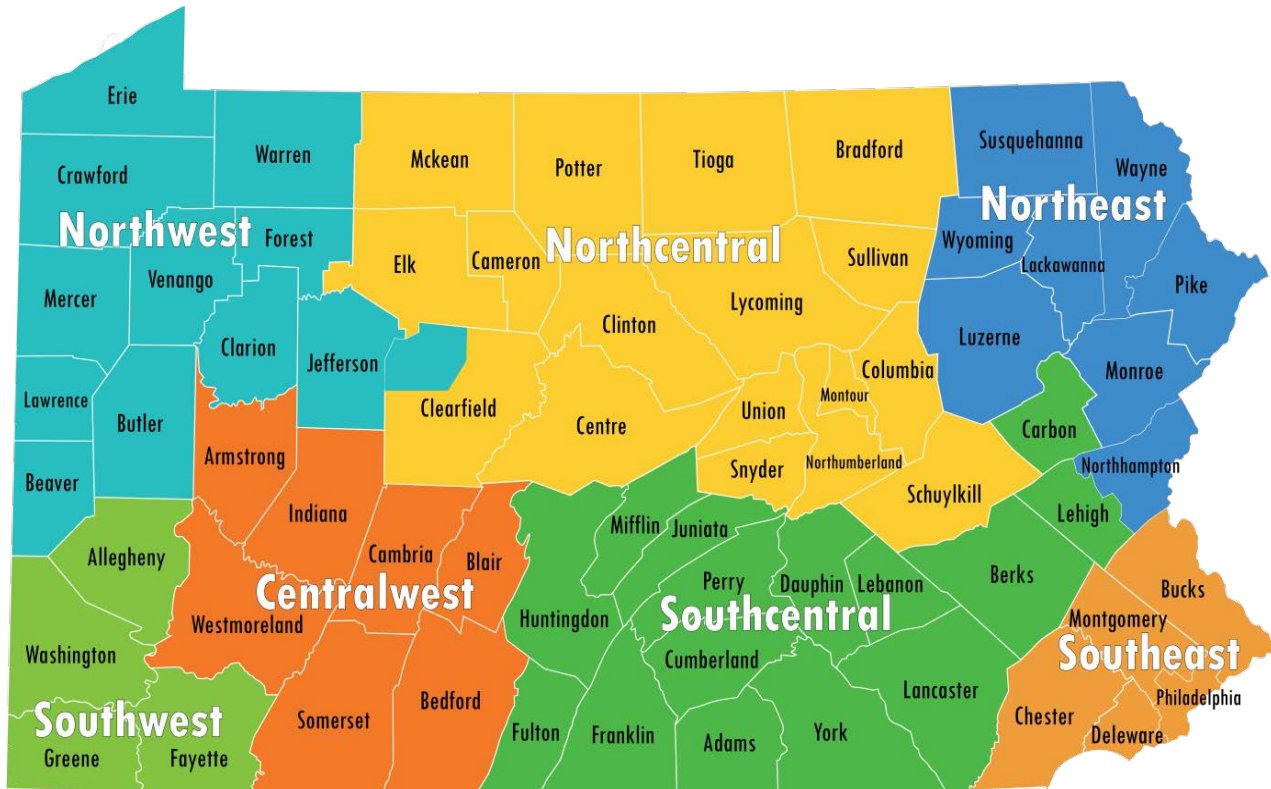
Franklin Penn Wood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
Local: 1.814.437.9845
FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
Kevin Moczan, Administrator

Northcentral

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

Northeast

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



Southwest

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

Centralwest

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

Southcentral

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

Southeast

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



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, 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.