

PSERS

Pennsylvania
Public School Employees' Retirement System

Comprehensive Annual Financial Report

*Partners
for Your Future*

Fiscal Year Ended June 30, 2009

A Component Unit of the Commonwealth of Pennsylvania

Pennsylvania Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

Telephone:

Toll-Free 1-888-773-7748
 1-888-PSERS4U

Local 717-787-8540

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

Melva S. Vogler
Chairman
Board of Trustees

Sally J. Turley
Vice Chairman
Board of Trustees

Jeffrey B. Clay
Executive Director

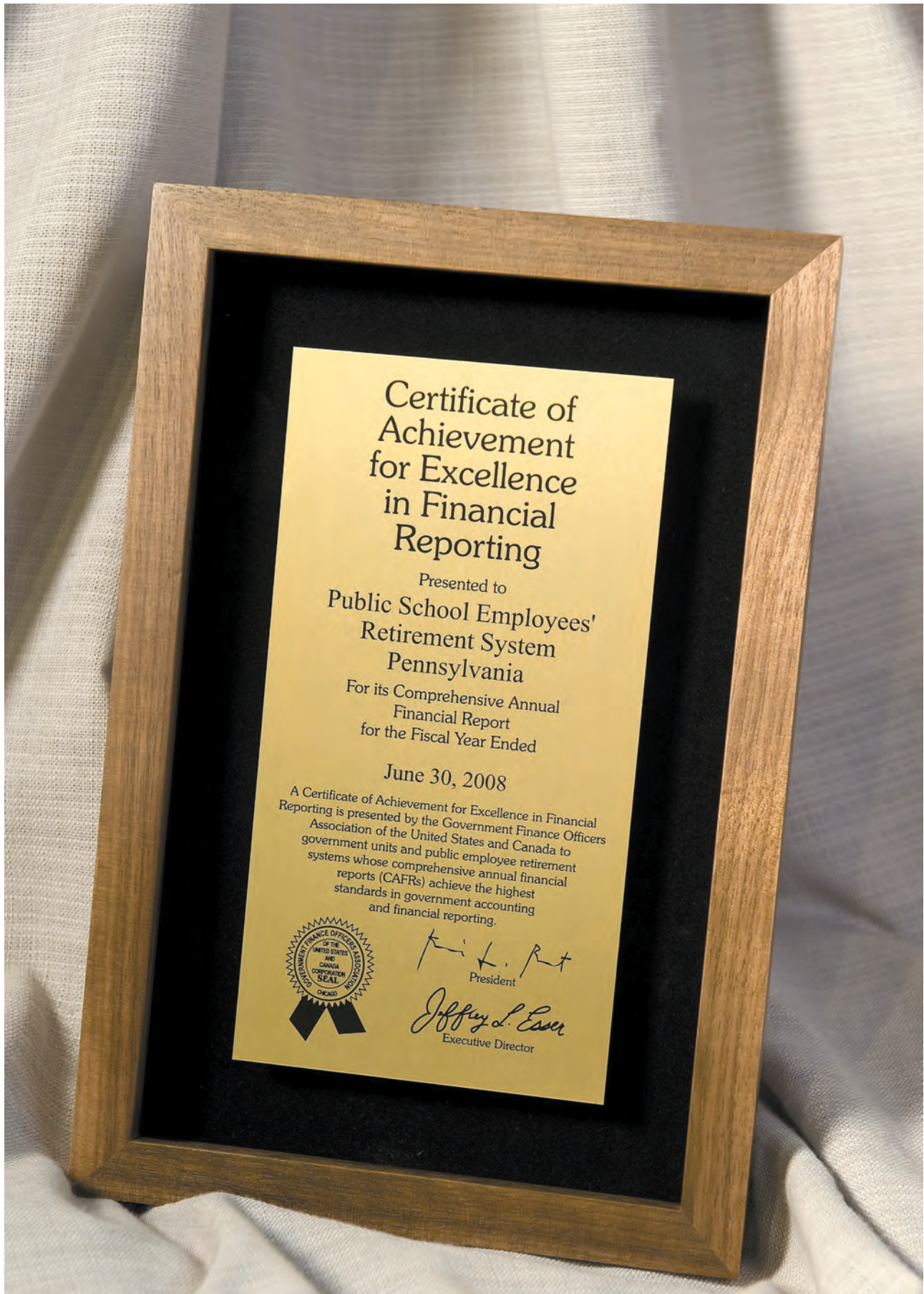
Report prepared by the Public School Employees' Retirement System staff

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Public Pension Coordinating Council

*Public Pension Standards Award
For Funding and Administration
2008*

Presented to

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

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large, stylized 'A' and 'W'.

Alan H. Winkle
Program Administrator



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

MELVA S. VOGLER
Chairman

SALLY J. TURLEY
Vice Chairman

November 6, 2009

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the General Assembly
Members of the Retirement System
Members of the Boards of PSERS' Employers

Dear Governor Rendell, Legislators, Members, and Employer Board members:

On behalf of the Board of Trustees of the Pennsylvania Public School Employees' Retirement System (the System, PSERS), I am pleased to present this ninetieth Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The report provides an in-depth review of the financial, actuarial, and investment status of the Pension Fund and PSERS' post-employment healthcare programs. The CAFR also highlights many of the significant activities of PSERS for the fiscal year ended June 30, 2009, as well as programs to improve services to the active and retired members of the System. Finally, the Investment Section of the CAFR details the changes that were made to PSERS' asset allocations and investment strategies as a result of the extreme turmoil within the financial markets last year.

The financial integrity and actuarial soundness of the System are attested by the accompanying auditor and actuary reports. Moreover, for the 26th consecutive year, PSERS received the Government Finance Officer's Association's prestigious Certificate of Achievement for Excellence in Financial Reporting Award for its June 30, 2008 CAFR.

Notwithstanding the current soundness of the System, PSERS' Board of Trustees (Board) and staff are cognizant of the funding challenges facing PSERS in the near future, as further discussed in the Transmittal Letter and Financial Section. In keeping with its Mission Statement, the Board is keenly aware of its responsibilities with regard to this issue to the Commonwealth, its taxpayers, and the employers of the System; all stakeholders in the System. Therefore, significant efforts have been and will continue to be made by PSERS' Board and staff to work with its stakeholders to resolve the funding and employer contribution rate challenges confronting PSERS. In the interim, the Board will continue to administer the affairs of PSERS in the most competent and efficient manner possible, with the ultimate goal that the retirement and post-employment healthcare funds are managed prudently for the sole benefit of the System's members.

In conclusion, the Board appreciates the continuing cooperation extended by the Governor's Office, the General Assembly and PSERS' Employers, which enables and empowers PSERS to meet its challenges and make timely provisions for the members it serves.

Melva S. Vogler
Chairman, Board of Trustees

- *Chairman's Report*
- *Transmittal Letter*
- *Board of Trustees*
- *Organizational Chart*

Mission Statement



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

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

adopted 6/20/2008

Letter of Transmittal



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - 717-787-8540

Building Location
5 North 5th Street
Harrisburg PA

Web Address: www.psers.state.pa.us

November 6, 2009

The Board of Trustees
Pennsylvania Public School Employees' Retirement System
Harrisburg, PA 17101

We are pleased to present the ninetieth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS, Fund) for the year ended June 30, 2009. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The front cover of this year's CAFR is a filing cabinet and the first page of each of the five major sections of the CAFR represents a file folder. The CAFR acts as a filing cabinet of all of PSERS' important financial and operational results that occurred throughout the fiscal year. 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.state.pa.us.

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year for any of the 742 reporting entities in Pennsylvania. As of June 30, 2009, the System had approximately 280,000 active members with an estimated annual active payroll of \$12.5 billion.

The annuitant membership at June 30, 2009 was comprised of approximately 178,000 retirees and beneficiaries who receive over \$300 million each month. The average yearly benefit paid to annuitants is \$22,456. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the **Statistical Section** of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which all members and 742 reporting units contribute. PSERS is administered by a staff of 310. The System is headquartered in Harrisburg, Pennsylvania, and maintains eight field offices in strategic areas of the Commonwealth to enable direct contact with the membership and the System's employers.

PSERS was established by law as an independent administrative board, directed by a governing board of trustees (Board) which exercises control and management of the System, including the investment of its assets. PSERS is considered a component unit of the Commonwealth of Pennsylvania as defined by the Governmental Accounting Standards Board (GASB). An annual audit of the System by a certified public accounting firm is required by the Retirement Code. PSERS has contracted with Clifton Gunderson LLP for this audit of its financial statements and has received an unqualified opinion as evidenced in the **Independent Auditors' Report** in the **Financial Section** of this report. An unqualified opinion means that PSERS' financial statements fairly present its financial condition.

Economic Summary

The worst economic contraction since the Great Depression led to a large decrease in U.S. Gross Domestic Product, an increase in the U.S. unemployment rate, the failure of several large financial institutions and the federal government bailout of several large public companies. The extremely difficult economic conditions in this business cycle, which is commonly being referred to as the "Great Recession", led to negative returns for equity, real estate and commodities around the world. As a result, PSERS experienced a very challenging fiscal year ended June 30, 2009 (FY 2009) as PSERS' investment portfolio generated a rate of return of -26.54%. The total net assets of the System decreased from \$62.7 billion to \$43.2 billion from July 1, 2008 to June 30, 2009. The decrease is primarily attributable to the fact that the combined net investment loss and payment of benefits and administrative expenses far exceeded member and employer contributions.

Despite the difficult economic environment in FY 2009, the Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the actuarial soundness of the Fund with respect to its funding status. The annualized rate of return for the twenty-five year period ended June 30, 2009 was 9.23% and exceeded the Fund's long-term investment rate of return assumption during that time period. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits. PSERS has maintained its position among the top twenty-five largest pension systems in the nation.

Major Initiatives

Budgetary and Financial Governance

PSERS submits its administrative budget request to the Governor's Office of the Budget each October where it is reviewed and evaluated. Any changes proposed by the Governor's Budget Office are made and a final amount is provided to the Legislature, which passes the final budget and submits it to the Governor for his signing it into law. The administrative budget is not funded from the Commonwealth's General Fund, rather from the earnings of the Fund itself. While the annual budget is always prepared as conservatively as possible, in response to the economic downturn, PSERS created an internal budgetary reserve that restricted FY 2009 spending wherever possible. Postponed purchases included computers, information technology equipment and office furniture. This was in addition to the Commonwealth initiatives that included banning most out-of-state travel, issuing a moratorium on new vehicle purchases, and imposing a freeze on management salaries and hiring. The projected lapse for FY 2009 is 6.9% of budget as reflected in the following chart.

Introductory Section

Fiscal Year:	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Administrative Budget	\$41,758,334	\$39,539,000	\$ 39,455,000	\$40,811,000	\$42,068,000
Expenditures*	39,376,793	36,935,084	38,230,663	38,009,568	39,183,000
Lapse (unspent funds)	2,381,541	2,603,916	1,224,337	2,801,432	2,885,000
Percentage Lapsed	5.7%	6.6%	3.1%	6.9%	6.9%

*Expenditures are those posted to the Commonwealth's accounting system and therefore do not include accruals.

As reflected in the five-year table, PSERS is committed to the prudent use of its funds and managing its annual budget. As a result, PSERS has annually, underspent its approved budget, thus keeping more funds available to invest for "PSERS' members". The System continually looks for ways to cut costs while maintaining excellent customer service and efficiency of operations.

Customer Service

With the successful implementation of the New Pension Administration System (NPAS), PSERS is intently focused on improving the levels of service provided to its members. With the new system as a key enabler, PSERS' dedicated staff has been working more efficiently and effectively resulting in the reduction of significant backlogs that have historically existed. For example, since December 2008, the purchase of service applications on file to be processed was reduced by nearly 10,000 or more than 30%.

Reducing backlogs is one result of the service improvements being realized. Paying complete and accurate retirement benefits in a much timelier manner is another. Traditionally, PSERS' retirement benefits have been paid to members in two steps; an initial benefit within about 10 weeks of retirement based on information on file with PSERS at that time, and then a final benefit with retroactive monies within about 18 months of the retirement date using final information. This not only meant staff had to work on each member's account twice, but since the initial benefit was calculated on incomplete data, that benefit would only be on average 87% of the final benefit. With new processes in place and improved employer reporting, PSERS expects to process at least 20% of all retirements in 2009 as one step, enabling staff to only work on a member's account once and providing the full benefit to the member with the initial payment.

Each year PSERS expects to increase the number of retirements processed as one step, eventually making one step retirements the norm and not the exception. Additionally, plans are being put in place to make the most of the new system and optimize and improve each and every benefit process. PSERS is very pleased with the progress being made and is fully committed to continuing improvements.

Pension Funding

A major focus of the System this past fiscal year has been to continue to provide education to all stakeholders on the funding challenges currently facing PSERS. The employer contribution rate is projected to significantly increase to nearly 30 percent in FY 2013. PSERS has worked closely with school employers and the legislature to educate them on the issue and potential options to minimize the increase as much as possible. During the past year PSERS Executive Director Jeffrey Clay has provided over 35 presentations on the funding issue to school employers, legislators and constituent groups.

In addition, PSERS continues to analyze combinations of various options to address the rate increase. Under all options, however, there will be a need for significant additional funding to the System. As such, the resolution of the current funding issues confronting PSERS is imperative for the System and represents the greatest challenge PSERS has faced in its history. PSERS remains committed to providing all available assistance to the Governor, General Assembly and school employers to resolve the rate spike and future funding issues as soon as possible.

Health Options Program (HOP) Initiatives

The Board added the physical fitness benefit, Silver Sneakers, to the HOP Medical Plan, its Medicare supplement plan covering 45,000 retirees and their dependents effective January 1, 2009. The benefit is a two-year pilot project to determine if a physical fitness program can be cost effective in a Medicare supplement environment. After evaluating the group's participation in the fitness classes and the impact on claims cost, the Board will decide whether to continue the benefit past the two-year period.

During the past year the Board also restated the Premium Assistance plan approval policy. The Premium Assistance benefit reimburses eligible retirees up to \$100 per month for the premiums they pay to an approved health insurance plan. Those plans which are approved for Premium Assistance are the plans within the PSERS HOP as well as the plans of the Commonwealth public school systems. The policy is effective January 1, 2010, and restates the criteria the public schools must meet to maintain an approved plan that qualifies for the Premium Assistance benefit.

The Board is also expanding the capabilities of the HOP's *HOPbenefits.com* website. The current website provides general information about HOP and permits users to download plan documents. The expanded website will give HOP Medical Plan participants access to personal health information and provide them with the ability to inquire and receive updates on the status of their claims. The updated website came online in November 2009.

In addition, the Segal Company, PSERS' healthcare consultant, completed its 2008 claims audit of HOP's self-funded medical benefit plans administered by CoreSource, Inc., PSERS' third party administrator. The claims audit concluded that not only did CoreSource provide excellent service, but that the financial accuracy, payment accuracy, procedural accuracy, and timeliness were exceptional and considerably exceeded industry standards.

Financial Highlights

The fair value of the System's net assets totaled \$43.2 billion as of June 30, 2009. The System is the 12th largest state-sponsored public defined benefit pension fund in the nation and the 21st largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Assets and Management's Discussion and Analysis included in the **Financial Section** of this report.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2009 PSERS provided \$4.9 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2009, the appropriation was \$42.1 million.

Funding

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

The results of PSERS' latest published actuarial valuation (as of June 30, 2008) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The funded status as of the latest actuarial valuation was 86.0%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and in the **Financial Section** of this report.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for nearly 68% of total revenues over the period from FY 1990 to FY 2009. During FY 2009 the net investment loss was \$16.2 billion. The investment portfolio, which is one part of the System's net assets, totaled \$43.3 billion, at fair value, as of June 30, 2009. For FY 2009, the time-weighted rate of return on the System's investments was -26.54%.

The investment portfolio is well diversified to emphasize a long-term investment approach. The overall objective of the System is to provide benefits to its members through a carefully planned and well-executed investment program. The return objectives are to (i) realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis and that exceeds the Policy Index (the Policy Index is a custom benchmark based on the Board-established asset allocation structure to generate a return that meets the actuarial rate of return assumption); and (ii) invest the assets to maximize returns for the level of risk taken. The risk objectives are to (i) diversify the assets of the System to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location; and (ii) invest the assets so that the probability of investment losses (as measured by the Policy Index) in excess of 12.0% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

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

Federal and State Tax Status

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

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

Internal Controls and Reporting

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

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

We believe the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

Professional Services

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

Other Information

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

System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2008 (FY 2008). *The Certificate of Achievement* is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a *Certificate of Achievement*, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A *Certificate of Achievement* is valid for a period of one year only. PSERS has received a *Certificate of Achievement* for 26 consecutive years from FY 1983 to FY 2008. A photograph of this award appears in the **Introductory Section** of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the *Comprehensive Annual Financial Report*.

The System believes the current report continues to conform to the *Certificate of Achievement* program requirements and will be submitting this report to GFOA to determine eligibility for the 2009 certificate.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2008. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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

Acknowledgements

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

Respectfully submitted,



Jeffrey B. Clay
Executive Director



Brian S. Carl, CPA, CTP
Chief Financial Officer

Administrative Organization PSERS Board of Trustees As of July 31, 2009



Seated, front row: Stacey Connors, designee for Honorable Patrick M. Browne; Sally J. Turley, Vice-Chairman; Melva S. Vogler, Board Chairman and Patricia A. Tozer

Standing, second row: Honorable Robert M. McCord; Honorable Glen R. Grell; Thomas J. Gentzel; Glen S. Galante; Richard N. Rose, Hal Moss; John Raymond, designee for Honorable Shirley M. Kitchen; James M. Sando and Jeffrey B. Clay, PSERS' Executive Director, Board Secretary

Not pictured: Dr. Gerald L. Zahorchak, Secretary of Education; Honorable Dwight Evans and Tina Byles-Williams

PSERS Board of Trustees

As of November 6, 2009

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

Dr. Gerald L. Zahorchak, Ph.D

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Robert M. McCord

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

Mr. Thomas J. Gentzel

Two members appointed by the Governor of the Commonwealth of Pennsylvania

Mr. Hal Moss (term expires 12/31/09)

Ms. Tina Byles-Williams (term expires 01/01/12)

Three members elected from among the certified contributors of the System for a term of three years

Mr. Glen S. Galante (term expires 12/31/09)

Mr. James M. Sando (term expires 12/31/10)

Ms. Melva S. Vogler (term expires 12/31/11)

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

Ms. Patricia A. Tozer (term expires 12/31/09)

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

Mrs. Sally J. Turley (term expires 12/31/10)

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

Mr. Richard N. Rose (term expires 12/31/11)

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 Dwight Evans (term expires 11/30/10)

Honorable Glen R. Grell (term expires 12/31/10)

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

Honorable Shirley M. Kitchen (term expires 11/30/12)

Honorable Patrick M. Browne (term expires 11/30/10)

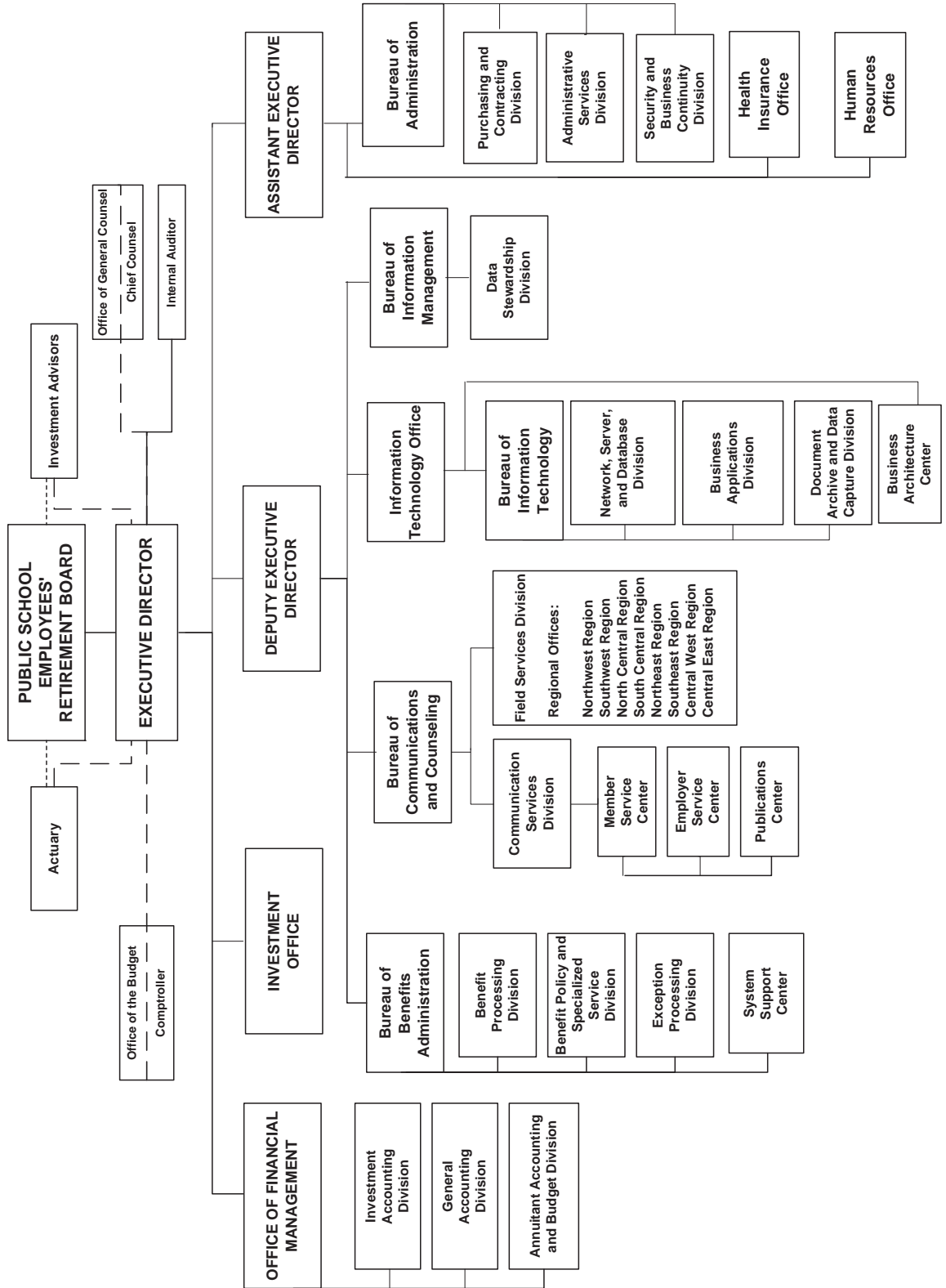
2009 Board Committees

As of July 31, 2009

<p>Appeals / Member Services</p> <p>Ms. Tozer, Chair Mr. Gentzel Senator Kitchen Mr. Moss Mr. Rose Mr. Sando Mrs. Turley</p>	<p>Audit/Budget</p> <p>Mr. Galante, Chair Representative Evans Mr. Gentzel Representative Grell Treasurer McCord Mr. Rose</p>	<p>Bylaws / Policy</p> <p>Senator Browne, Chair Representative Evans Representative Grell Mr. Moss Mr. Sando Mrs. Turley</p>
<p>Corporate Governance</p> <p>Mr. Sando, Chair Senator Browne Ms. Byles-Williams Mr. Galante Treasurer McCord Mr. Rose</p>	<p>Elections</p> <p>Dr. Zahorchak, Chair Representative Evans Ms. Byles-Williams Senator Kitchen Mr. Moss Ms. Tozer</p>	<p>Finance</p> <p>Mr. Rose, Chair</p> <p>Committee is comprised of all Board Members</p>
<p>Health Care</p> <p>Mrs. Turley, Chair Representative Evans Mr. Galante Mr. Gentzel Representative Grell Ms. Tozer</p>	<p>Personnel</p> <p>Mr. Gentzel, Chair Senator Browne Treasurer McCord Mr. Rose Mr. Sando Mrs. Turley</p>	<p>Technology Steering</p> <p>Mr. Moss, Chair Ms. Byles-Williams Mr. Galante Senator Kitchen Treasurer McCord Dr. Zahorchak</p>

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

Organizational Chart of the Public School Employees' Retirement System



Organizational Structure of the Public School Employees' Retirement System

Executive Office

This office is responsible for the overall management of PSERS to achieve the primary objectives of the Fund as established by the Board. Reporting directly to the Executive Director are the Deputy Executive Director, Assistant Executive Director, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, and Legislative Liaison. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds for and services to the active members and annuitants of the System.

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professionals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation. A list of payments to non-investment consultants can be found in the **Financial Section** and a list of professional investment consultants is shown in the **Investment Section**.

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 outside professional investment advisors and internal investment professionals.

Chief Counsel's Office

This office provides legal services through a team of professional personnel under the Governor's Office of General Counsel. It is responsible for representing PSERS in all administrative hearings and other litigation matters; drafting and negotiating PSERS' investment and administrative services contracts; and providing counsel on a wide variety of matters, including the interpretation of the Retirement Code and the Right-to-Know Law.

Internal Auditor's Office

This office performs systematic reviews of the various activities of PSERS, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of PSERS' internal control system.

Office of Financial Management

This office is directed by the Chief Financial Officer 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. Oversight is provided for new accounting 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, treasury operations, taxation, actuarial and budgetary matters. The office is organized into three divisions: General Accounting Division, Annuitant Accounting and Budget Division, and Investment Accounting Division.

General Accounting Division

This division has the responsibility of recording all financial transactions for the pension and health care operations of the System. It maintains PSERS' General Ledger and prepares interim and annual financial statements. It bills and collects contributions due to the Fund from its employers. It provides accounts receivable services to the System for member debts. It also interacts with the other divisions in the Office of Financial Management to assure that the basic financial statements of the System include all financial activity monitored and controlled by those accounting divisions.

Annuitant Accounting and Budget Division

This division is responsible for the mission-critical annuitant payroll and disbursement function. The division also has the responsibility of monitoring and recording post-employment healthcare transactions. It reconciles and monitors the financial activities of the third party administrator of the Health Options Program. Additionally, the division is responsible for accounts payable operations and for developing and monitoring the System's annual budget.

Investment Accounting Division

This division serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. The division processes, audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations. Working with the assistance of a third-party application service provider, it has the responsibility for monitoring the overall internal control structure for investments thereby assuring adequate custody of all investment assets.

The division is also responsible for directing and administering the Class Action Revenue Recovery, the Foreign Cash Overdraft and the Foreign Tax Reclaim Collection programs as part of PSERS' investment activities. It also supports PSERS' Investment Office and the Board in achieving investment objectives and monitoring compliance with investment policy. The division is comprised of the Public Market Reporting and Analysis, Private Market Reporting and Analysis, and Treasury and Manager Administration sections.

Deputy Executive Director

The Deputy Executive Director directly oversees the benefit programs for all active and retired members of the System, the development and implementation of the member and employer communications programs and the member counseling programs, and the maintenance of agency policies, procedures, and benefit related data. Additionally, this position supervises a Chief Technology Officer who oversees business and information technology strategic planning, policy development, and implementation. The organizational units directly reporting to this position include the Bureau of Benefits Administration, the Bureau of Communications and Counseling, and the Bureau of Information Management. The position oversees the Bureau of Information Technology through the Chief Technology Officer.

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 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 information technology staff. Large information technology contracts and projects are managed by this office. This office is responsible for understanding, analyzing, documenting, and improving PSERS' organization, business rules, 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, and/or technologies; and account for its organizational business rules and processes, information systems and technologies.

Business Architecture Center

This center serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff. The center receives and responds to data queries from agency staff and investigates system, data, or process problems. This center includes analysts who collect, analyze, and document PSERS' organizational business rules, processes, and information systems. The center also performs detailed impact analysis as and when change is proposed. Additionally, staff in this unit confirm that changes have been applied correctly. They look for opportunities for improvement, lead the development of business requirements, and serve as liaisons between PSERS' end-users and information technology staff.

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 Technology Officer, and for providing operational support for those technologies and initiatives. The bureau is organized into three divisions: The Network, Server, and Database Division, the Business Applications Division, and the Document Archive and Data Capture Division.

Network, Server, and Database Division

This division is responsible for administering those information technology resources that collectively provide the fundamental hardware, software, and network components and services required to support PSERS' various applications.

Business Applications Division

This division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' business applications.

Document Archive and Data Capture Division

This division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' enterprise archive application software, scanning software, and data capture software, as well as the interfaces of those applications with PSERS' various business applications.

Bureau of Information Management

This bureau is responsible for maintaining, documenting, and cleansing PSERS' member and employer data, managing PSERS' electronic data records, imaged records, paper and film/fiche records, understanding the meaning and knowing the location of its data. The bureau currently includes the Data Stewardship Division which houses PSERS' records management program, and the Data Integrity and Member Accounting sections.

Data Stewardship Division

Staff in this division are the trustees and primary maintainers of PSERS' member and employer data, working to make this data most usable to agency processing staff. Specifically, this group maintains PSERS' member demographic information, affiliate information, and is responsible for correctly applying monetary and non-monetary adjustments to member accounts. This division maintains responsibility for PSERS' records management programs.

Bureau of Benefits Administration

This bureau is responsible for administering a comprehensive pension benefits program for PSERS. The bureau provides professional and technical services to individuals who are employed full-time and part-time in one of Pennsylvania's 742 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf. The bureau is organized into three divisions: the Benefit Processing Division, Benefit Policy and Specialized Service Division, and Exception Processing Division.

Benefit Processing Division

This division is responsible for handling a high volume of benefit requests. It houses the Retirement Processing Center and Purchase of Service and Refund Center.

Retirement Processing Center: The Retirement Processing Center determines eligibility and calculates estimated retirement benefits, creates payroll records, and originates the initial benefit payments and direct rollovers. When employers report final salary and service data, staff conduct in-depth reviews of accounts and calculate finalized benefits.

Purchase of Service and Refund Center: The Purchase of Service and Refund Center determines eligibility and calculates the cost to the members and to the employers for the purchase of additional service credit. Staff also process requests to refund contributions and interest from members terminating from the system who at the time of termination are ineligible for a retirement benefit.

Benefit Policy and Specialized Service Division

This division is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. In addition, the division processes the most complex and sensitive benefit requests. Last, the division has a quality assurance program responsible for the review and approval of all benefit payments. It houses the Benefit Policy Center and Specialized Service and Quality Assurance Center.

Benefit Policy Center: The Benefit Policy Center is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. Policy writing involves extensive research into existing laws, regulations and policy as well as impact analysis. Staff coordinate all requests for legal analysis and legal opinions. When unique and/or new calculations are needed, this area works with the agency's consulting actuary. This area also manages the first level of the administrative appeal process which involves presenting recommendations, supporting legal analyses, and relevant documents to the Executive Staff Review Committee. In addition, the center reviews unusual and suspicious salary contracts to ensure only retirement-covered compensation is reported by employers. Last, staff reviews atypical requests for membership eligibility.

Specialized Service and Quality Assurance Center: The Specialized Service and Quality Assurance Center is responsible for both processing the most complex benefit requests and for quality assurance. Much of the work is generated by the review and implementation of portions of Domestic Relations Orders that address the distribution of pension benefits when divorce occurs. This area calculates benefits for members affected by Section 415(b) of the IRS code and is responsible for the calculation of a workers' compensation offset. Last, a team of auditors review and approve all retirement and death benefit calculations, all requests for payment, and all purchase of service calculations.

Exception Processing Division

This division is responsible for a variety of benefit requests which involve manual or special processing. It houses the Manual Processing and Multiple Service Membership Center and the Disability and Death Benefit Center.

Manual Processing and Multiple Service Membership Center: The Manual Processing and Multiple Service Membership Center is responsible for a variety of benefit requests such as frozen annuity calculations, intent to change recalculations, cost of living increases and the calculation of retirement benefits for Multiple Service (MS) members who are retiring from SERS or PSERS. The MS Membership Section processes requests for MS membership eligibility and the calculation of purchase of service requests.

Disability and Death Benefit Center: The Disability and Death Benefit Center handles all requests for disability benefits. Medical examiners work with staff to obtain sufficient and current medical information. Staff are responsible for the review of annual earnings affidavit and for the calculation of both initial and final disability retirement benefits. Staff are also responsible for the payment of death benefits when members die prior to retirement. These payments frequently exceed \$1 million and involve extensive communication with beneficiaries, survivors and estate representatives. Last, this area also processes survivor and death benefits when members die subsequent to retirement. Because approximately 5,000 retired members die each year, the center responds to high volumes of requests. The process includes the return of checks issued after death, collection of premium assistance, and the calculation and payment of death benefits.

System Support Center

The System Support Center reports directly to the bureau director and is comprised of a team of management analysts who serve as the bureau's link to information technology (IT). The analysts work closely with IT consultants, the Bureau of Information Technology, the Bureau of Information Management, bureau managers and supervisors to ensure the effectiveness of business processes and the integration of those processes with application systems and other technology resources. They are responsible for project management, training, system design, workflow analysis and user acceptance testing. They participate in implementation of new business processes, new systems and system enhancements. They utilize end-user software to extract routine data and to provide statistical information.

Bureau of Communications and Counseling

This bureau is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to the members, the employers, the Legislature, the Governor's Office, other government organizations, professional organizations, and the public. It is organized into two divisions: Field Services Division and Communications Services Division.

Field Services Division

The Field Services Division provides services to both active and retired PSERS' members through eight regional offices located throughout the Commonwealth of Pennsylvania. The regional representatives conduct various meetings and workshops for members and provide counseling services.

Communications Services Division

This division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web, and various publications. This division houses the Member Service Center, Employer Service Center and Publications Center.

Member Service Center: This center answers the PSERS' telephone system, responding to general inquiries about the benefits and processes of PSERS as well as specific inquiries related to members' accounts.

Employer Service Center: Staffing of the center includes customer service representatives to answer phone calls and emails, as well as field representatives to visit employers and conduct workshops, to provide assistance and training for proper reporting to the System.

Publications Center: This center is responsible for the development, production and distribution of all printed and audiovisual materials for the System. Publications include newsletters, handbooks, pamphlets, mass communications to the membership, and presentation material. It also responds to general correspondence and email inquiries.

Assistant Executive Director

This position reports to the Executive Director and provides assistance to the Executive Director on agency-wide projects. The position administers the Health Options and Premium Assistance Programs in addition to the facilities, human resources, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by the Assistant Executive Director include the Bureau of Administration, the Human Resources Office, and the Health Insurance Office.

Bureau of Administration

This bureau is responsible for facilities, purchasing and contracting, documenting administrative policies and procedures, business continuity, automotive, mail, imaging, printing and other administrative services necessary to support agency functions. The bureau is organized into three divisions: the Purchasing and Contracting Division, the Administrative Services Division and the Security and Business Continuity Division.

Purchasing and Contracting Division

This division procures materials, supplies, and services needed to support organizational goals and develops, monitors, processes and evaluates contract usage in the agency.

Administrative Services Division

This division manages building and grounds for the agency both at headquarters and at the regional locations. The division provides mail, imaging, and printing services to the agency, in addition to asset management, automotive and other administrative services.

Security and Business Continuity Division

This division develops and implements those policies, programs and procedures necessary to ensure that PSERS' human, technology, and capital resources are secure and to ensure that PSERS is prepared to quickly recover and continue critical operations in the event of a disaster.

Human Resources Office

This office is responsible for supporting management and staff 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.

Health Insurance Office

This office is responsible for all aspects of the PSERS' HOP and administering PSERS' health insurance premium assistance benefits. The HOP is a voluntary program that provides group health insurance coverage for 65,000 school retirees, their spouses, and eligible dependents.

Administrative Staff



Alan H. Van Noord
Chief Investment Officer



Jeffrey B. Clay
Executive Director



Terrill J. Savidge
Deputy Executive Director



Gerald Gornish
Chief Counsel



Brian S. Carl
Chief Financial Officer



Joseph E. Wasiak
Assistant Executive Director



Richard R. Spinks
Chief Technology Officer



James F. Noone
Director of Administration



Ginger L. Bucher
Director of Benefits
Administration



Eugene W. Robison
Director of Communica-
tions and Counseling



Deborah L. Garraway
Director of Information
Management



Mary E. Geesey
Director of Information
Technology



Maribel La Luz
Director of Human
Resources



Donald J. Halke, II
Internal Auditor



Mark F. Schafer
Director of Health
Insurance



Frank Ryder
Director of Government
Relations



Evelyn M. Tatkovski
Press Secretary

PSERS REGIONAL OFFICES

NORTHWEST
Penn Wood Center, Suite C
464 Allegheny Blvd.
Franklin, PA 16323-6210
Local (814) 437-9845
FAX (814) 437-5826
Toll Free 1-888-773-7748 ext. 5175

NORTHCENTRAL
Suite 201
300 Bellefonte Avenue
Lock Haven, PA 17745-1903
Local (570) 893-4410
FAX (570) 893-4414
Toll Free 1-888-773-7748 ext. 5275

NORTHEAST
Market Street Square, Suite 20
33 S Wilkes Barre Blvd.
Wilkes Barre, PA 18702-5144
Local (570) 826-2003
FAX (570) 820-4868
Toll Free 1-888-773-7748 ext. 5375

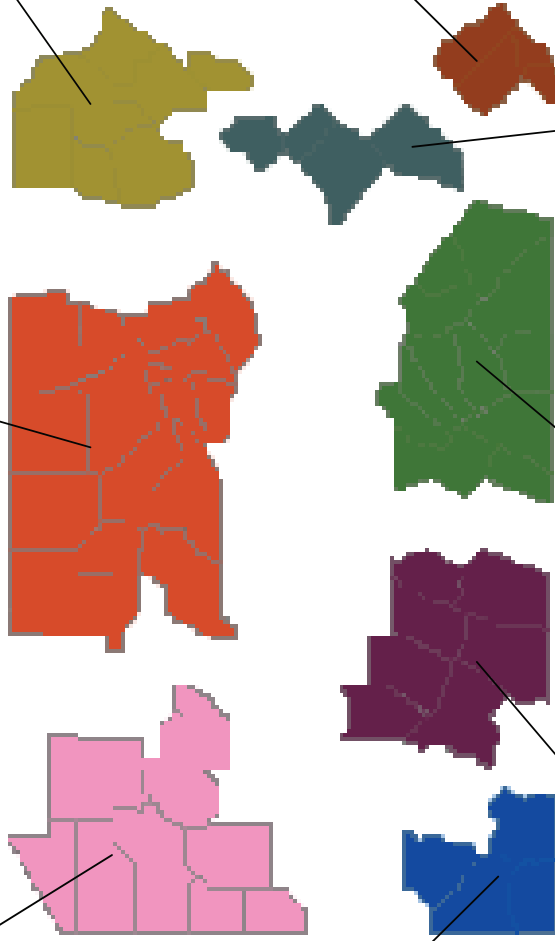
SOUTHWEST
900 Sarah Street, Suite 208
Pittsburgh, PA 15203-1106
Local (412) 488-2031
FAX (412) 488-2338
Toll Free 1-888-773-7748 ext. 5775

SOUTHEAST
605 Louis Drive, Suite 500
Warminster, PA 18974-2825
Local (215) 443-3495
FAX (215) 443-3487
Toll Free 1-888-773-7748 ext. 5575

CENTRALWEST
219 West High Street
Ebensburg, PA 15931-1540
Local (814) 419-1180
FAX (814) 419-1189
Toll Free 1-888-773-7748 ext. 5875

SOUTHCENTRAL
Three Crossgate Drive, Suite 101
Mechanicsburg, PA 17050-2459
Local (717) 795-9270
FAX (717) 795-9281
Toll Free 1-888-773-7748 ext. 5675

CENTRALEAST
110 West Arch Street, Suite 103
Fleetwood, PA 19522-1321
Local (610) 944-9113
FAX (610) 944-9275
Toll Free 1-888-773-7748 ext. 5475



PSERS Headquarters Building



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

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

