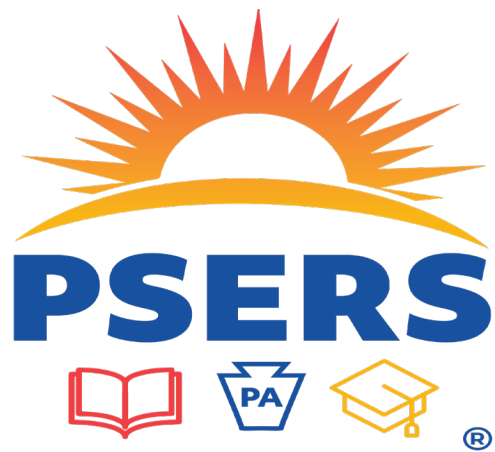
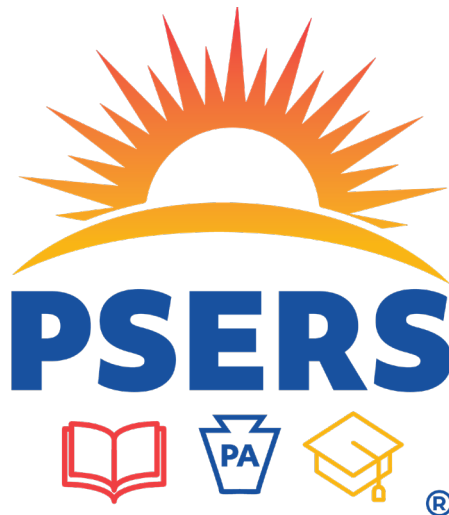

PSERS
Fiscal Year 2021-22
Budget Report
Appropriations Committee



PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEM

Pennsylvania
Public School Employees' Retirement System
A Component Unit of the Commonwealth of Pennsylvania

5 North 5th Street
Harrisburg, PA 17101-1905



FISCAL YEAR 2021-22 BUDGET REPORT
APPROPRIATIONS COMMITTEE
FEBRUARY 26, 2021

Christopher SantaMaria

Chairman

Board of Trustees

Honorable Francis X. Ryan

Vice Chairman

Board of Trustees

Glen R. Grell

Executive Director

Report prepared primarily by the Public School Employees' Retirement System
Office of Financial Management with support from Investment Office and other PSERS professionals

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PSERS BUDGET REPORT - FY 2021-2022



SECTION 1 - PSERS OVERVIEW

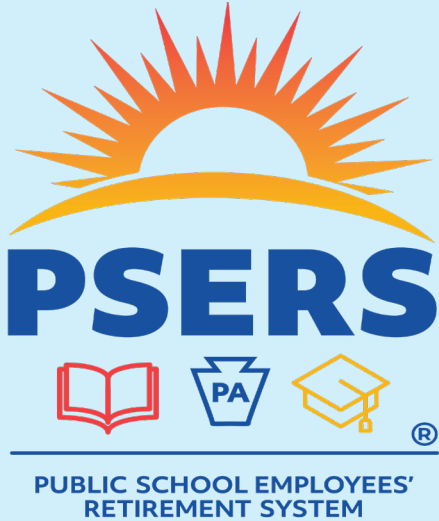
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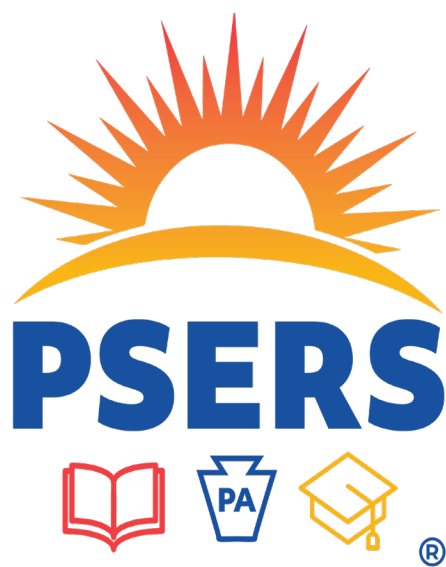
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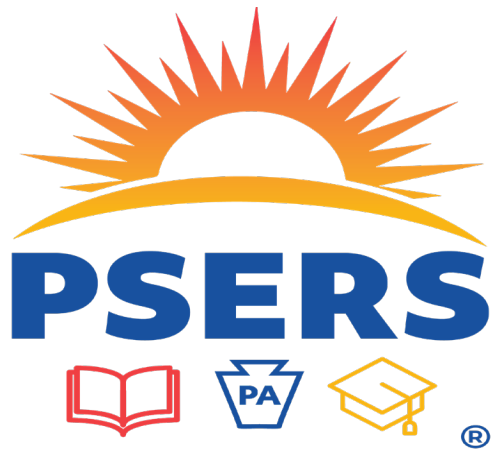
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PSERS Overview and Board of Trustees



PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEM

Overview

Established on July 18, 1917, with operations commencing in 1919, the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) provides retirement benefits to public school employees of the Commonwealth of Pennsylvania and administers post employment healthcare benefits to PSERS retirees and dependents.

As of June 30, 2020, the System had approximately 256,000 active members. The annuitant membership was comprised of approximately 240,000 retirees and beneficiaries who collectively received average monthly pension benefit payments of over \$520 million including healthcare premium assistance. The average yearly pension benefit paid to annuitants was \$25,753. PSERS had 770 participating employers on June 30, 2020.

As reported in the latest Pension and Investments survey, published February 8, 2021, based on asset size, PSERS is the 37th largest plan among United States corporate and public pension plans, and the 16th largest state-sponsored public pension fund in the nation based on total

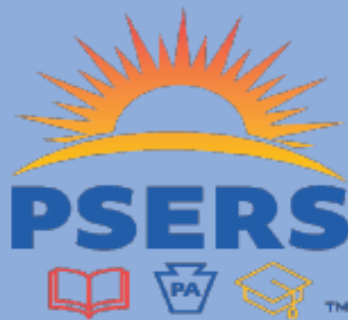
plan assets. PSERS' total plan net assets as of December 31, 2020 were approximately \$64.2 billion. PSERS' investment rate of return for the one-year period ended September 30, 2020 was 3.14%, net of fees.

During fiscal year 2020, PSERS' pension disbursements to retirees totaled \$6.9 billion. Of this amount, nearly 94%, or \$6.5 billion, was distributed to Pennsylvania residents representing PSERS' significant impact on the Commonwealth's economy.

In addition to retirement benefits, PSERS administers the Premium Assistance Program that provides a health insurance premium subsidy of up to \$100 per month for those retirees who qualify. At June 30, 2020, there are over 94,000 retirees who receive this benefit. PSERS also manages a health insurance program, PSERS Health Options Program, that is entirely funded through participating member premiums and provides Medicare Supplemental, Medicare Advantage, Prescription Drug, and Dental plans to over 120,000 retirees and their dependents as of December 31, 2020.



Mission Statement



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

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

adopted June 20, 2008

PSERS Board of Trustees

as of February 8, 2021

Christopher SantaMaria, Chairman

Honorable Francis X. Ryan, Vice Chairman

House of Representatives

Deborah J. Beck

Honorable Matt D. Bradford

House of Representatives

Honorable Patrick M. Browne

Senate of Pennsylvania

Jason M. Davis

Eric O. DiTullio

Honorable Stacy Garrity

Treasurer of Pennsylvania

Susan C. Lemmo

Nathan G. Mains

Honorable Katie J. Muth

Senate of Pennsylvania

Noe Ortega

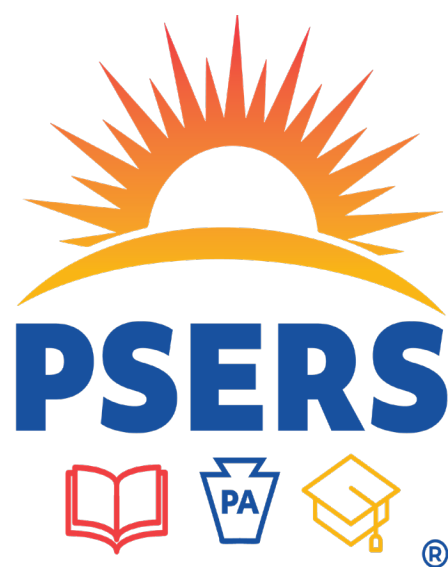
Acting Secretary of Education

Richard W. Vague

Secretary of Banking and Securities

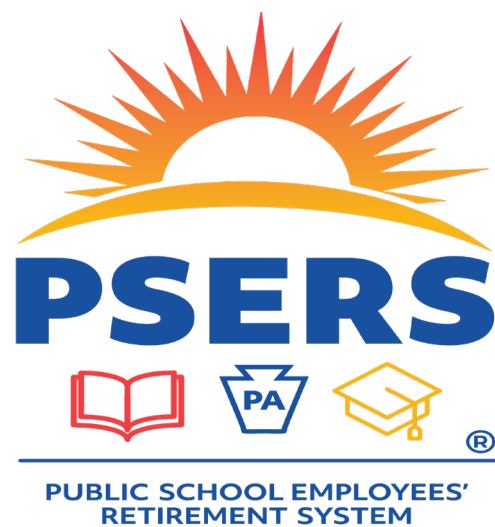
Melva S. Vogler

Governor's Appointee - Vacant



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PSERS Organizational Structure and Member Services



Section 1 - PSERS Overview

Organizational Structure of the Public School Employees' Retirement System

Executive Office

The Executive Director acts as the Chief Executive Officer with overall responsibility for the management of the Public School Employees' Retirement System (PSERS) to achieve the objectives of the agency as established by the Board of Trustees (Board). The position's primary duty is to lead PSERS' employees in meeting the agency mission by serving the members and stakeholders of the System to: provide timely and accurate payment of benefits; maintain a financially sound System; invest the assets of the System prudently; clearly communicate members' and employers' rights and responsibilities, and manage the resources of the System effectively. In this capacity, the position has responsibility for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds and services to the members of the System. It certifies expenditures of the Fund and oversees the performance of professional staff and external contractors for specialized services. The Executive Director also appraises and seeks approval from the Board for significant issues that will affect the System and its operation.

Investment Office

This office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous internal investment professionals and outside professional investment advisors.

Chief Counsel's Office

The office provides legal services through a team of professionals in collaboration with PSERS' Executive Director and the Board of Trustees. The legal staff is responsible for representing the System in all administrative hearings and other litigation matters and providing counsel in a wide variety of matters including the interpretation of the Retirement Code, form and legality of all System contracts, corporate governance issues and the structure and implementation of the System's varied financial investments.

Internal Auditor's Office

The office provides independent, objective assurance, and consulting activity designed to add value and improve Public School Employees' Retirement System's (PSERS') operations. Objectives are accomplished by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The office provides a wide range of quality independent internal auditing services for the Audit/Compliance Committee of the PSERS' Board and executive management. It performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches. The office also routinely monitors compliance with established laws, rules, regulations, policies and procedures.

Organizational Structure (continued)

Office of Financial Management

This office is directed by the Chief Financial Officer (CFO) and has responsibility for planning, organizing and directing a complete accounting and financial reporting system in conformance with accounting principles generally accepted in the United States of America for PSERS Pension, Premium Assistance, HOP, and Defined Contribution Plans. The Office is also responsible for PSERS annuitant payroll and for managing actuarial functions. Oversight is provided for new systems development and maintenance of existing systems, and ensuring appropriate accounting controls. The office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting, financial reporting, treasury operations, taxation, actuarial and budgetary matters. The office is comprised of the CFO's Office, General and Public Market Accounting Division, Investment Accounting and Budget Division, Annuitant Accounting and Employer Accounting Division.

Deputy Executive Director and Director of Defined Contribution Investments

The position provides comprehensive leadership to assist the Executive Director to accomplish the agency mission by maintaining oversight of PSERS' membership related benefit functions for both the agency's Defined Benefit (DB) and the Defined Contribution (DC) plans in addition to DC related investment contract management. This includes managerial responsibility for the following areas: member and employer communications; member retirement counseling; member and employer data administration; benefits determinations and processing; member appeals; knowledge management of benefit policies and procedures; health insurance retirement programs including premium assistance; third-party contractor administration, and defined contribution contract investment management.

Deputy Executive Director of Administration

The position provides comprehensive leadership to assist the Executive Director to accomplish the agency mission by maintaining oversight of PSERS' administrative and information technology related services for the agency. This includes managerial responsibility for the following areas: information technology; human resources; board of trustees administration; third-party contract administration; physical security; facilities; contracting and procurement; business continuity; safety; records management; and mail, imaging, and printing services.

Bureau of Benefits Administration

The Bureau of Benefits Administration maintains account data, determines membership and benefits eligibility, and calculates benefits for Pennsylvania public school employees. This bureau provides these functions for all benefits provided by PSERS, except the PSERS Health Options and Premium Assistance Programs.

Bureau of Communications and Counseling

The bureau provides services to educate and inform annuitants, members, employers, staff and the public about the benefit related programs and services provided by PSERS, as well as the rights and duties of employers and members in relation to those benefits. Information communicated spans from very detailed and fact-specific explanations and instructions to more general explanations and educational materials.

Organizational Structure (continued)

Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program (HOP) and administering the PSERS annuitant health insurance premium assistance benefits. HOP is a voluntary statewide plan that provides group health insurance coverage for school retirees, their spouses, and eligible dependents.

Information Technology Office

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

Bureau of Information Technology

This bureau is responsible for planning, coordinating, administering, and implementing information technology resources in accordance with the agency's strategic plans, goals, objectives, and priorities as communicated by PSERS' Chief Information Officer, and for providing operational support for those technologies and initiatives.

Bureau of Administration

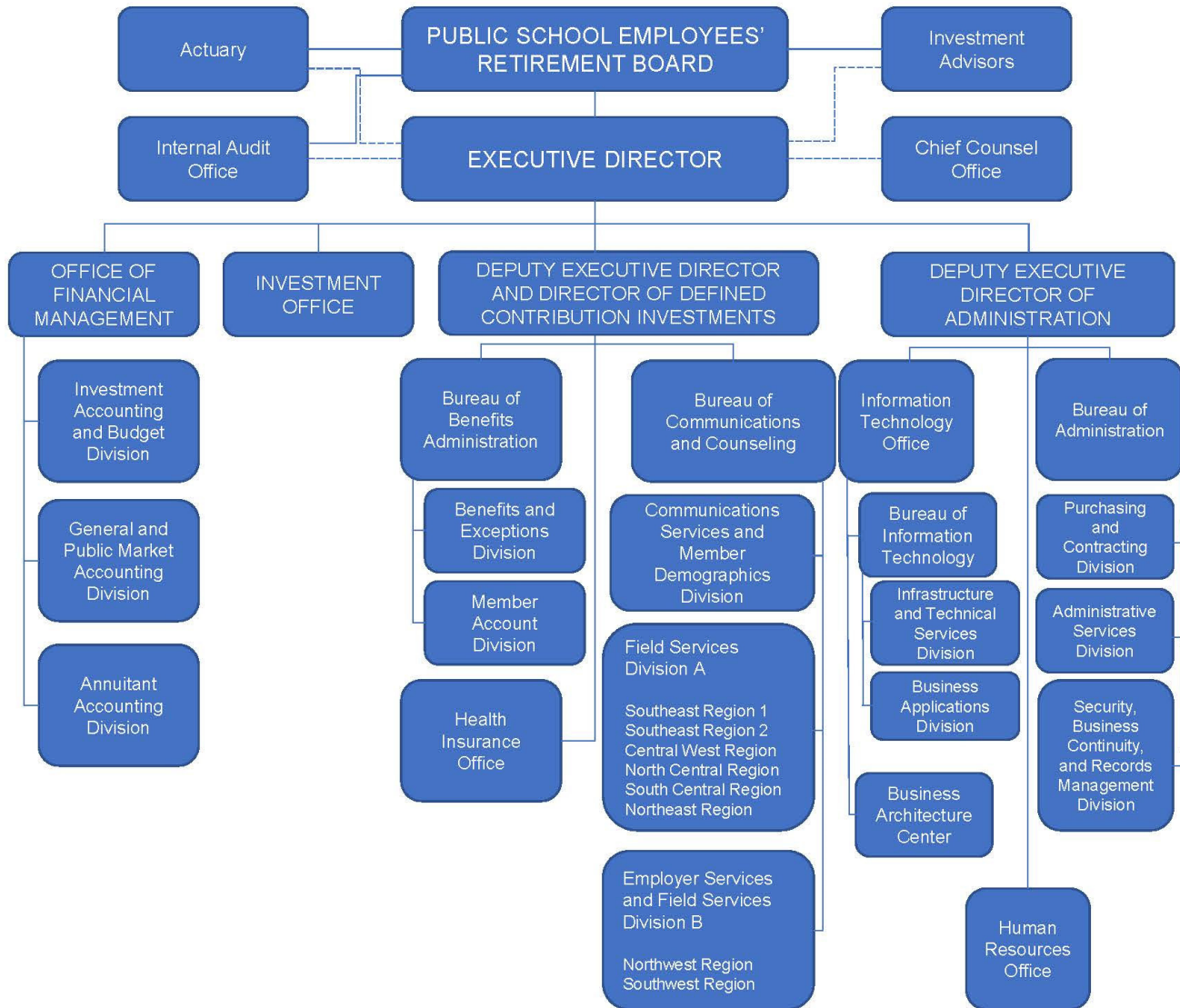
This bureau provides facilities, purchasing and contracting, policies and procedures, business continuity, records management, automotive, mail, imaging, and other administrative services necessary to support agency functions.

Human Resources Office

This office is responsible for supporting management and employees to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunities and other miscellaneous programs.

Chart 2.1

Organizational Chart of the Public School Employees' Retirement System



Section 1 - PSERS Overview

PSERS REGIONAL OFFICES

Chart 2.2

Northwest

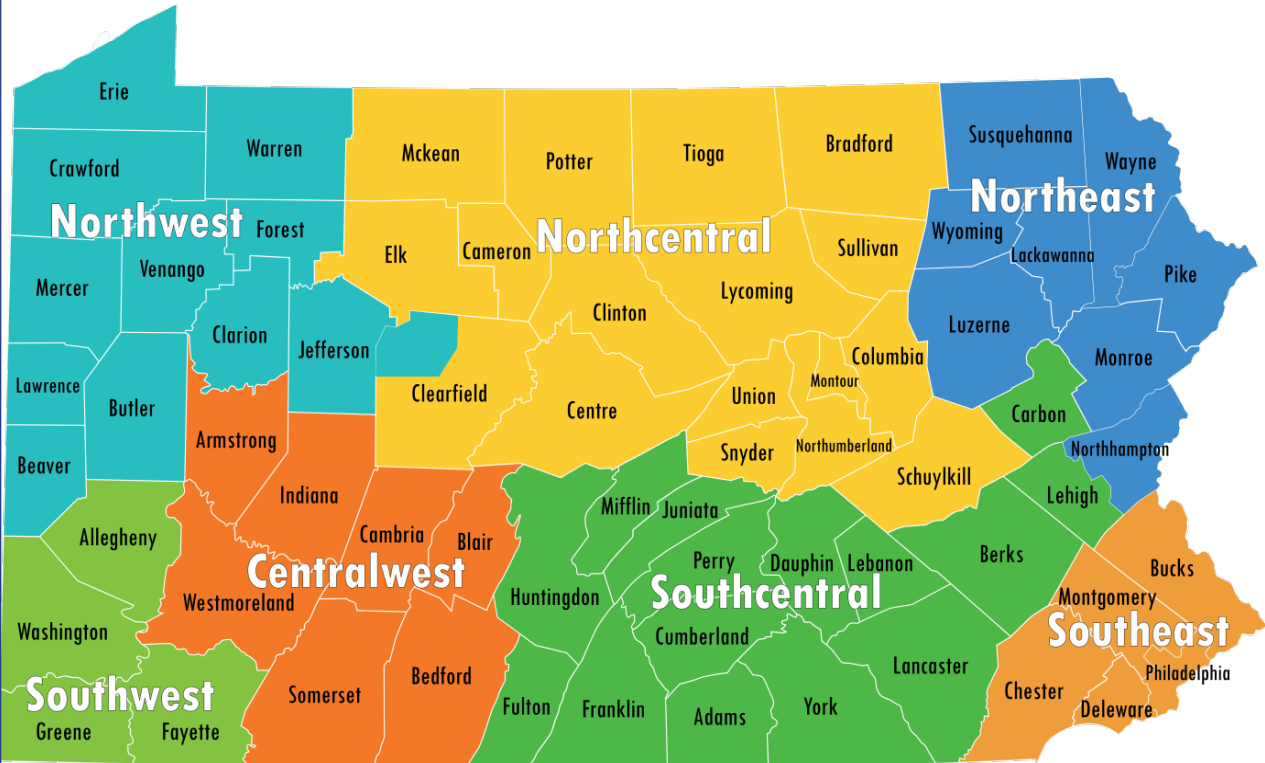
Pennwood Center
464 Allegheny Boulevard, Suite C
Franklin, PA 16323-6210
 Local: 1.814.437.9845
 FAX: 1.814.437.5826
Toll-Free: 1.888.773.7748
 Donald Gregory, Administrator

Northcentral

300 Bellefonte Avenue, Suite 201
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 Jeremy Wible, Administrator

Northeast

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 Local: 1.570.614.0269
 FAX: 1.570.614.0278
Toll-Free: 1.888.773.7748
 Sherry Sibio, Administrator



Southwest

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

Centralwest

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Ebensburg, PA 15931-1540
 Local: 1.814.419.1180
 FAX: 1.814.419.1189
Toll-Free: 1.888.773.7748
 Brian Farester, Administrator

Southcentral

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

Southeast

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



Section 1 - PSERS Overview

Summary of Various Member Service Statistics

PSERS operates very efficiently. There are only 361 staff serving the needs of over 500,000 members of the System and 770 employers. PSERS professionals are dedicated to fulfilling PSERS'

mission to serve our members. Below are highlights of some of the more common services that PSERS provides to its members.

Table 2.1 Benefits Processed (Major)

| | Fiscal Year | <u>2018-19</u> | <u>2019-20</u> |
|--|-------------|----------------|----------------|
| Initial Retirements (1-Step) | | 7,852 | 7,403 |
| Initial Retirements (2-Step) | | 906 | 1,276 |
| Final Retirements (2 nd Step of 2-Step) | | 743 | 1,178 |
| Purchases of Service and Corrections for Previously Unreported Service and/or Contributions not Withheld | | 3,353 | 3,029 |
| Refunds | | 4,440 | 4,343 |
| Death Benefits Processed | | 5,653 | 3,378 |
| Account Verification - non retirements | | 12,162 | 12,390 |
| TOTAL | | 35,109 | 32,997 |
| Percent of Retirement Paid as 1 Step | | 90% | 85% |

Table 2.2 Other Member Services (Major)

| | Fiscal Year | <u>2018-19</u> | <u>2019-20</u> |
|-------------------------------|-------------|----------------|----------------|
| Retirement Estimates | | 14,893 | 15,213 |
| Phone Calls Answered | | 160,267 | 159,758 |
| E-mails Received | | 33,113 | 69,718 |
| E-mails Sent | | 29,174 | 61,251 |
| General Information Sessions | | 201 | 154 |
| General Information Attendees | | 11,449 | 9,057 |
| Exit Counseling Sessions | | 1,174 | 1,214 |
| Exit Counseling Attendees | | 6,581 | 5,970 |

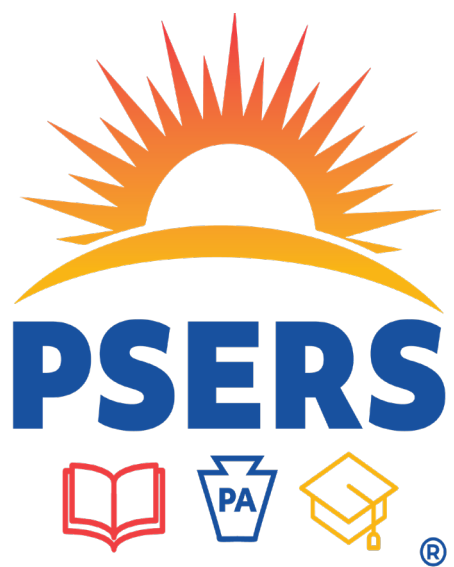
Section 1 - PSERS Overview

Summary of Various Member Service Statistics (continued)

| Table 2.3 Member Self Service Transactions Done by Members | | | |
|---|---------------|---------------|---------------|
| | Calendar Year | <u>2020</u> | <u>2019</u> |
| Retirement Estimate | | 26,706 | 37,151 |
| Nomination of Beneficiary | | 19,318 | 23,008 |
| Address Change | | 10,862 | 8,152 |
| Income Verification | | 14,749 | 14,313 |
| W-4P | | 1,413 | 1,317 |
| Apply for Multiple Service | | 44 | 61 |
| Elect Class T-F | | 11 | 682 |
| Elect Class T-H | | 79 | 65 |
| Elect Class DC | | 160 | 115 |
| Waive Membership | | 129 | 65 |
| TOTAL | | 73,471 | 84,929 |

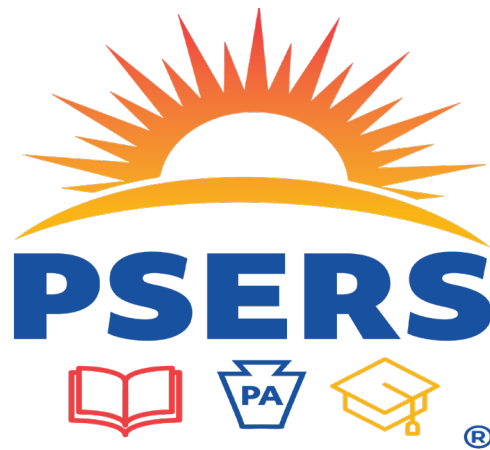
| Table 2.4 Member Payment Services for Retirees and Beneficiaries | | | |
|---|---------------|----------------|----------------|
| | Calendar Year | <u>2020</u> | <u>2019</u> |
| Monthly Payments to Members | | 2,823,743 | 2,787,962 |
| Non-recurring Payments to Members | | 46,924 | 47,819 |
| W4-P Tax Withholding Forms Processed | | 3,168 | 4,764 |
| EFT Forms Processed - Direct Deposit | | 7,618 | 9,861 |
| ACH Rejects Researched and Reviewed (Direct Deposit Failures) | | 4,797 | 5,303 |
| Member Payment Changes Processed | | 2,170 | 2,476 |
| 1099R-Paperless Delivery | | 58,151 | 48,191 |
| 1099R-Printed for Mailing | | 208,437 | 215,525 |
| Total Forms 1099-R Produced | | 266,588 | 263,716 |

PSERS had over 160,000 members sign up for the MSS account. Of those, nearly 96% opted for paperless delivery. This has resulted in annual savings of approximately \$250,000 in postage, printing and paper since MSS went live in April 2018.



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Economic Impact on Pennsylvania, Member Demographics, and Financial Information



PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEM

Section 1 - PSERS Overview

Economic Impact on Pennsylvania, Member Demographics, and Financial Information

Economic Impact of Pension Benefits on Pennsylvania

In Fiscal Year 2019-20, PSERS' pension disbursements to retirees totaled approximately \$6.9 billion. Of this amount, nearly 94%, or \$6.5 billion, went directly into state and local economies. According to a study by the Pensionomics for National Institute on Retirement Security, this spending expands through the economy as the retiree's spending becomes another's income, multiplying the effect of the \$6.5 billion into an economic impact of \$14.2 billion throughout the Commonwealth. Estimates show that the impact of money from PSERS in Pennsylvania includes:*

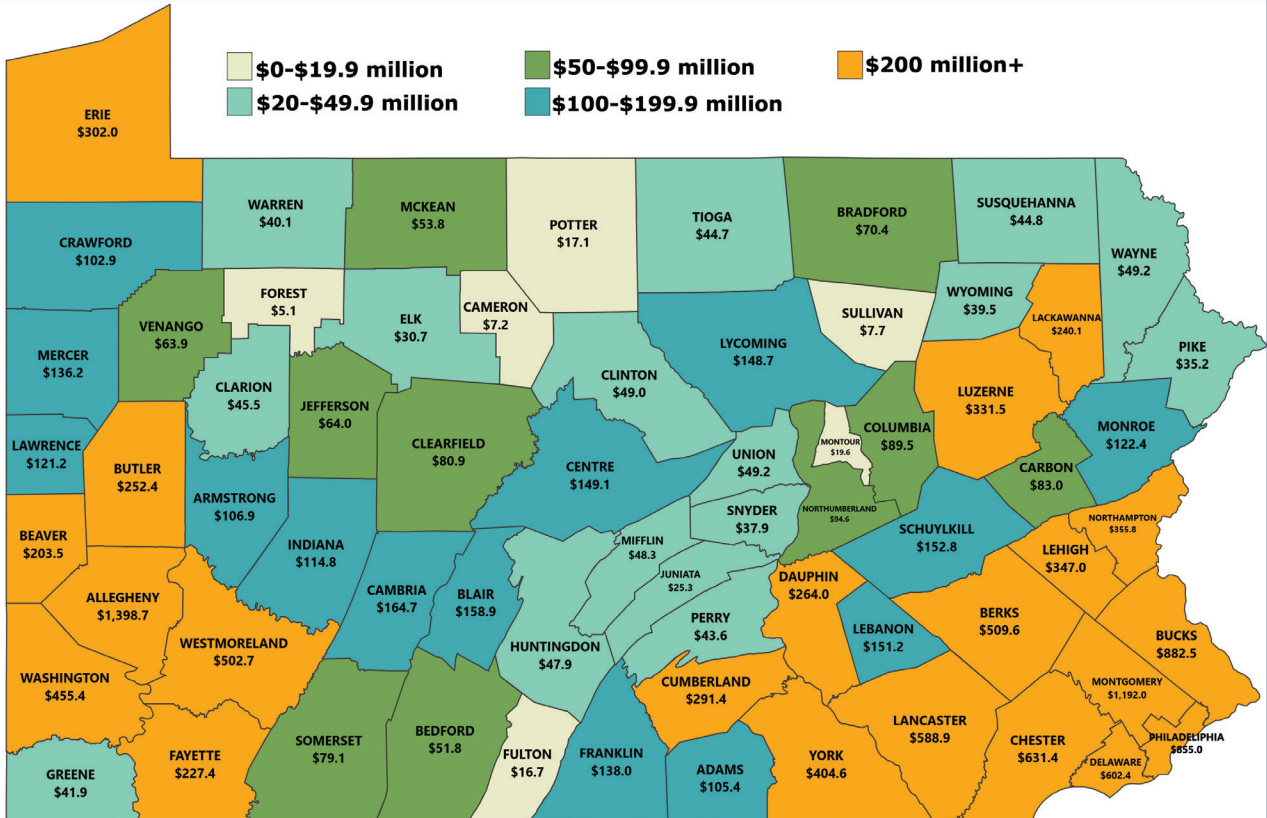
- Support for over 66,000 jobs that paid \$3.9 billion in wages and salaries.
- \$1.6 billion in federal and local tax revenues

| | |
|--------------|-----------|
| ALLEGHENY | \$1,398.7 |
| MONTGOMERY | 1,192.0 |
| BUCKS | 882.5 |
| PHILADELPHIA | 855.0 |
| CHESTER | 631.4 |
| DELAWARE | 602.4 |
| LANCASTER | 588.9 |
| BERKS | 509.6 |
| WESTMORELAND | 502.7 |
| WASHINGTON | 455.4 |

Pension Benefits in Pennsylvania

By County FY 2019-20

\$6.5 Billion in Benefits = \$14.2 Billion Positive Economic Impact



* Pensionomics the National Institute on Retirement Security, November 2020.

Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

Table 3.2 Member by Type

| Fiscal Year Ended June 30 | Active Members | Annuitants, Beneficiaries, and Survivor Annuitants | Total Active/Retired Members | Ratio of Active/ Retired | Vestees | Total Membership |
|--|-------------------|---|------------------------------------|--------------------------------|---------|---------------------|
| 2020 | 256,246 | 239,614 | 495,860 | 1.07 to 1 | 25,903 | 521,763 |
| 2019 | 255,749 | 237,339 | 493,088 | 1.07 | 25,514 | 518,602 |
| 2018 | 256,362 | 233,288 | 489,650 | 1.10 | 25,117 | 514,767 |
| 2017 | 255,945 | 230,014 | 485,959 | 1.13 | 24,515 | 510,474 |
| 2016 | 257,080 | 224,828 | 481,908 | 1.14 | 23,437 | 505,345 |
| Average ratio of active members to annuitants (Public Funds) | | | | 1.34* | | |

*Based on the November 2020 Public Fund Survey prepared by the National Association of State Retirement Administrators (NASRA).

Table 3.3

Profile of PSERS' Annuitants, Beneficiaries, and Survivor Annuitants

| Type of Member | Number of Members | | Average Annual Benefit | |
|--|-------------------|------------------|--------------------------|------------------|
| | <u>6/30/2020</u> | <u>6/30/2019</u> | <u>6/30/2020</u> | <u>6/30/2019</u> |
| Normal/Early Retirees | 218,478 | 216,326 | \$26,541 | \$26,300 |
| Survivor Annuitants | 12,072 | 11,860 | 15,098 | 14,847 |
| Disability Retirees | 9,064 | 9,153 | 20,954 | 20,348 |
| Total/Average Yearly Benefit | 239,614 | 237,339 | \$25,753 | \$25,498 |
| Age and Service Profile of All Active Members | | | | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | | |
| Average Age | 45.5 | 45.4 | | |
| Average Years of PSERS Service | 11.8 | 11.7 | | |
| Average Annual Compensation | \$54,535 | \$53,458 | | |
| Class T-C Members | | | | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | Class T-D Members | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | <u>6/30/2020</u> | <u>6/30/2019</u> |
| Number of Members | 2,845 | 3,010 | 158,971 | 167,118 |
| Average Age | 54.1 | 53.4 | 48.9 | 48.5 |
| Average Years of PSERS Service | 22.1 | 21.3 | 16.7 | 16.1 |
| Average Annual Compensation | \$58,049 | \$56,239 | \$65,821 | \$63,502 |
| Class T-E Members | | | | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | Class T-F Members | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | <u>6/30/2020</u> | <u>6/30/2019</u> |
| Number of Members | 64,658 | 70,521 | 14,559 | 15,100 |
| Average Age | 40.4 | 39.4 | 39.2 | 38.3 |
| Average Years of PSERS Service | 3.6 | 2.7 | 4.1 | 3.2 |
| Average Annual Compensation | \$35,219 | \$31,787 | \$46,836 | \$42,954 |
| Class T-G Members | | | | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | Class T-H Members | |
| | <u>6/30/2020</u> | <u>6/30/2019</u> | <u>6/30/2020</u> | <u>6/30/2019</u> |
| Number of Members | 15,122 | N/A | 91 | N/A |
| Average Age | 36.6 | N/A | 35.3 | N/A |
| Average Years of PSERS Service | 0.4 | N/A | 0.5 | N/A |
| Average Annual Compensation | \$25,376 | N/A | \$29,308 | N/A |

Section 1 - PSERS Overview

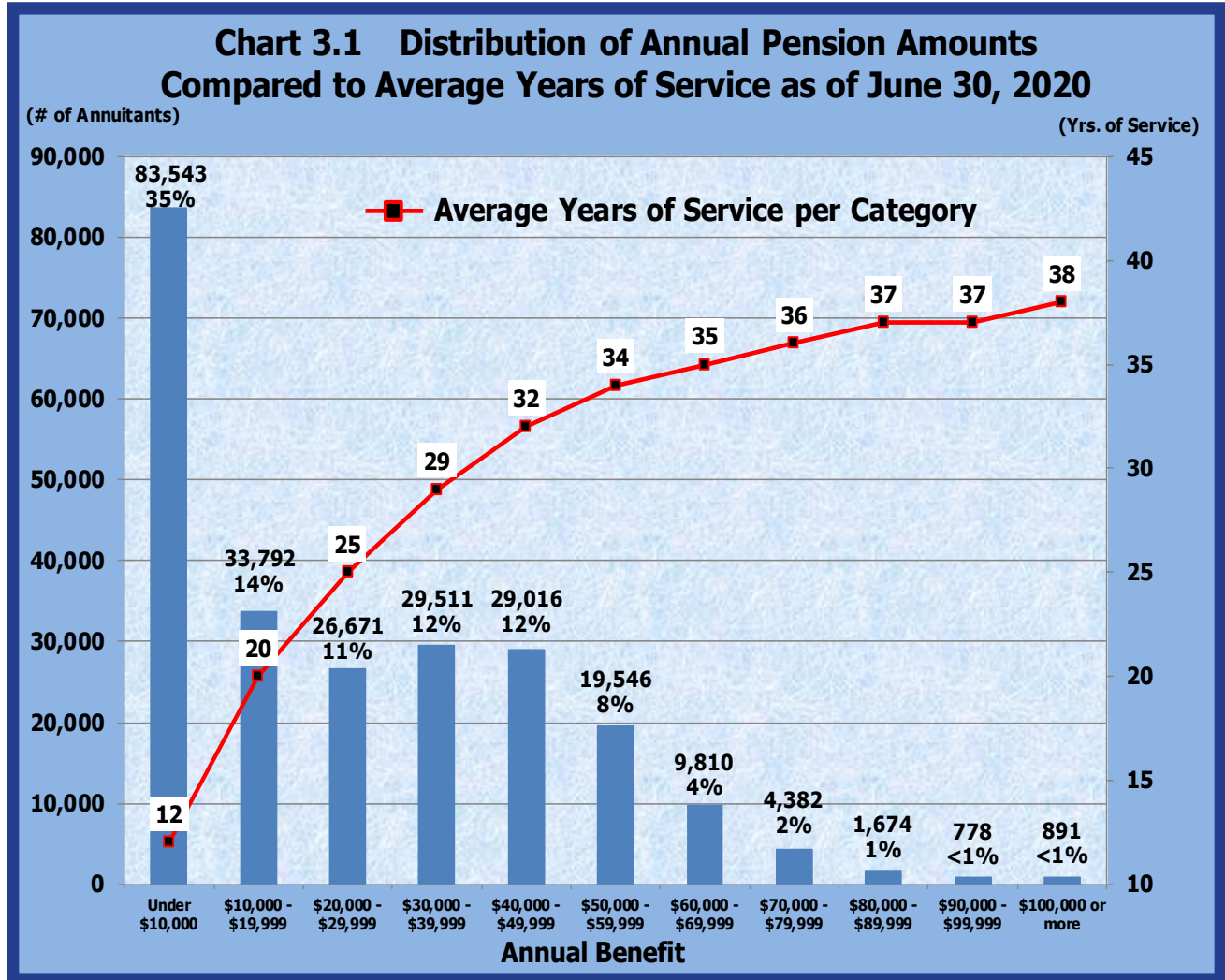
Member Demographics and Financial Information (continued)

Benefit Summary

The average PSERS retiree receives \$25,753 annually, a benefit earned through a lengthy career in education.

- Over 72% of PSERS retirees receive less than \$40,000 per year in benefits.
- Six-figure pensions are rare, with fewer

than one-half of 1% of PSERS retirees receiving an annual benefit over \$100,000. Retirees earning over six figures have spent an average of 38 years working in their careers and contributing to their retirement accounts.



Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

**Table 3.4 PSERS Pension Plan Changes in Fiduciary Net Position
10 Year Cumulative Summary - FISCAL YEAR
(Dollar Amount in Millions)**

| | Cumulative 10 Year Total |
|---|-------------------------------------|
| | July 1, 2010 - June 30, 2020 |
| Balance of Net Position (07/01/2010) | \$45,598 |
| Member Contributions | \$10,100 |
| Employer Contributions | 28,134 |
| Net Investment Income | 37,705 |
| Deductions - Benefits & Expenses | (62,980) |
| Net Increase | \$12,959 |
| Balance of Net Position (06/30/2020) | \$58,557 |

**Table 3.5 External Cash Flow - Pension
Fiscal Years Ended June 30
(Dollar Amount in Thousands)**

| | ----- Projected ----- | | | | | |
|--|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Member Contributions | \$1,068,000 | \$1,087,000 | \$1,093,000 | \$1,102,000 | \$1,110,000 | \$1,117,000 |
| Employer Contributions | 4,677,000 | 4,784,000 | 4,952,000 | 5,180,000 | 5,375,000 | 5,566,000 |
| Total Contributions | \$5,745,000 | \$5,871,000 | \$6,045,000 | \$6,282,000 | \$6,485,000 | \$6,683,000 |
| Less: | | | | | | |
| Benefits | \$6,877,000 | \$6,984,000 | \$7,085,000 | \$7,182,000 | \$7,278,000 | \$7,373,000 |
| Administrative expenses | 47,000 | 50,000 | 51,000 | 52,000 | 53,000 | 54,000 |
| Total Outflows | \$6,924,000 | \$7,034,000 | \$7,136,000 | \$7,234,000 | \$7,331,000 | \$7,427,000 |
| Negative External Cash Flow | -\$1,179,000 | -\$1,163,000 | -\$1,091,000 | -\$952,000 | -\$846,000 | -\$744,000 |
| End of Year Total Assets | \$58,557,000 | \$61,404,000 | \$64,692,000 | \$68,358,000 | \$72,399,000 | \$76,837,000 |
| Negative External Cash Flow (NECF) as a % of Total Assets | -2.0% | -1.9% | -1.7% | -1.4% | -1.2% | -1.0% |
| Average NECF as a % of Total Assets (Public Funds) | -2.7% * | | | | | |

*Based on the November 2020 Public Fund Survey prepared by NASRA.

Negative External Cash Flow (NECF)

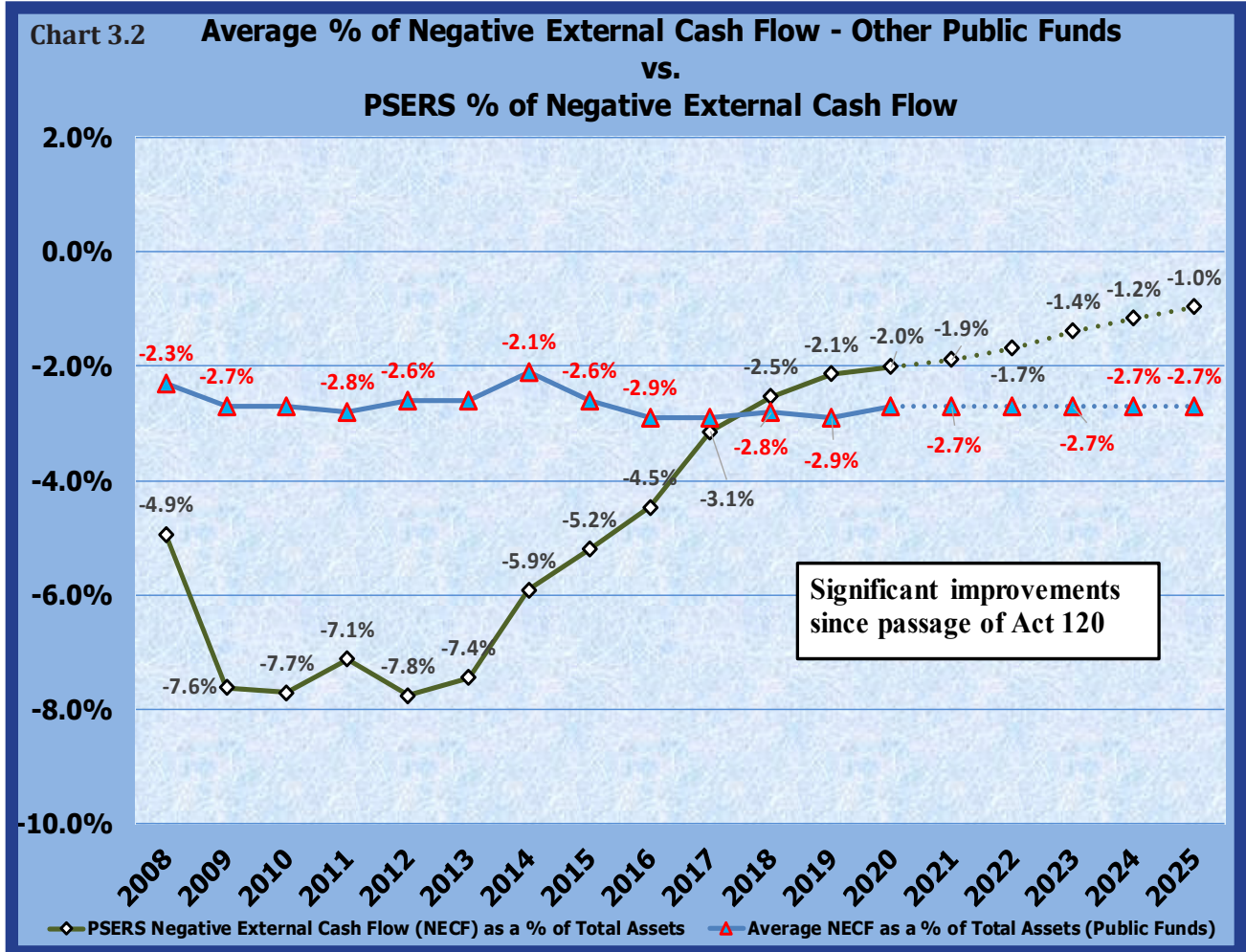
Using data from Table 3.4 at the top of the page, the last 10 years of contributions and benefit payments resulted in a Negative External Cash Flow (NECF) of -\$24.7 billion (comprised of total deductions less member and employer contributions) during that time period. In Table 3.5, PSERS' Negative External Cash Flow percentage is

-2.0% of total assets for FY 2019-20, which was more favorable than the public fund average for the third year in a row. The large negative annual external cash flow has improved significantly since fiscal year 2012 due to the implementation of Act 120 in 2010. Act 120 provided for increased employer contributions to the actuarially required

Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

contribution levels. Due to receiving 100% of actuarially required contributions for the fourth consecutive year, the System's cash flow shortfall is now more favorable than the public fund average and will continue to improve over the next several years.



PSERS Negative External Cash Flow Projection (NECF)

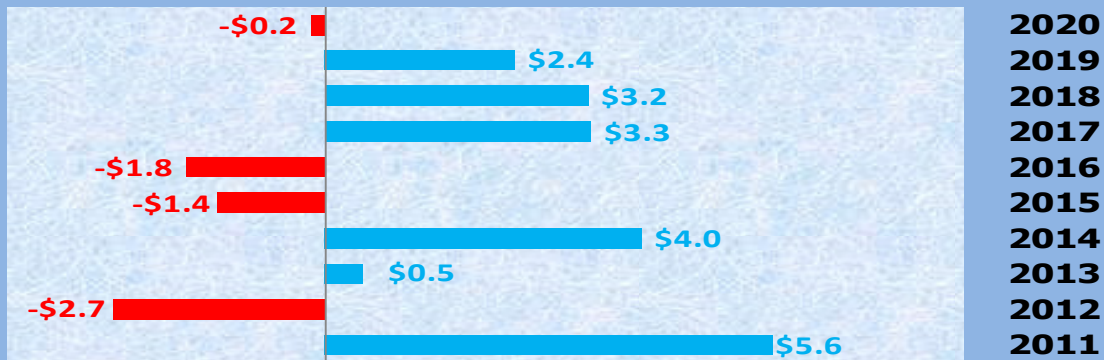
In Chart 3.2, beginning in FY2018 PSERS' projected NECF percentage of -2.5% is more favorable than the public fund percentage. If PSERS meets or exceeds its investment return assumptions the

total assets are projected to grow in excess of total liabilities and continue to pay down the unfunded liability.

Section 1 - PSERS Overview

Member Demographics and Financial Information (continued)

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

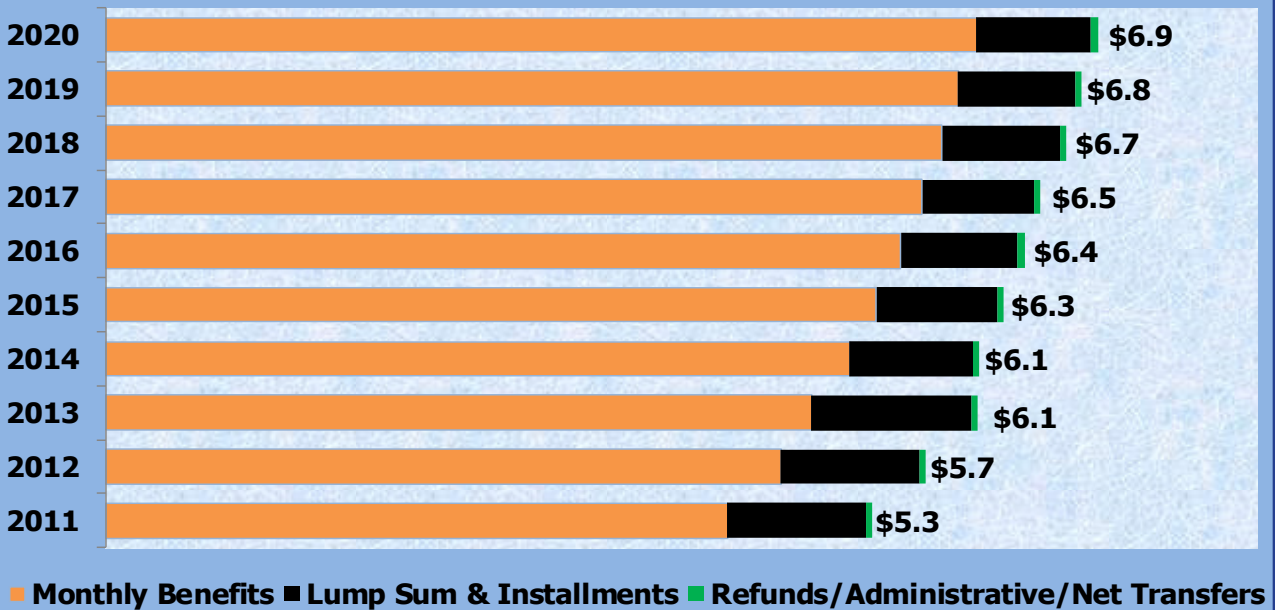


PSERS' Pension Fiduciary Net Position

As depicted in Chart 3.3, PSERS' fiduciary net position decreased by \$0.2 billion from \$58.7 billion at June 30, 2019 to \$58.5 billion at June 30, 2020. The decrease was due in large

part to net investment income being reduced by the uncertainty of the pandemic even though the member and employer contributions exceeded deductions for benefit and administrative expenses.

**Chart 3.4 Deductions from Pension Fiduciary Net Position*
10 Year Trend (Fiscal Year ended June 30)
(\$Amounts in Billions)**



*Does not include PSERS Postemployment Healthcare and DC Plans Net Position.

PSERS Deductions from Pension Fiduciary Net Position

As depicted in Chart 3.4, the small increase for FY2019 to FY2020 is mainly attributed to an ongoing slight rise in the average monthly

benefit and an increase in the number of members receiving benefits.

Section 1 - PSERS Overview

Statement of Fiduciary Net Position

December 31, 2020

Unaudited

(Dollar Amounts in Thousands)

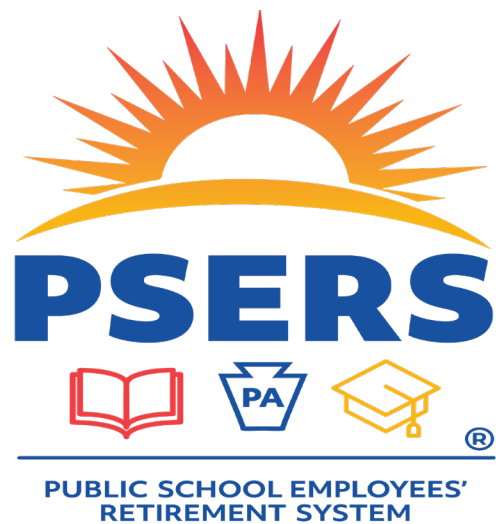
| | Pension | Defined Contribution | Postemployment Healthcare | | Totals |
|---|----------------------|-------------------------|---------------------------|---------------------------|----------------------|
| | | | Premium Assistance | Health Options Program | |
| Assets: | | | | | |
| Receivables: | | | | | |
| Members | \$ 346,948 | \$ 469 | \$ 1,987 | \$ 188 | \$ 349,592 |
| Employers | 1,275,825 | 363 | 31,604 | - | 1,307,792 |
| Investment income | 822,859 | 1 | 81 | 18 | 822,959 |
| Investment proceeds | 217,732 | - | - | - | 217,732 |
| CMS Part D and prescriptions | - | - | - | 64,073 | 64,073 |
| Interfund receivable | 298 | - | 46 | - | 344 |
| Total Receivables | 2,663,662 | 833 | 33,718 | 64,279 | 2,762,492 |
| Investments, at fair value: | | | | | |
| Short-term | 7,878,381 | 6,628 | 95,084 | 349,928 | 8,330,021 |
| Fixed income | 9,663,144 | - | - | - | 9,663,144 |
| Common and preferred stock | 13,017,913 | - | - | - | 13,017,913 |
| Collective trust funds | 12,508,229 | 31,354 | - | - | 12,539,583 |
| Real estate | 5,174,652 | - | - | - | 5,174,652 |
| Alternative investments | 14,162,460 | - | - | - | 14,162,460 |
| Total Investments | 62,404,779 | 37,982 | 95,084 | 349,928 | 62,887,773 |
| Securities lending collateral pool | 7,705,230 | - | - | - | 7,705,230 |
| Capital assets (net of accumulated depreciation \$38,657) | 17,789 | - | - | - | 17,789 |
| Miscellaneous | 22,178 | - | 338 | - | 22,516 |
| Total Assets | 72,813,638 | 38,815 | 129,140 | 414,207 | 73,395,800 |
| Liabilities: | | | | | |
| Accounts payable and accrued expenses | 113,479 | 58 | 349 | 2,225 | 116,111 |
| Benefits payable | 241,312 | - | 135 | 30,463 | 271,910 |
| HOP participant premium advances | - | - | - | 33,327 | 33,327 |
| Investment purchases and other payables | 866,164 | 207 | - | - | 866,371 |
| Obligations under securities lending | 7,705,230 | - | - | - | 7,705,230 |
| Interfund payable | - | 344 | - | - | 344 |
| Other liabilities | 155,246 | - | - | - | 155,246 |
| Total Liabilities | 9,081,431 | 609 | 484 | 66,015 | 9,148,539 |
| Net position restricted for pension, DC and postemployment healthcare benefits | \$ 63,732,207 | \$ 38,206 | \$ 128,656 | \$ 348,192 | \$ 64,247,261 |

Section 1 - PSERS Overview

Statement of Changes in Fiduciary Net Position Six Months Ended December 31, 2020 Unaudited (Dollar Amounts in Thousands)

| | Pension | Defined Contribution | Postemployment Healthcare | | Totals |
|--|----------------------|-------------------------|---------------------------|---------------------------|----------------------|
| | | | Premium Assistance | Health Options Program | |
| Additions: | | | | | |
| Contributions: | | | | | |
| Members | \$ 510,126 | \$ 7,638 | \$ - | \$ - | \$ 517,764 |
| Employers | 2,275,213 | 5,999 | 55,874 | - | 2,337,086 |
| Total contributions | 2,785,339 | 13,637 | 55,874 | - | 2,854,850 |
| HOP participant premiums | - | - | - | 199,392 | 199,392 |
| Centers for Medicare & Medicaid Services | - | - | - | 30,423 | 30,423 |
| Investment income: | | | | | |
| From investing activities: | | | | | |
| Net appreciation (depreciation) in fair value of investments | 5,450,821 | 4,597 | (127) | - | 5,455,291 |
| Short-term | 5,217 | 9 | 287 | 132 | 5,645 |
| Fixed income | 133,962 | - | - | - | 133,962 |
| Common and preferred stock | 113,513 | - | - | - | 113,513 |
| Collective trust funds | 615 | - | - | - | 615 |
| Real estate | 154,446 | - | - | - | 154,446 |
| Alternative investments | 286,547 | - | - | - | 286,547 |
| Total investment activity income | 6,145,121 | 4,606 | 160 | 132 | 6,150,019 |
| Investment expenses | (312,880) | (32) | - | - | (312,912) |
| Net income from investing activities | 5,832,241 | 4,574 | 160 | 132 | 5,837,107 |
| From securities lending activities: | | | | | |
| Securities lending income | 12,446 | - | - | - | 12,446 |
| Securities lending expense | (3,698) | - | - | - | (3,698) |
| Net income from securities lending activities | 8,748 | - | - | - | 8,748 |
| Total net investment income | 5,840,989 | 4,574 | 160 | 132 | 5,845,855 |
| Total Additions | 8,626,328 | 18,211 | 56,034 | 229,947 | 8,930,520 |
| Deductions: | | | | | |
| Benefits | 3,413,272 | - | 57,017 | 183,151 | 3,653,440 |
| Refunds of contributions | 13,274 | 425 | - | - | 13,699 |
| Administrative expenses | 24,361 | 941 | 778 | 19,826 | 45,906 |
| Total Deductions | 3,450,907 | 1,366 | 57,795 | 202,977 | 3,713,045 |
| Net increase (decrease) | 5,175,421 | 16,845 | (1,761) | 26,970 | 5,217,475 |
| Net position restricted for pension, DC and postemployment healthcare benefits: | | | | | |
| Balance, beginning of year | 58,556,786 | 21,361 | 130,417 | 321,222 | 59,029,786 |
| Balance, end of period | \$ 63,732,207 | \$ 38,206 | \$ 128,656 | \$ 348,192 | \$ 64,247,261 |

Actuarial Process and Pension Plan Funding



Section 1 - PSERS Overview

The Actuarial Process and Pension Plan Funding

Nearly all PSERS members are part of a defined benefit (DB) plan, meaning benefits are based on members' service and salary history. Act 5 of 2017 created two new hybrid defined benefit/defined contribution benefit options and a defined contribution only plan but did not go into effect until July 1, 2019. The following information highlights the actuarial process and funding for PSERS DB plan.

Actuarial Process

The actuarial process presumes that there will be a systematic flow of contributions at a specified level to pay for plan benefits and that the flow of contributions, together with investment earnings, will be sufficient to meet all benefit and expense requirements of the plan. Actuarial cost methods for funding PSERS' pension plan are defined in the Public School Employees' Retirement Code. The actuary for the pension plan and PSERS' professionals review economic and demographic experience annually and, in more depth, over five-year periods. The actuary's periodic valuations test the validity of the underlying actuarial assumptions versus the actual experience of the plan. That experience is also used as a basis for formulating actuarial assumptions about what will occur in the future with respect to salary growth, investment returns, and demographic factors such as rates of retirement and death.

Chart 4.1 Distribution of Investment Return Assumptions

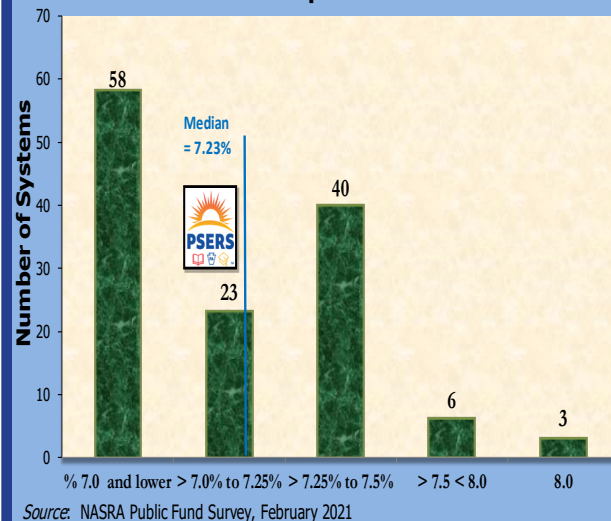
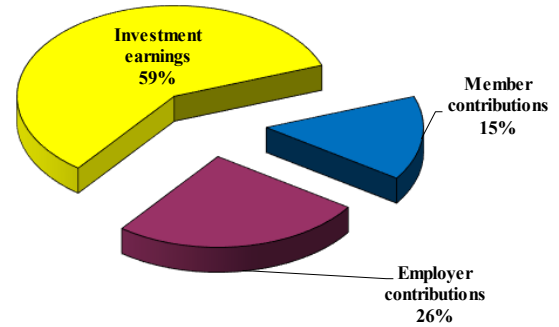


Chart 4.2

PSERS' Sources of Funding
Twenty-five Year History (1996-2020)



Effective with the June 2016 actuarial valuation, PSERS adopted several new demographic and economic assumptions as a result of the five-year Experience Study completed by PSERS' actuary. PSERS' investment rate of return assumption was changed from 7.50% to 7.25%, the salary growth assumption was changed from 5.50% to 5.00%, the inflation assumption was reduced from 3.00% to 2.75%, the rates of withdrawal, disability and retirement from employment among active members were updated and mortality rates were revised. Chart 4.1 displays PSERS' 7.25% return assumption in comparison to other funds in the public pension universe. PSERS and its actuary are currently working on the actuarial Experience Study for the five years ended June 30, 2020 and expect to update many of its actuarial assumptions for implementation in the June 30, 2021 actuarial valuation.

Funding

The plan is funded through three sources: (1) employer contributions; (2) member contributions; and, (3) investment earnings. As depicted in Chart 4.2, for the twenty-five-year period ended June 30, 2020 investment earnings provided 59% of PSERS' funding followed by 26% from employers while members contributed 15%.

Employer Contributions

The Retirement Code vests PSERS' Board with the authority to establish the employer contribution rate (ECR) based on the parameters in the Retirement Code. The Board in consultation with the actuary and PSERS' staff establishes the employer contribution rate annually, as part of the annual actuarial valuation. The employer contribution

Section 1 - PSERS Overview

The Actuarial Process and Pension Plan Funding (continued)

rate, which is expressed as a percentage of payroll, is composed of three items: (1) the pension, (2) the defined contribution and (3) the healthcare premium assistance contributions.

The total employer contribution rate for the fiscal year ended June 30, 2020 was 34.29%, including 0.09% for Act 5 DC (estimated average rate) plus 0.83% for healthcare premium assistance.

The total employer contribution rate for the fiscal year ending June 30, 2021 is 34.51%. This rate consists of a 33.51% pension rate, 0.18% Act 5 DC plus the healthcare premium assistance contribution of 0.82%.

The FY 2021-22 employer contribution rate is 34.94%. This rate consists of a 33.99% pension rate, the healthcare premium assistance contribution of 0.80% and an Act 5 DC estimated average rate of 0.15%. The Board of Trustees certified this rate, which was calculated in accordance with the provisions of Act 5 of 2017, at their December 2020 meeting. While any contribution increase is a challenge for PSERS' employers, the increase in the FY 2021-22 contribution rate is only 1.25%. The very large increases that employers experienced prior to FY 2017-18 are now in the past. The projected rate increases in the future are less than current levels of inflation.

For the fiscal year ended June 30, 2020, PSERS' employer contributions totaled \$4.801 billion, which includes \$118 million for healthcare premium assistance and \$7 million for DC. For the fiscal year ending June 30, 2021 the estimate for total employer contributions is \$4.858 billion, reflective of the 34.51% contribution rate. The contribution rate for the fiscal year ending June 30, 2022 is 34.94%, resulting in an employer contribution estimate of \$4.993 billion.

Member Contributions

Most members of the Public School Employees' Retirement System contribute between 7.5% and 10.3% of their pay depending on their class of membership to help fund their own retirement benefit. The average contribution rate payable by

the members for the current year (FY2020-21) is 7.61%. This is in contrast to the majority of non-public (private) pension plans to which members do not contribute (Source: based on a query of private plan IRS Form 5500 filings). For these plans, the employers bear 100% of the costs of the benefit.

According to recent National Association of State Retirement Administrators (NASRA) data, PSERS member contribution rate is one of the highest among U.S. public pension plans that participate in Social Security.

Pursuant to Act 120, Class T-E and Class T-F members are subject to a "shared risk" employee contribution rate. Act 5 enhanced the shared risk program for T-E and T-F members and also added Class T-G and T-H members to the program. Under the shared risk program, eligible members benefit when investments of the Fund are doing well and share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E, T-F, T-G and T-H but can fluctuate by the shared risk increment every three years depending on the investment performance of PSERS. These members share a portion of the investment risk of the Fund similar to a defined contribution plan. As a result of the Fund's nine-year return through June 30, 2020 exceeding the investment performance hurdle mandated by Act 120 and Act 5, the member contribution rate did not change. The next investment performance measurement period for Class T-E, T-F, T-G and T-H members will be the ten-year period ending June 30, 2023.

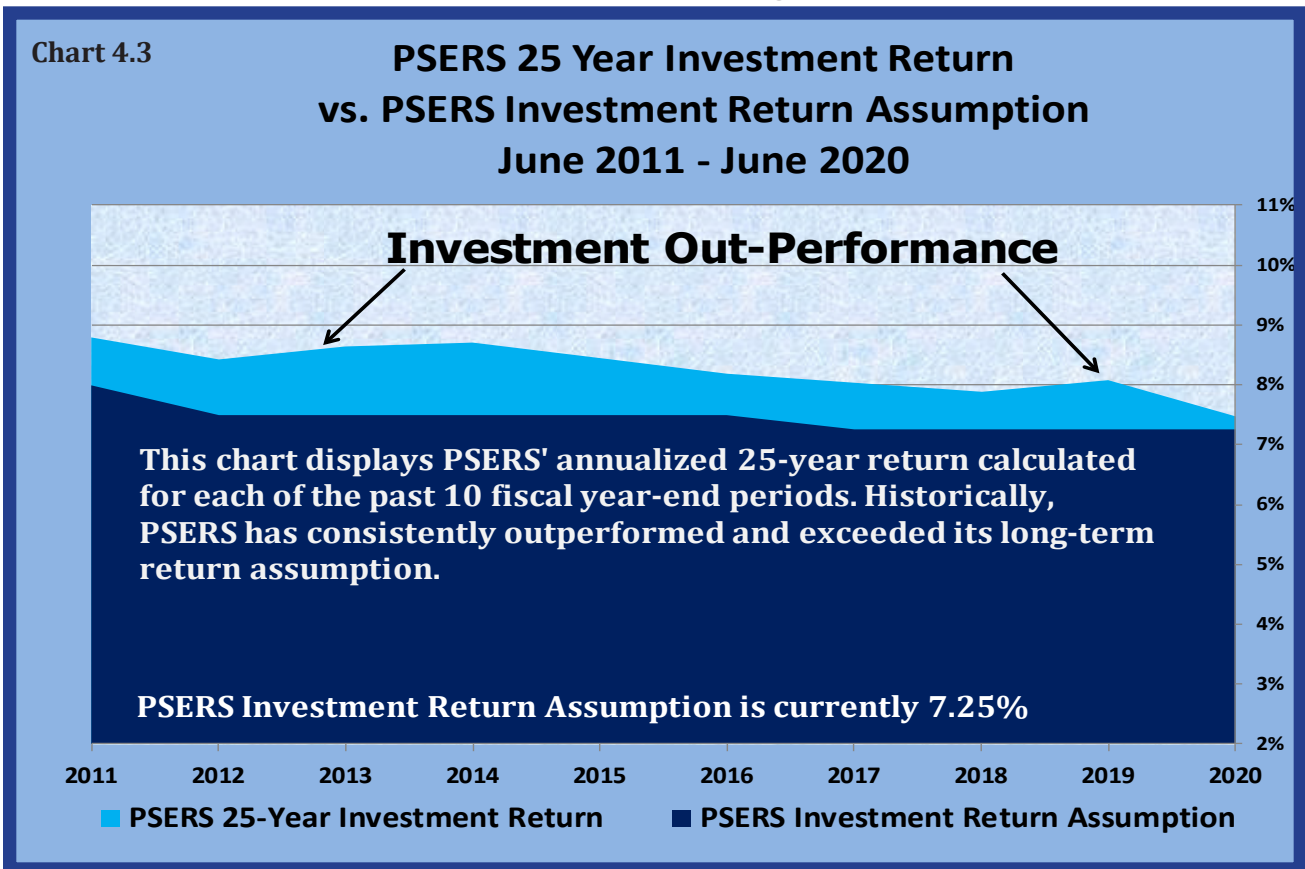
PSERS' members contributed \$1.076 billion of pension contributions for FY2020. Total member contributions are estimated to be \$1.079 billion for the fiscal year ending June 30, 2021 and \$1.088 billion for the fiscal year ending June 30, 2022.

Investment Returns

PSERS' investment rate of return for the fiscal year ended June 30, 2020 was 1.11%, net of fees. The investment rates of return (net of fees) for the fiscal years ended June 30, 2019 and June

Section 1 - PSERS Overview

The Actuarial Process and Pension Plan Funding (continued)



30, 2018 were 6.68% and 9.27%, respectively. The annualized rates of investment return for the three, five and ten-year periods ended September 30, 2020 were 5.92%, 7.36%, and 7.40% respectively. Over the past 25 years ended September 30, 2020, the Fund earned an annualized rate of return of 7.40% which exceeded the Fund's long term investment rate of return assumption.

PSERS' 25-year return, as shown in Chart 4.3, has consistently outperformed the actuarial investment rate of return. Throughout much of the 1990's and 2000's PSERS' investment performance exceeded its investment rate of return assumption. This outstanding long-term investment performance resulted in declining employer contribution rates and/or contribution rates lower than the annual normal cost of benefits.

Funded Status

PSERS' funded status is measured by comparing the actuarial value of assets with the accrued liability. The accrued liability is the present value of benefits accumulated to date for both active and retired members.

Key Facts

- As a result of legislated contribution increases under Act 120, PSERS reached a turning point effective with the June 30, 2018 actuarial valuation as PSERS' funded ratio began to slowly improve after declining for many years.
- Funded Status: 59.2% as of June 30, 2020
- Funded Status: 58.1% as of June 30, 2019
- Funded Status: 56.5% as of June 30, 2018
- The increase in FY2020 is the second consecutive major improvement in the funded ratio, on an actuarial basis.
- The decrease in the funded status from 2000 to 2017 as depicted in Chart 4.4 was the result of several factors including: the unfavorable investment markets from FY2001 to FY2003 and FY2008 to FY2009; funding changes enacted in Act 38 of 2002 and Act 40 of 2003 which resulted in employers underfunding PSERS; benefit enhancements from Act 9 and Act 38; the adoption of new demographic and economic assumptions in FY2016; funding

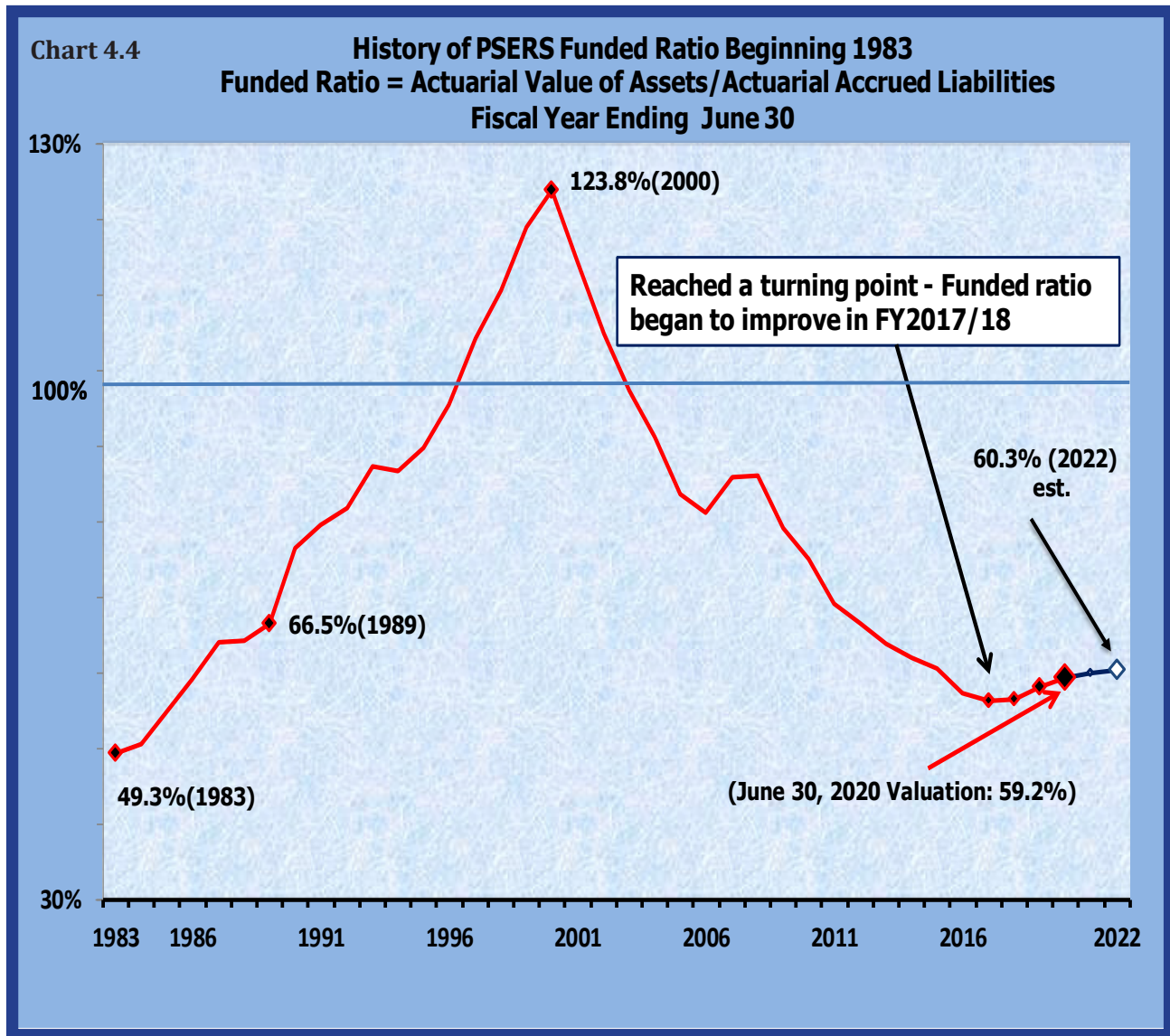
Section 1 - PSERS Overview

The Actuarial Process and Pension Plan Funding (continued)

collars in Act 120 which continued the employer underfunding of the system; and, actuarial liability losses.

A history of PSERS' funded ratio beginning in 1983 and two-year projection of PSERS' funded status is shown in Chart 4.4. As a result of legislated

contribution increases under Act 120, PSERS reached a turning point effective with the June 30, 2018 actuarial valuation as PSERS' funded ratio began to slowly improve after declining for many years. Future projections now reflect a steadily increasing funded ratio.



Section 1 - PSERS Overview

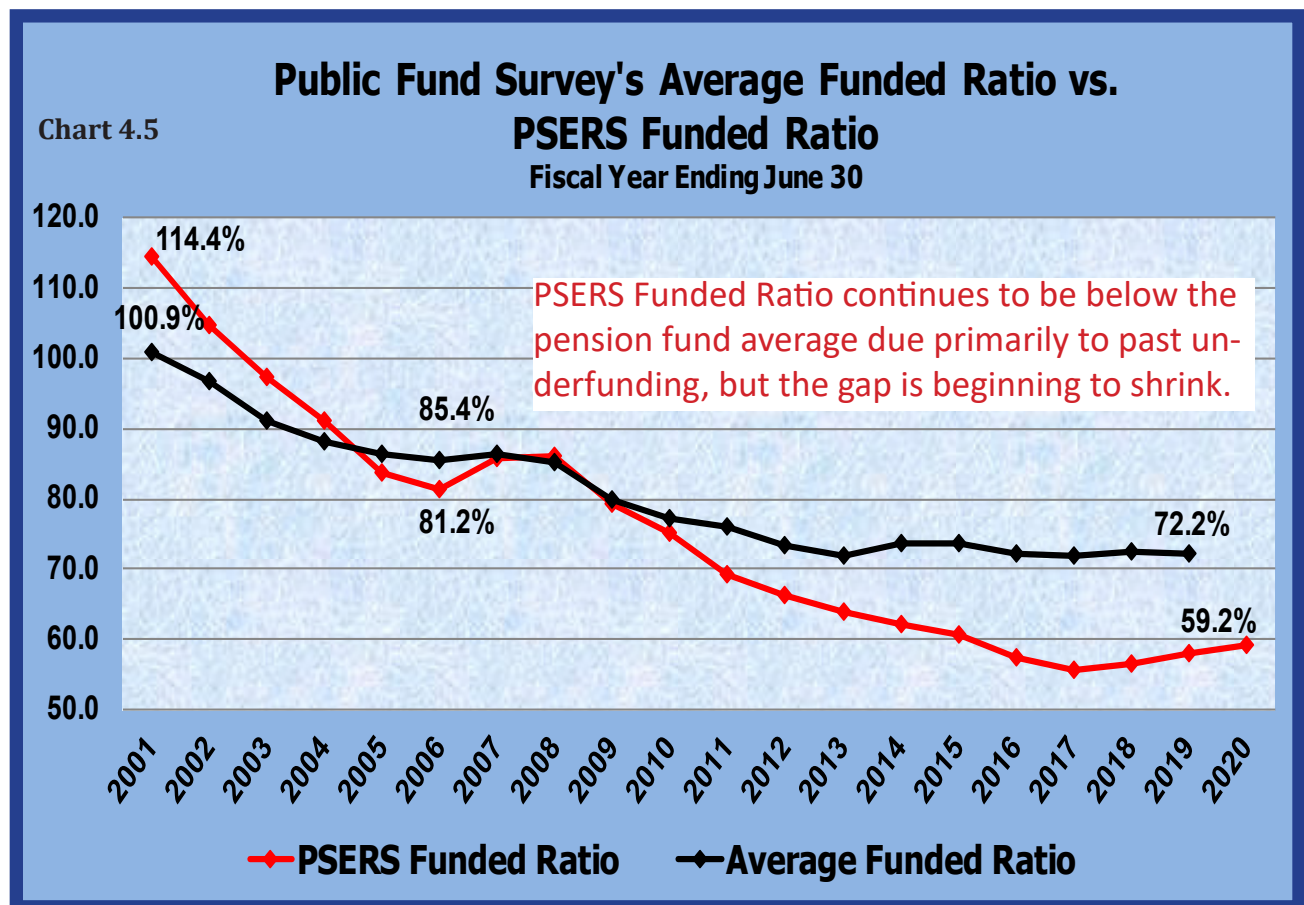
The Actuarial Process and Pension Plan Funding (continued)

A comparison of PSERS' funded ratio to the public fund projected weighted average funding ratio provided by the National Association of State Retirement Administrators (NASRA) is shown in Chart 4.5 below. A lower than average funded ratio is an important factor because it signifies a smaller than average asset base. A smaller asset base means a greater percentage of the investment returns are being used to pay benefits, and results in a very slow growth of assets. High employer contributions are required in order for assets to grow.

Besides market performance, other factors that affect a plan's funding level include contributions

made relative to those that are required; changes in benefit levels; changes in actuarial assumptions, and rates of employee salary growth (Public Fund Survey, 2020).

Since July 1, 2016 PSERS' employer contribution rate has provided 100% of the actuarially required rate. This was the first major step needed for PSERS' funded ratio to begin to improve. As noted previously, as a result of receiving 100% of the actuarially required contributions for the second consecutive year, PSERS' funded ratio began to improve in FY 2017-18 and FY 2018-19 and improved again in FY 2019-20. The gap between PSERS' funded ratio and the public fund average is starting to shrink.



Section 1 - PSERS Overview

The Actuarial Process and Pension Plan Funding (continued)

Sources of Unfunded Liability

The System's total funded ratio (for Pensions and Health Insurance combined) is 59.2% as of June 30, 2020. This funded ratio is based on an actuarial value of assets of \$63.93 billion and a total accrued liability of \$107.96 billion which equates to a \$44.03 billion unfunded liability. Chart 4.6 depicts the sources of the unfunded liability. The largest sources of unfunded liability in order of magnitude are employer funding deferrals (44%), investment performance (42%), and benefit enhancements (15%), which include Act 9, cost of living increases and early retirement incentives.

For many years PSERS' outstanding investment performance compensated for unfunded benefit enhancements and employer funding deferrals. The Great Recession had a negative impact upon the System's long-term investment performance and eliminated most of the significant investment outperformance. Without the significant investment outperformance to compensate, the employer funding deferrals and benefit enhancements have significantly increased PSERS' unfunded liability. Approximately fifty-nine percent of PSERS' June 30, 2020 unfunded liability is due to employer funding deferrals and benefit enhancements, both of which are not a result of the defined benefit plan design.

GASB 68 and 75 Pension and Healthcare Reporting for Employers

In June 2020, PSERS sent information to its employers to assist them in complying with GASB Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The information sent to employers included a memo explaining PSERS' role, descriptions of the material provided, and the employers' responsibilities. In addition to the memo, PSERS provided a variety of schedules audited by PSERS' independent public accountants as well as unaudited schedules. PSERS strives to incorporate all the information necessary for employers to comply with GASB 68 and 75 reporting requirements in these audited and unaudited schedules. Additionally, PSERS continues to make itself available to assist employers and their auditors should they have any additional requests in order to comply with GASB 68 and 75.

Chart 4.6

PSERS Sources of Unfunded Liability

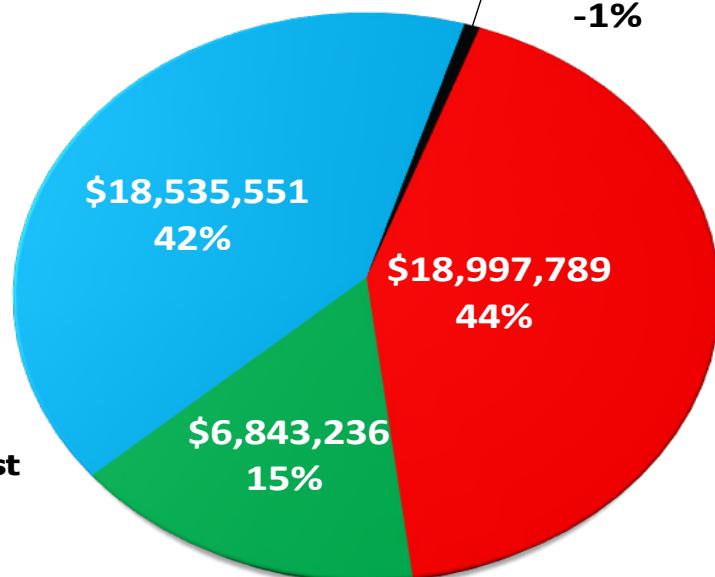
Total \$44,034,461 as of June 30, 2020

(\$ Amounts in thousands)

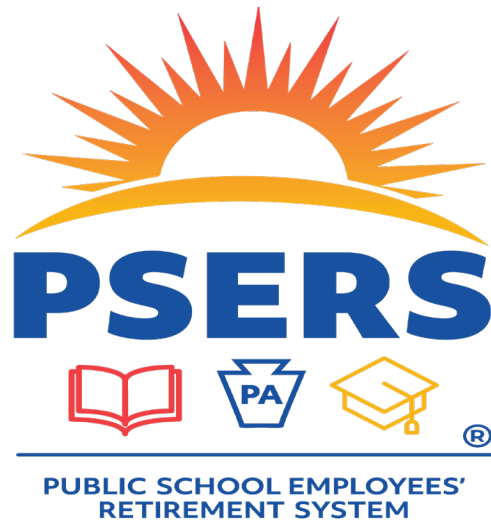
\$(342,115)

-1%

- Employer Underfunding
- Benefit Enhancements
- Investment Performance
- Changes to Assumption, Cost Method, Net Demographics, & Salary Experience



Employer Contribution Rate



Section 1 - PSERS Overview

Employer Contribution Rate

PSERS undergoes an annual independent actuarial valuation to calculate the actuarial assets and liabilities of the pension fund. Based on the actuarial valuation process, the actuary in consultation with PSERS' professionals, develops the recommended Employer Contribution Rate (ECR) that determines the employer contributions to the pension plan, defined contribution plan, and healthcare premium assistance. The valuation process also measures the progress of the pension system toward funding pensions for its active and retired members.

Employer Contribution Rate Statistics

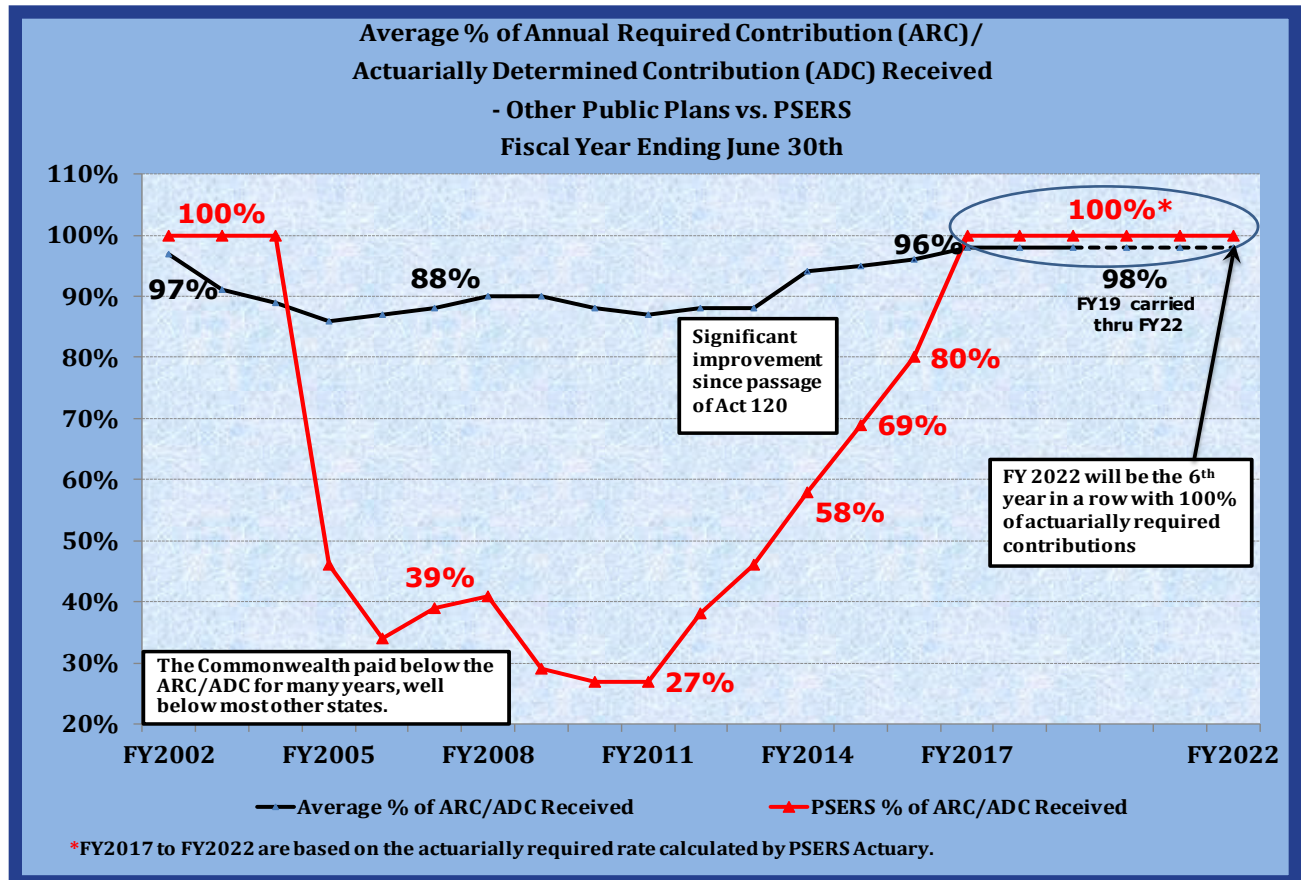
- Highest historical ECR (FY 2020-21) 34.51%
- Lowest historical ECR (FY 2001-02) 1.09%
- Ten yr. avg. ECR (2011-12 to 2020-21) 25.00%
- Twenty yr. avg. ECR (2001-02 to 2020-21) 14.69%
- Thirty yr. avg. ECR (1991-92 to 2020-21) 13.03%
- Adopted ECR (FY 2021-22) 34.94%

Act 120 of 2010

Progress on Funding Issue

PSERS is now in the 10th year under Act 120 of 2010. Act 120 provided historic pension reform and made dramatic progress toward addressing funding issues at PSERS. The legislation included actuarial and funding changes to PSERS and benefit reductions for individuals who became new members of PSERS on or after July 1, 2011.

As depicted in Chart 5.1, the gradual rate increases under Act 120 raised PSERS' employer contributions to the 100% annual required contribution (ARC) goal, now referred to as the actuarially determined contribution (ADC) starting in FY 2016-17. An ARC/ADC includes both the employer's normal cost and the amount required to amortize the unfunded actuarial accrued liability (UAAL) in an actuarially sound manner. PSERS' Board certified an employer contribution rate of 34.94% for FY 2021-22 in compliance with Act 120 and Act 5 of 2017. This will be the sixth consecutive year PSERS' contribution rate provides 100% of the actuarially required rate based on sound actuarial practices and principles and now exceeds the



Section 1 - PSERS Overview

Employer Contribution Rate (continued)

average ARC/ADC percentage of 98% for public funds based on the November 2020 Public Fund Survey prepared by NASRA.

base rate is 10.3% (base rate) with “shared risk” contribution levels between 10.3% and 12.3%

Impact of Benefit Reductions for New Members on or after July 1, 2011

For school employees who became new members of PSERS on or after July 1, 2011 to June 30, 2019, there are two membership classes with “shared risk” elements: Class T-E and T-F. As of June 30, 2020, T-E and T-F members now total over 79,000 and account for 31% of the total active membership.

Class T-E

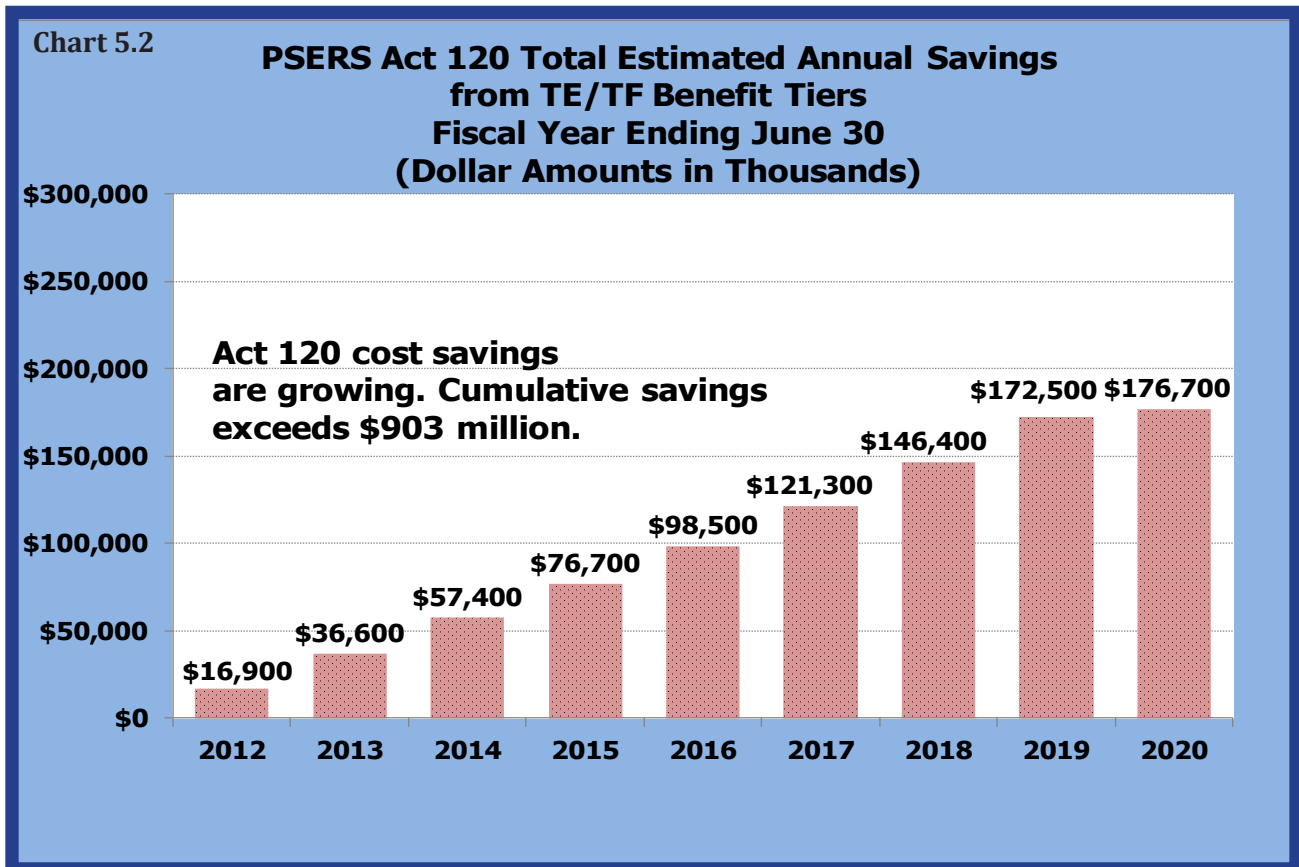
- Pension multiplier is 2%
- Effective July 1, 2011 employee contribution base rate is 7.5% (base rate) with “shared risk” contribution levels between 7.5% and 9.5%

Class T-F

- Pension multiplier is 2.5%
- Effective July 1, 2011 employee contribution

The total estimated savings of the T-E/T-F Benefit Tiers is illustrated in Chart 5.2. As the membership grew through FY 2018-19, the annual savings from the low T-E/T-F cost structure also increased and allowed a greater portion of employer contributions to go towards paying the unfunded liability. Class T-E and T-F closed to new members after June 30, 2019. Cumulative estimated savings through June 30, 2021 were \$903.0 million. The average member benefit for Act 120 and Act 5 members is approximately 32% lower than the benefit for pre-Act 120 members.

As of June 30, 2020, 64,658 or 82% of new members remained in Class T-E and 14,559 or 18% of new members elected Class T-F. As indicated, Class T-F members maintain the higher 2.5% pension multiplier but fully pay for the higher benefit by contributing a higher member contribution rate than Class T-E members.



Section 1 - PSERS Overview

Employer Contribution Rate (continued)

Funding Changes - Employer Contributions

Act 120 of 2010 also suppressed the employer contribution rate by using rate caps to keep the rate from rising too high, too fast for budgetary purposes. The rate caps limited the amount the pension component of the employer contribution rate could increase over the prior year's rates. Effective with FY 2016-17 the rate caps were no longer in place.

PSERS' Board has approved a total employer contribution rate of 34.94% for FY 2021-22 which is a less than inflation increase of 1.25% over the FY 2020-21 rate of 34.51%. This is the second smallest percentage increase since FY 2009-10.

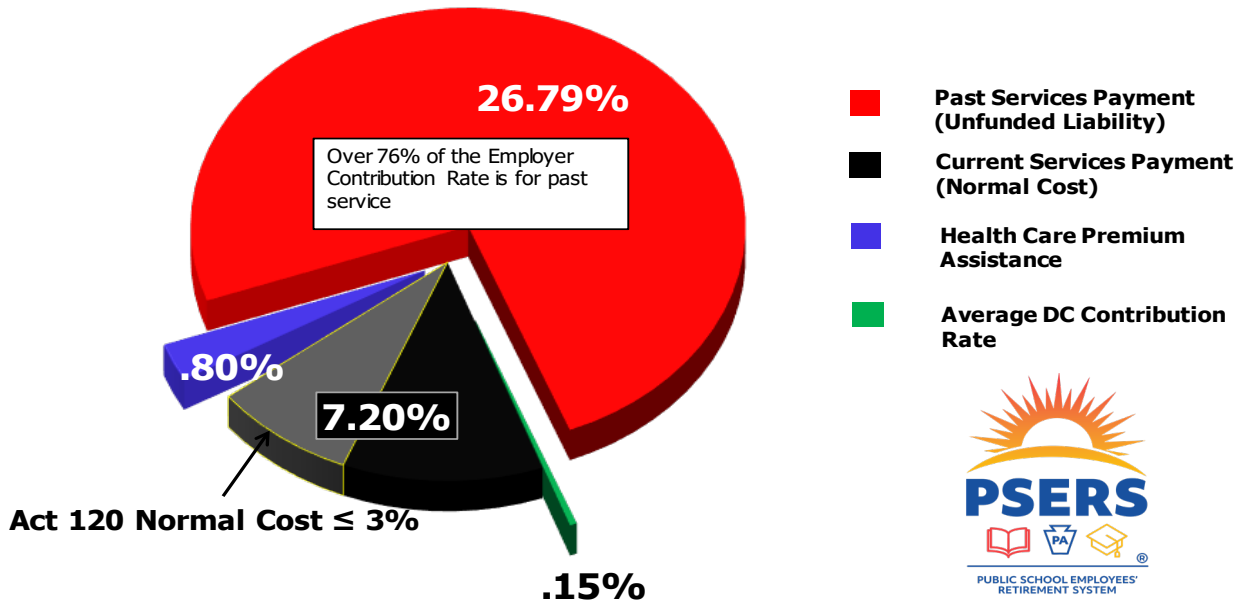
Employer Contribution Rate

Chart 5.3 displays the components of PSERS' certified employer contribution rate of 34.94% in FY 2021-22. The majority of the rate, over 76%, is dedicated toward paying the cost of past service. The employers' cost for current service is a much smaller portion of the contribution rate and is projected to decrease each year as more post Act 120 members (includes Act 5) join the System and pre-Act 120 members retire. The cost structure of PSERS' members since Act 120 is low and the shared risk provisions shift a portion of the investment risk to active members similar to a defined contribution plan. Essentially, Act 120 provides the members with a defined benefit plan, which is both adequate and secure, and provides the employers with a low cost employee pension benefit funded in large part by the members who have also assumed some of the investment risk. New members after June 30, 2019 fall under Act 5. Act 5 continues the low cost of current benefits created by Act 120 and shifts additional investment risks to members in the future as the defined contribution plan of Act 5 grows.

Chart 5.3

Components of PSERS Total Employer Contribution Rate FY2022

Total Employer Contribution Rate 34.94%



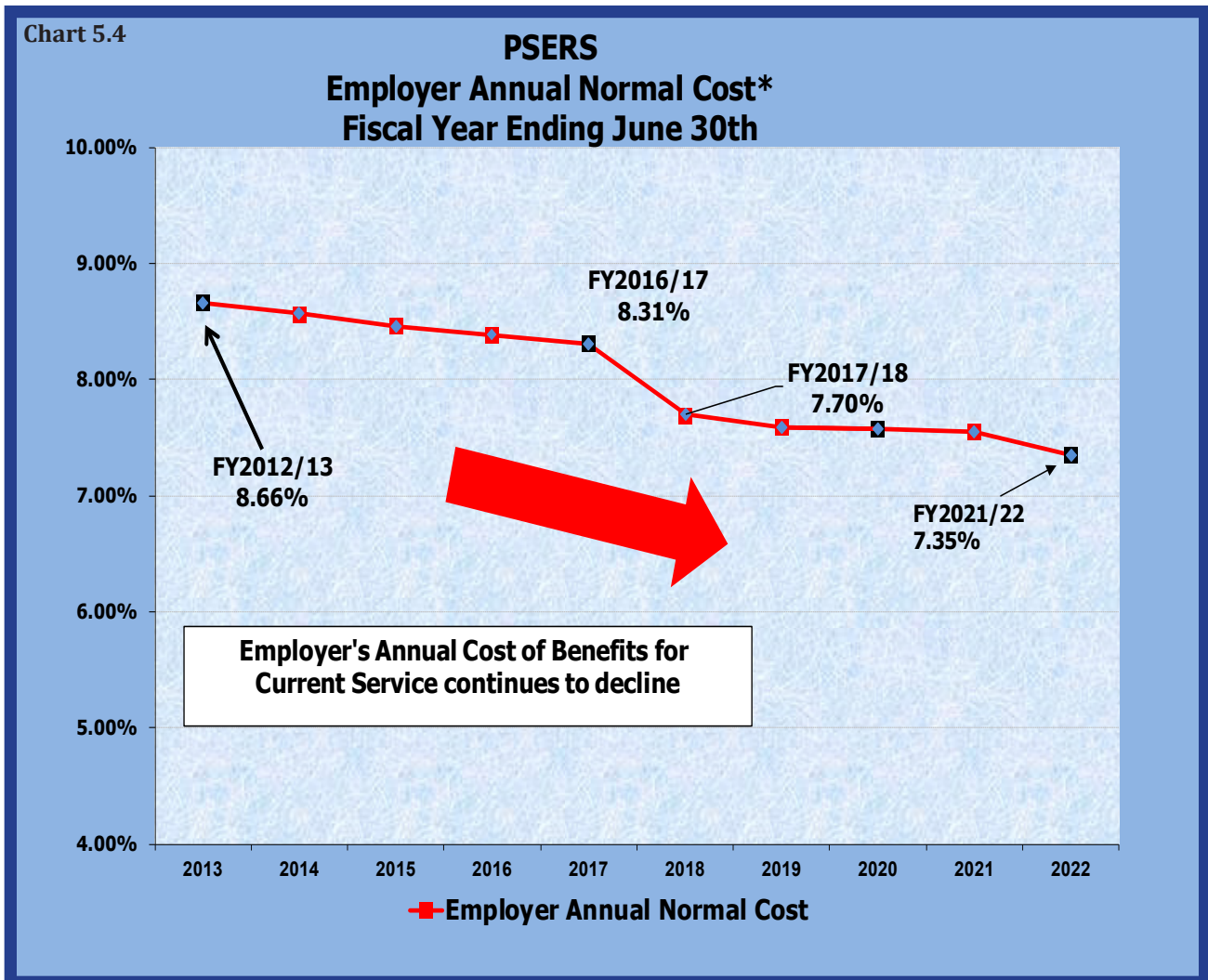
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Employer Contribution Rate (continued)

Act 120 Employer Costs

As Chart 5.4 depicts, the employer normal cost decreases over time as Act 120 and Act 5 members replace retiring pre-Act 120 members. The employer normal cost of current benefits earned by Act 120 members is less than 3%

of payroll which is less than 65% of the normal cost for pre-Act 120 members. This represents a significant cost reduction for the employers. Chart 5.4 projects the employer normal cost to be 7.35% in FY 2021-22 which is a 15% reduction from the 8.66% normal cost in FY2012-13.



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Employer Contribution Rate (continued)

The Commonwealth's Department of Education School Employees' Retirement Appropriation

The Commonwealth provides for its share of contributions to PSERS within the Department of Education budget. On average, the Commonwealth pays 57% of total employer contributions and employers pay for 43%.

Table 5.1 illustrates the projected amounts of the Commonwealth's Appropriation for FY 2021-22 through FY 2025-26. As depicted, the Commonwealth's share of contributions are starting to level out as the projected employer contribution rate increases in the future are less than current levels of inflation.

| | ----- Projected ----- | | | | |
|------------------------------|-----------------------|----------------|----------------|----------------|----------------|
| | <u>2021-22</u> | <u>2022-23</u> | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> |
| School Employees' Retirement | \$2.734 | \$2.894 | \$3.021 | \$3.144 | \$3.277 |

Act 5 of 2017

On June 12, 2017 Governor Wolf signed Act 5 of 2017 into law. This pension legislation represents a substantial change to PSERS' operations and made significant changes to PSERS benefit structure for future members. School employees who become new members of PSERS on July 1, 2019 and thereafter must choose one of three new retirement plan options for their retirement benefits. The new plan designs include two hybrid benefit options consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. The current stand-alone defined benefit plan is no longer available to new members.

Act 5 does not affect already retired members or those whose retirement date was prior to June 12, 2017. Class T-C, Class T-D, Class T-E, and Class T-F members active on July 1, 2019 had a one time option to elect prospectively into one of the new membership classes; only 10 current members made such election.

Act 5 allows an actuarially neutral Option 4 "lump sum" withdrawal of member contributions and interest for Class T-E and Class T-F members whose retirement date is on or after June 12, 2017, and expanded to the "shared risk" program.

Legislative Pension Proposal Assistance

Throughout 2020, PSERS professionals were actively engaged in providing actuarial data, legislative analyses and related technical information to members of the General Assembly and Executive Branch Officials on a range of pension policy proposals while remaining policy neutral.

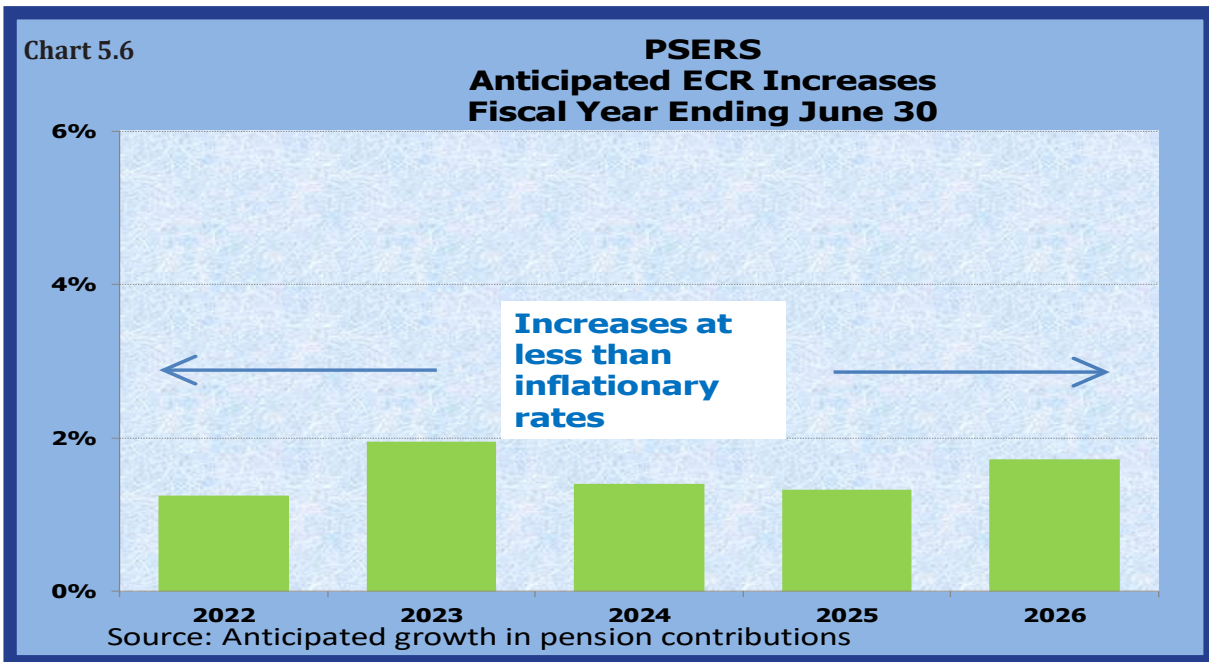
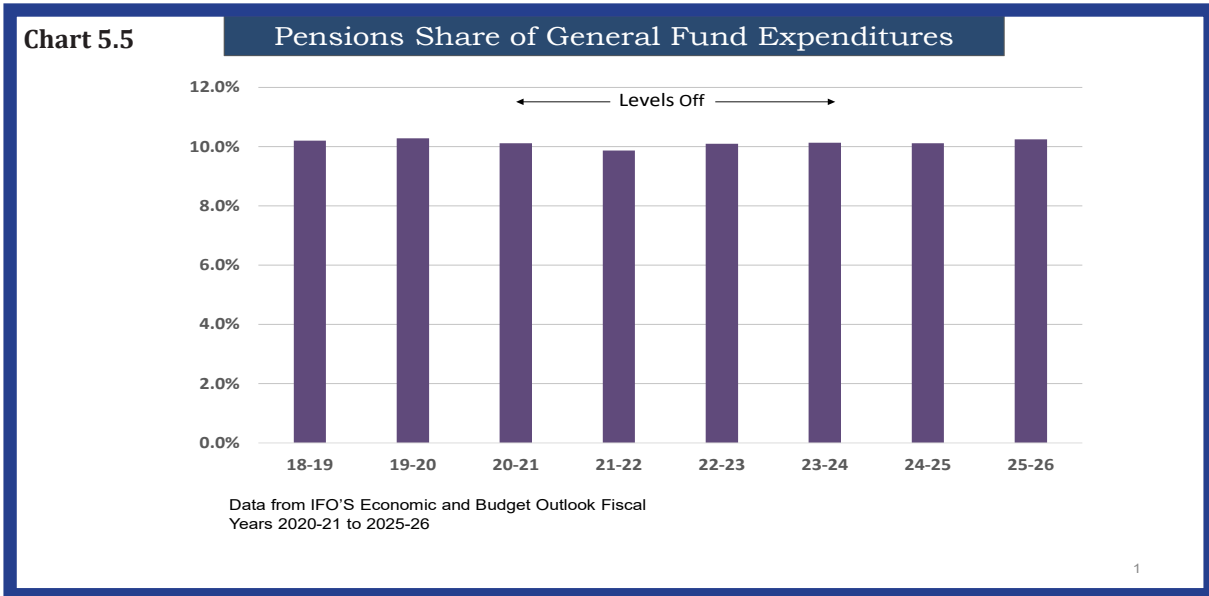
PSERS will continue to cooperate with the General Assembly in its role as a technical expert in providing fact-based information to support efforts in determining effective pension policy. As in the past, PSERS will assist in drafting technically correct provisions and providing input on funding and operational aspects of various proposals, while remaining policy neutral on plan design elements of legislative proposals.

Recap

Act 120 reduced the employer's annual cost of benefits for members hired after June 30, 2011 by over 32% via member benefit reductions. However, a significant unfunded liability for service already rendered by pre-Act 120 members still remains to be paid. To address the underfunding which had taken place since FY 2000-01, Act 120 also included rate collars designed to systematically increase the employer contribution rate over

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Employer Contribution Rate (continued)



several years to raise the funding to actuarially required levels. Now that this objective has been achieved, the rate collars no longer apply.

At its December 2020 meeting, PSERS Board of Trustees certified an annual contribution rate of 34.94% for FY 2021-22 which continues to put PSERS on the path towards full funding. For the sixth consecutive year, the Commonwealth's employer contribution rate provides 100% of the actuarially required rate based on sound actuarial practices and principles. Contribution rates began to level off after FY 2017-18 which has reduced

budgetary pressure on the Commonwealth and school districts in FY 2019-20 and beyond.

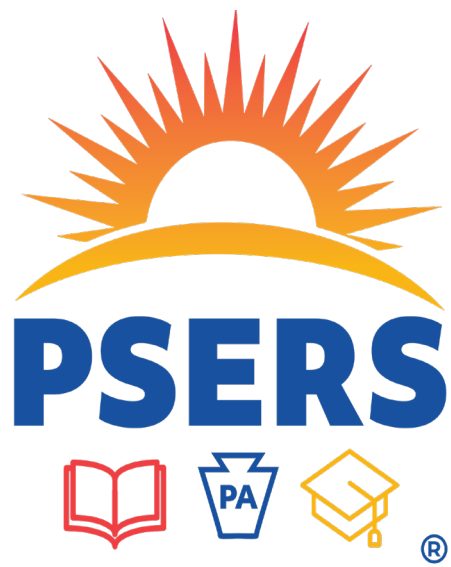
The Pennsylvania Independent Fiscal Office (IFO) has recognized the Commonwealth's progress on its pension funding issues. As shown in Chart 5.5, pensions share of the Commonwealth's General Fund expenditures has leveled off and is no longer a major driver of General Fund expenditure growth. As displayed in Chart 5.6, the anticipated growth in PSERS' Employer Contribution Rate is expected to be at less than inflationary levels for the next several years.

Employer Contribution Rate (continued)

PSERS has reached a Turning Point under Act 120

Effective in FY 2017-18, PSERS' actuarial funded ratio has begun to slowly improve after declining steadily since FY 2000-01. On a market value basis, PSERS funded ratio increased from 50.14% at June 30, 2016 to 54.32% at June 30, 2020 due primarily to PSERS receiving the full actuarially required contributions in each of the past four years and positive investment returns. As a result of these funding improvements, bond rating agencies have stated that the pension contribution increases borne by school employers and the Commonwealth have made a positive impact upon their ratings. This is very significant as the bond rating agencies' outlooks impact the Commonwealth's borrowing costs. In raising its outlook on the Commonwealth's general obligation bonds from 'negative' to 'stable' in September 2020, Fitch Ratings, Inc. noted that "The Commonwealth's long term liability burden is low. A recently completed ramp-up to making full actuarially determined contributions could slow future growth in net pension liabilities and lead to liability declines if maintained over time and if actuarial assumptions are met."

A major funding milestone was also reached during FY 2016-17 as employers funded 100% of the actuarially required contributions to PSERS for the first time in fifteen years. FY 2021-22 will be the sixth year in a row that PSERS will receive the full actuarially required contributions. These contributions are making a positive difference as PSERS funded ratio in FY 2019-20 increased by a significant amount for the second consecutive year following a period of general decline since FY 1999-00. Full actuarial funding from employers, along with member contributions and investment income are all necessary sources of funds that continue to pay down the unfunded liability of the System. While a challenging pension funding environment remains for school employers and the Commonwealth due to legacy debt issues, all of the sources of funding are now in place to bring PSERS back to fully funded status in an actuarially sound manner.



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