Mail Date: _______________

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

RE: ACCOUNT OF THEODORE KIRSCH
DOCKET NO. 2004-16
CLAIM OF THEODORE KIRSCH

ACCOUNT OF JACOB B. STEINBERG
DOCKET NO. 2004-17
CLAIM OF JACOB B. STEINBERG

ACCOUNT OF THOMAS F. DOYLE
DOCKET NO. 2004-18
CLAIM OF THOMAS F. DOYLE

ACCOUNT OF WILLIAM G. GORMLEY
DOCKET NO. 2004-19
CLAIM OF WILLIAM G. GORMLEY

ORDER ADOPTING STIPULATION AND RESCINDING REMAND
TO HEARING EXAMINER PRIOR TO
FINAL ADJUDICATION

WHEREAS, the above Claimants filed requests for administrative hearings on whether the Public School Employees' Retirement System (PSERS) correctly granted full salary credit for all salary paid to them while on approved leaves of absences for service within a collective bargaining organization as required by the Retirement Code.

WHEREAS, PSERS filed an answer stating its position that Claimants may receive salary credit only for the salary they would have earned from their school districts during their respective leaves as if they had been in full time service during the leaves.

WHEREAS, the above claims were consolidated for the purpose of administrative hearing and adjudication.

WHEREAS, the Board granted the School District of Philadelphia's unopposed Petition to Intervene.

WHEREAS, an administrative hearing was held on November 16, 2004 at which time the parties stipulated to many of the underlying facts.

WHEREAS, following the receipt of the Claimants' and PSERS' briefs, on June 1, 2005 the Hearing Examiner issued a recommended a Proposed Decision and Order for consideration by the Board.

WHEREAS, the Claimants timely filed exceptions to the Hearing Examiner's proposed report on June 22, 2005. PSERS did not file exceptions.

WHEREAS, the Board heard oral argument from the parties on September 22, 2005.

WHEREAS, in response to Claimants' request by letter dated January 10, 2006, by Order dated January 26, 2006, the Board granted the Claimants' application for a remand to the Hearing Examiner, and ordered that this matter be remanded to a Hearing Examiner to open the record and consider and make a recommendation to the Board regarding the actuarial costs and financial impact of Claimants' appeal and such other issues as shall be raised by the parties that are relevant to the matter.

WHEREAS, the parties have executed the attached stipulation, and have agreed to request the Board to rescind its order remanding this matter to a Hearing Examiner and to request, instead, that the letters prepared by their respective actuaries as Exhibit A (Buck Consultants letter dated October 4, 2006), Exhibit B (Savitz Organization letter dated October 9, 2006) and Exhibit C (Buck Consultants letter dated October 23, 2006) may be entered into the record as additional evidence for the Board to consider in reaching its final adjudication of the consolidated claims.

NOW THEREFORE it is hereby ordered as follows:

1. The Board rescinds its prior Order remanding this matter to the Hearing Examiner.

2. The attached Exhibits A, B and C may be entered into the record of this matter, and shall be considered by the Board in issuing its adjudication.

3. The parties shall file any additional legal argument with the Board by no later than Friday, November 17, 2006.

4. The record in this matter is now closed and the Board shall consider the merits of this matter at its next regularly scheduled meeting in December 2006.

PUBLIC SCHOOL EMPLOYEES'
RETIREMENT BOARD

By: ______________________________
Roger May, Chairman

Dated:

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

RE: ACCOUNT OF THEODORE KIRSCH
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DOCKET NO. 2004-19
CLAIM OF WILLIAM G. GORMLEY

STIPULATION OF THE PARTIES

The parties hereby stipulate as follows:

1. The letter prepared by Buck Consultants, dated October 4, 2006, attached as Exhibit A, may be entered into the record as additional evidence for the Board to consider in reaching its final adjudication of the consolidated claims.

2. The letter prepared by the Savitz Organization, dated October 9, 2006, attached as Exhibit B, may be entered into the record as additional evidence for the Board to consider in reaching its final adjudication of the consolidated claims.

3. The letter prepared by Buck Consultants, dated October 23, 2006, attached as Exhibit C, may be entered into the record as additional evidence for the Board to consider in reaching its final adjudication of the consolidated claims.

4. The parties agree to file with the Board any additional legal argument by no later than Friday, November 17, 2006.

5. The parties request that this Board rescind its prior order for remand, and instead consider the matter on its merits at the December 2006 meeting of the Board.

Willig, Williams & Davidson

Date: 10/25/06

Ralph J. Teti
Counsel for Claimants

Public School Employees' Retirement System

Date: 10/25/06

Charles K. Serine
Deputy Chief Counsel

buckconsultants
an ACS company

October 4, 2006

Mr. Jeffrey B. Clay
Executive Director
Pennsylvania Public School
Employees' Retirement System
P.O. Box 125
Harrisburg, Pennsylvania 17108

Re: Impact of Including Union Salaries in the Determination of Final Average Salary - Revised

Dear Jeff:

As requested, we have updated our analysis of the impact of including the compensation received while active members are on leave for collective bargaining organizations in the determination of final average salary. Our current analysis is based on data that Charles Serine provided in his September 1, 2006 letter.

The data contained information for 79 members who have taken leaves for service with a collective bargaining organization between the 2000/2001 school year and the 2005/2006 school year. For 67 members the data contained both the school district salary they would have received had they not taken leaves, and the salary they actually received from the collective bargaining organization. For the remaining 12 members, the data either contained only the school district salary, or it contained no salary information. For these members, we have assumed the missing information is the same as for members with complete data and similar known characteristics.

Currently, PSERS' interpretation of the Retirement Code is that final average salary includes the salary that these members would have received from the school district had they not been on leave. Based on the data we received, the members' salaries from the collective bargaining organizations are, on average, 36% higher than the salaries that would have been payable from the school system.

We estimate that if the interpretation of the Retirement Code were changed so that the final average salary included the bargaining organization salary, the increase in the Unfunded Accrued Liability (UAL) would be $11.6 million. In addition, the normal cost, which represents the anticipated annual growth in the UAL, would increase by $0.2 million. The net result of these changes would be an increase in the employer contribution rate equal to 0.018% of payroll.

Please note the following regarding our calculations:

- The liability calculations are as of June 30, 2005, using the actuarial assumptions outlined in our annual valuation report.

- To the extent that the data is incomplete, we have assumed that the missing information was the same as for members with complete data and similar known characteristics.

One North Dearborn Street, Suite 1400 • Chicago, IL 60602-4336
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Exhibit
A

- We have based our estimate on the 79 members described above. We have not included an allowance for additional members who may have worked for collective bargaining organizations during this time but were not reported, or for members who retired prior to this time period, but worked for a collective bargaining organization prior to their retirement.

- We have assumed that members who work for collective bargaining organizations will have the same employment patterns as the population as a whole. If we were to assume that these members will retire earlier than other members, the impact on liabilities would increase.

- The data that PSERS originally provided to us did not include Social Security Numbers. In order to match the data with our valuation database, we requested the members' Social Security Numbers, which PSERS provided in a separate report.

If PSERS adopts the interpretation that final average salary does include salaries paid by collective bargaining agreements, we believe it is possible that this change could allow affected members to afford to retire earlier than would have otherwise been possible. It is also possible that this change would encourage more participants to take leaves of absence to work for collective bargaining organizations. Unfortunately, there is no plan experience available that would allow us to estimate the impact that this change would have on member behavior.

The following table shows the estimated increase in the unfunded accrued liability and the employer contribution rate under alternative utilization assumptions.

Number of Members on Union Leave	200	300	400	500
Estimated Increase in UAL (in millions)	$29.3	$43.9	$58.6	$73.2
Estimated Increase in Employer Rate (% of payroll)	0.045%	0.067%	0.090%	0.112%

Please call if you have any questions.

Sincerely,

Kim M. Nicholl

Kim M. Nicholl
Principal, Consulting Actuary

Josh Shapiro
Senior Consultant, Actuary

KMN/JS:pl
0035/C5026RET01-Union-Sal-Final-Avg-Pay.doc

cc: Charles Serine

THE SAVITZ ORGANIZATION

October 9, 2006

James S. Beall
Willig, Williams & Davidson
1845 Walnut Street, 24th Floor
Philadelphia, PA 19103

Dear Jim,

We have reviewed the calculations completed by Buck Consultants and forwarded to Mr. Jeffrey B. Clay on October 4, 2006. Based on the information in that letter we are working with the same data that Buck Consultants used in their analysis. Specifically, we received data for 79 individual who have taken leaves for service with a collective bargaining organization between the 2000/2001 and the 2005/2006 school year.

Based on our analysis, we believe that Buck Consultant's calculations are reasonable. That is:

- The increase in the Accrued Liability is $11.6 million,
- The increase in the Normal Cost is $200,000, and
- The increase in the employer contribution rate is 0.018%.

However it is important to keep these results in perspective with the valuation results of the entire plan (these results are from the June 30, 2005 actuarial valuation report):

- The total Accrued Liability is $61.226 billion; therefore, this plan interpretation will increase the Accrued Liability by 0.019% (that is, less than 2 hundredths of 1 percent),
- The Unfunded portion of this liability is $10.007 billion; therefore, this plan interpretation will increase the Unfunded Accrued Liability by 0.116%(that is, slightly greater than 1 tenth of 1 percent),
- The total employer provided Normal Cost is $700 million; therefore, this plan interpretation will increase the Normal Cost 0.029% (that is, less than 3 hundredths of 1 percent),
- The Employer Annual Funding Requirement for 2006/2007 is 6.41% of pay,
- The Total Employer Contribution Rate Adopted by the Board is 6.46% which is more than sufficient to cover the Funding Requirement for 2006/2007, plus the additional requirement required by this interpretation.

It is also important to note the final two paragraphs in the letter from Buck Consultants represent conjecture on the actuaries' part. There is no plan experience available that would support, one way or the other, Buck's contention that a higher pay included in the benefit calculation would entice participants to retire earlier. We believe that there are many drivers that entice retirement other than the benefit level (for example: health of both the participant and his or her spouse, job security and satisfaction, current pay and, even, the amount of benefit earned by the participant for each additional year of service).

1845 Walnut Street 14th Floor •Philadelphia, PA 19103 • Phone 215.587.0700 • Toll Free 877.876.3539 • Fax 215.563.9943
www.savitz.com

Exhibit
B

The data collection process has taken eight months to complete to this stage and 79 individuals have been identified as belonging to this group; the extrapolation of the costs to cover up to 420 other individuals is not supported by anything we see in the data. If Buck Consultants is providing the possible impact on the plan should this group grow to 500 individuals, I would have to believe that a five-fold increase in the number of individuals who are on leave while working for a collective bargaining organization could only be supported by a similar increase in the total active population of the participant group. This increase in the number of participants will also correspond with a similar increase in covered payroll. Therefore, while the estimated increase in UAL seems correct, the Estimated Increase in Employer Rate (which is based on current payroll) is very much overstated.

Please call should you have any questions regarding our analysis.

Sincerely,

Raymond J. Lee
Principal

buckconsultants
an ACS company

October 23, 2006

Mr. Jeffrey B. Clay
Executive Director
Pennsylvania Public School
Employees' Retirement System
P.O. Box 125
Harrisburg, Pennsylvania 17108

Re: Response to October 9, 2006 Letter from the Savitz Organization

Dear Jeff:

We have reviewed the October 9, 2006 letter from Raymond J. Lee of the Savitz Organization to James S. Beall. In that letter, Savitz verified Buck's estimates of the cost associated with a revised interpretation of the final average salary calculation for PSERS' members working for union organizations. They also offered several comments on the how the proposed change would impact the plan's finances.

While the statements in Savitz letter are reasonable, we believe the following additional information will explain how the proposed interpretation would affect the plan's finances.

Determination of Fiscal 2007 Employer Contribution Rate
The certified employer contribution rate for the 2006/2007 fiscal year is 6.46%. As noted by Savitz, the final calculated rate for that year is 6.41%. These figures differ because at the December 2005 meeting, the Board adopted a package of assumption changes whose fiscal impact had not previously been determined by Buck. At the meeting, Buck estimated the required 2006/2007 rate to be 6.46%, and the Board certified this rate. Following the meeting, Buck confirmed that the 6.46% rate is adequate, and determined that the calculated rate using the package of assumption changes the Board adopted would have been 6.41%.

Cost of Proposed Interpretation vs. Contribution Rate Excess
In their letter, Savitz states that the 6.46% rate is more than sufficient to cover the funding requirement for the 2006/2007 fiscal year. The implication is that the excess of the certified rate of 6.46% over the calculated rate of 6.41% could be used to pay for the increased cost associated with the proposed change to PSERS' interpretation of the Retirement Code. However, this excess exists only for the 2006/2007 fiscal year, while the increased cost associated with the proposed interpretation applies to all future years. In order to finance the additional cost of the proposed change in PSERS' interpretation of the Retirement Code, the contribution rate would have to increase in all future years.

Please call if you have any questions.

Sincerely,

Kim M. Nicholl

Kim M. Nicholl
Principal, Consulting Actuary

Josh Shapiro
Senior Consultant, Actuary

KMN/JS:pl
0035/C5026RET01-Union-Sal-Final-Avg-Pay.doc

cc: Charles Serine

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Exhibit

C