



Summary Annual Financial Report

Fiscal Years Ended June 30, 2023 & 2022



December 13, 2023

A Message From the Executive Director



*Terrill (Terri) J. Sanchez,
PSERS Executive Director*

I am pleased to present the Summary Annual Financial Report (SAFR) for the fiscal year ended June 30, 2023 (FY 2023) on behalf of the Pennsylvania Public School Employees' Retirement System (PSERS) Board of Trustees and staff. This report summarizes the FY 2023 financial data and accomplishments that are provided in greater detail in PSERS' Annual Comprehensive Financial Report (ACFR). The ACFR is posted online at www.psers.pa.gov.

Welcomed New Employees in Key Positions

PSERS welcomed several new employees in key administrative positions in 2023, including:

- Benjamin Cotton, Chief Investment Officer.
- Elizabeth Goldstein, Chief Compliance Officer.
- Eric Decker, Director of Governance and Strategic Initiatives.

Additionally, PSERS is in the process of hiring a new Chief Financial Officer and a Director of Government Affairs and Stakeholder Engagement.

Adopted a Strategic Plan

The PSERS Board formally adopted a strategic plan framework for our organization in August 2023. The strategic plan represents months of hard work by both members of the Board and staff to better define and plan the work that the agency is committed to doing every day.

The Board identified six strategic priorities that are supported by 25 initiatives, many of which are either already under way or will begin soon. These clear priorities and initiatives provide the focus we need to efficiently work together on the right things at the right time.

Updated Mission, Vision, Values

To ensure that PSERS' strategic plan was created with a sense of purpose and built upon a strong foundation, we revisited and ultimately revised PSERS' mission, vision, and values statements. This marked the first revision to these statements since 2008. We strongly believe that our commitment to this new direction will yield positive outcomes for our members, partners, and stakeholders.

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

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

Our Values:

Public Accountability and Transparency

Staff growth and development

Exceptional levels of service

Respect for our members, stakeholders, and staff

Stewardship of resources and investments

Provided \$7.46 Billion in Benefits

In FY 2023, PSERS distributed \$7.46 billion in total pension benefits. Of this amount, \$6.7 billion, or 90%, went to retired members residing in Pennsylvania. These benefits provide direct support to the Commonwealth's economy when retirees spend them in their local communities, and likewise bolster local economies.

Received Full Funding

The ongoing budgetary commitment of Gov. Josh Shapiro and the Legislature authorizing state and school employers to pay the full amount of the actuarially determined contributions continues to help improve PSERS' funded status. From FY 2017 to FY 2023, PSERS received full actuarial funding from school employers and the Commonwealth after 15 previous years of underfunding.

Full actuarial funding from employers, along with member contributions and investment income, are all necessary sources of funds that can eventually pay down the unfunded liability and return PSERS to fully funded status.

Respectfully,

Terrill (Terri) J. Sanchez
PSERS Executive Director

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About PSERS

As one of the nation's oldest, and largest public pension plans, PSERS was established on July 18, 1917, and officially began operations on July 1, 1919, to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania.

PSERS' role expanded upon the passage of Act 5 of 2017 to include oversight over two new classes consisting of defined benefit (DB) and defined contribution (DC) components as well as a stand-alone DC class. PSERS currently serves over 500,000 active, retired, and terminated vested public school employees.

The agency is administered by a staff of 382 and has 770 reporting units as of June 30, 2023. PSERS is headquartered in Harrisburg, Pennsylvania, and has seven regional field offices strategically located across the Commonwealth offering direct assistance to its members and employers.

PSERS Defined Benefit (DB) Plan	PSERS Defined Contribution (DC) Plan
A member's pension benefit is determined by a formula that includes a pension multiplier, years of service, and final average salary and with a goal for the member's benefit to be fully funded during their working lifetime.	A member's retirement is based on member and employer contributions, the investment performance on those contributions, and the fees and expenses deducted from the member's DC account.
A DB pension is guaranteed, regardless of market fluctuations.	Member and employer contributions have the potential to grow based on investment earnings, but are not guaranteed.
Members in the DB Plan contribute a base rate between 4.50% and 10.30% of their pay to PSERS DB Plan depending on their class of membership. With the Shared Risk/Shared Gain provision, the contribution rate may change for some membership classes based on PSERS' investment performance.	Members with a DC account contribute between 2.75% and 7.50% of their pay to PSERS DC Plan depending on the class of membership.

A Closer Look: PSERS' Active Members

As of June 30, 2023, PSERS had approximately 251,000 active members with an annual payroll of \$15.3 billion.

- The top five largest school employers are: Philadelphia City School District, Pittsburgh School District, Central Bucks School District, Allentown City School District, and North Penn School District.
- The average age of a PSERS active member is approximately 45 with 12 years of service.
- The most years of service earned by a current active member is 58 years.
- The average salary of an active member increased from \$58,082 in 2022 to \$59,709 in 2023.



A Closer Look: PSERS' Retired Members

As of June 30, 2023, PSERS had approximately 250,000 retirees and beneficiaries who receive over \$552 million in pension and healthcare benefits each month.

- The average yearly benefit paid to retirees increased from \$26,078 in 2022 to \$26,197 in 2023.
- Nearly 72% of PSERS retirees receive an annual pension benefit of less than \$40,000.
- Six-figure pensions are rare, with fewer than 0.5% of PSERS retirees receiving an annual pension benefit over \$100,000 after serving an average of 38 years in public education.
- Currently, the oldest PSERS retiree is 108 years old.



About PSERS (continued)

A Closer Look: PSERS Defined Contribution Plan Participants

School employees who became new members of PSERS on or after July 1, 2019, can choose from three classes of membership: two consisting of defined benefit and defined contribution components and one that is a stand-alone defined contribution plan. As of June 2023, approximately 64,000 participants - more than 25% of PSERS total membership - were enrolled in the DC plan, either as part of one of the classes with DB and DC components or the standalone DC class.

The Retirement Code requires the DC plan to provide no less than 10 investment options offered by three or more investment providers. Currently, the DC Plan lineup includes eight providers offering six asset classes and a portfolio of target funds, totaling 20 investment options from which participants in the DC Plan may choose to adequately diversify their portfolio. As of June 30, 2023, the total DC plan balance was nearly \$202 million.



PSERS Health Options Program Awarded 4.5 CMS Star Rating

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

In addition, the Centers for Medicare and Medicaid Services (CMS) bestowed a 4.5 Star Rating on HOP's Prescription Drug Employer Group Waiver Plan for the second year in a row. By comparison, an annual review of 48 prescription drug plans (PDP) conducted by CMS found the average PDP rating to be 3.11. PSERS HOP program was one of only six plans evaluated to rate at 4.5 Stars or higher.

CMS' Medicare Star rating program evaluates Medicare Advantage (MA) and Prescription Drug Programs (PDP) based on a number of metrics around quality and performance. Rating criteria are based on a 1-to-5 point system. The ratings help members select the best plans for themselves or their families.



HOP

HEALTH OPTIONS PROGRAM



WWW.HOPBENEFITS.COM

Strategic Plan

PSERS Board of Trustees formally adopted a strategic plan framework for the agency at its August 2023 Board meeting. The strategic plan represents months of hard work by both members of the Board and staff to better define and plan the work that the agency is committed to doing each and every day.

To ensure that PSERS' strategic plan was created with a sense of purpose and built upon a strong foundation, we revisited and ultimately revised PSERS' mission, vision, and values statements. These changes reflect our continued dedication to partner with our members, employers, employees, and other stakeholders to provide a secure retirement benefit that will be there for members when they need it.

The entire agency is excited to embark on this journey over the next few years. Despite the challenges that may lie ahead, PSERS is confident that its talented and motivated staff, along with thoughtful leadership and planning can deliver on these goals.

Our Strategic Priorities

As an organization, we know that when we have a clear set of priorities, we can accomplish amazing things. To that end, the Board has identified six strategic priorities around which our strategic plan is built. All the high-level initiatives that we have identified as part of our plan align to one of these six priorities.



Our Mission

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

Our Vision

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

Our Values

Public accountability and transparency

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

Staff growth and development

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

Exceptional levels of service

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

Respect for our members, stakeholders, and staff

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

Stewardship of resources and investments

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

Budgetary and Financial Governance

PSERS Saves \$6.4 Million Annually in Administrative Costs

PSERS participates in an annual independent, international benchmarking survey evaluating its costs and service performance in comparison to other public pension funds. Based on the most recent survey, PSERS had an 11% lower pension administration cost per member than the average cost for its peer group. By running a lean and efficient operation, PSERS saves the Commonwealth and school employers approximately \$6.4 million annually in administrative expenses compared to its peers.

During FY 2023 specifically, the agency lowered its consultant and legal fees, reduced real estate rental and decreased electricity costs, all of which preserve assets available for the benefit of the Fund and its members.

PSERS saves the Commonwealth and school employers approximately \$6.4 million annually in administrative expenses.

Litigation and Contingencies

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

FY 2023 Customer Service Highlights



**Answered
148,038
Member Calls**



**Responded to
84,423
Member Emails
& Secure
Messages**



**Counseled
6,551
Members for
Retirement**



**Issued
3 Million
Monthly Benefit
Payments to
Members**



**Processed
9,640
Retirement
Applications**



**Prepared & Issued
272,183
1099-R Forms**

FY 2022 Customer Service Highlights - Comparative Data

**Answered
148,440
Member Calls**

**Responded to
66,721
Member Emails &
Secure Messages**

**Counseled
6,972
Members for
Retirement**

**Issued
2.9 Million
Monthly Benefit
Payments to Members**

**Processed
9,649
Retirement
Applications**

**Prepared & Issued
266,128
1099-R Forms**

Budgetary and Financial Governance (continued)

Member Self-Service Improvements

The PSERS Member Self-Service (MSS) Portal continues to be a tremendous success.

Since MSS was implemented in April 2018, more than 250,000 members have created their online accounts and used these accounts to conduct nearly 500,000 transactions for themselves. The most common actions taken are creating their own retirement estimates, updating their beneficiaries, updating their address, and generating their own income verification.





MSS has also allowed members to “Go Green,” facilitating nearly 91% of all MSS accounts to go paperless by electing to receive information from PSERS electronically. This paperless opportunity has generated more than \$2,000,000 in cumulative savings since inception in FY 2018.

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

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

Since its inception in April 2018, members have completed nearly 500,000 transactions online through their MSS Portal instead of using paper forms.

Commonly completed transactions include:

-  **199,283**
Retirement Estimates
-  **122,650**
Nominations of Beneficiaries
-  **80,676**
Address Changes
-  **72,861**
Income Verifications

(as of June 30, 2023)

Reports & Resources on PSERS website include:



Investment Program:

- Carried Interest Report
- Detailed Manager Fee Information
- Quarterly Investment Performance



Board of Trustees:

- Adjudications
- Board Resolutions
- Governance Manual
- Minutes
- Transparency Policy

Financial Publications & Reports:

- Annual Comprehensive Financial Report (ACFR) & Summary Annual Financial Report (SAFR)
- Actuarial Valuation
- Board & Staff Business Travel Costs
- Budget Hearing Reports & Budget Report Highlights
- Employer Contribution Rates
- Financial Asset Listing
- PA Pension Benefit Payments Map
- Quarterly Financial Statements



Financial Highlights

PSERS' Net Position

PSERS' total net position increased by \$1.6 billion from \$71.2 billion at June 30, 2022 to \$72.8 billion at June 30, 2023. The increase at June 30, 2023, was due mostly to the combination of additions for net investment income plus member and employer contributions exceeding deductions for benefit and administrative expenses. During the fiscal year, net investment income reflected shifts in the market environment primarily related to rising interest rates, tighter credit markets, and geopolitical uncertainty. The 3.54% investment return for fiscal year 2023 was below the Fund's 7.00% actuarial investment rate of return assumption. Pension plans like PSERS are well-diversified and built to generate long-term returns, so single years that do not meet this long-term assumption are not expected to have a significant impact on the System's funded status. On an actuarial basis, the funded ratio was 61.6% at June 30, 2022, the most recent actuarial valuation.

PSERS Funding Sources

PSERS is funded through three sources:

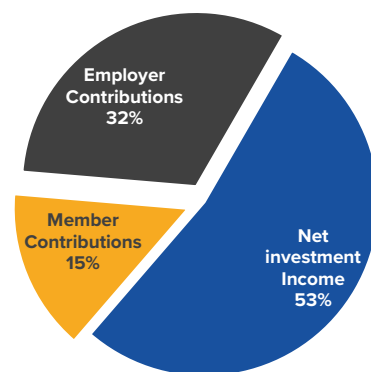
- Contributions from employees (members)
- Employer contributions, which includes contributions from school employers and the Commonwealth
- Investment earnings from the System

Total member contributions increased from \$1.17 billion in FY 2022 to \$1.23 billion in FY 2023 mainly due to an increase in member contributions from active member payroll.

Total employer contributions increased from \$5.1 billion in FY 2022 to \$5.4 billion due to employer payroll growth and a small increase in the total employer contribution rate from 34.94% in FY 2022 to 35.26% in FY 2023.

Net investment income of \$2.8 billion in FY 2023 increased from a net investment loss of \$(282.4) million in FY 2022. The increase reflects shifts in the market environment primarily related to rising interest rates, tighter credit markets, and geopolitical uncertainty.

PSERS Sources of Funding
25-Year History (1999-2023)



Condensed Statements of Fiduciary Net Position June 30, 2023 and 2022 (\$ in millions)		
	2023	2022
Member & Employer Receivables	\$ 1,857	\$ 1,798
Investments	71,734	70,905
Other Assets	6,915	10,549
Total Assets	\$ 80,506	\$ 83,252
Benefits Payable & Premium Advances	\$ 695	\$ 576
Other Liabilities	6,969	11,524
Total Liabilities	\$ 7,664	\$ 12,100
Net Position restricted for pension, DC, & postemployment healthcare benefits	\$ 72,842	\$ 71,152

Condensed Statements of Changes in Fiduciary Net Position Years ended June 30, 2023 and 2022 (\$ in millions)		
	2023	2022
Member & Employer Contributions	\$ 6,629	\$ 6,307
HOP Participant Premiums & Other	479	481
Net Investment Income (Loss)	2,830	(282)
Total Additions	\$ 9,938	\$ 6,506
Benefit Payments	\$ 8,151	\$ 7,795
Administrative Expenses	97	92
Total Deductions	\$ 8,248	\$ 7,887
Net Increase (Decrease)	\$ 1,690	\$ (1,381)
Net Position restricted for pension, DC, & postemployment healthcare benefits:		
Balance, beginning of year	\$ 71,152	\$ 72,533
Balance, end of year	\$ 72,842	\$ 71,152

Financial Highlights (continued)

PSERS' Funded Ratio

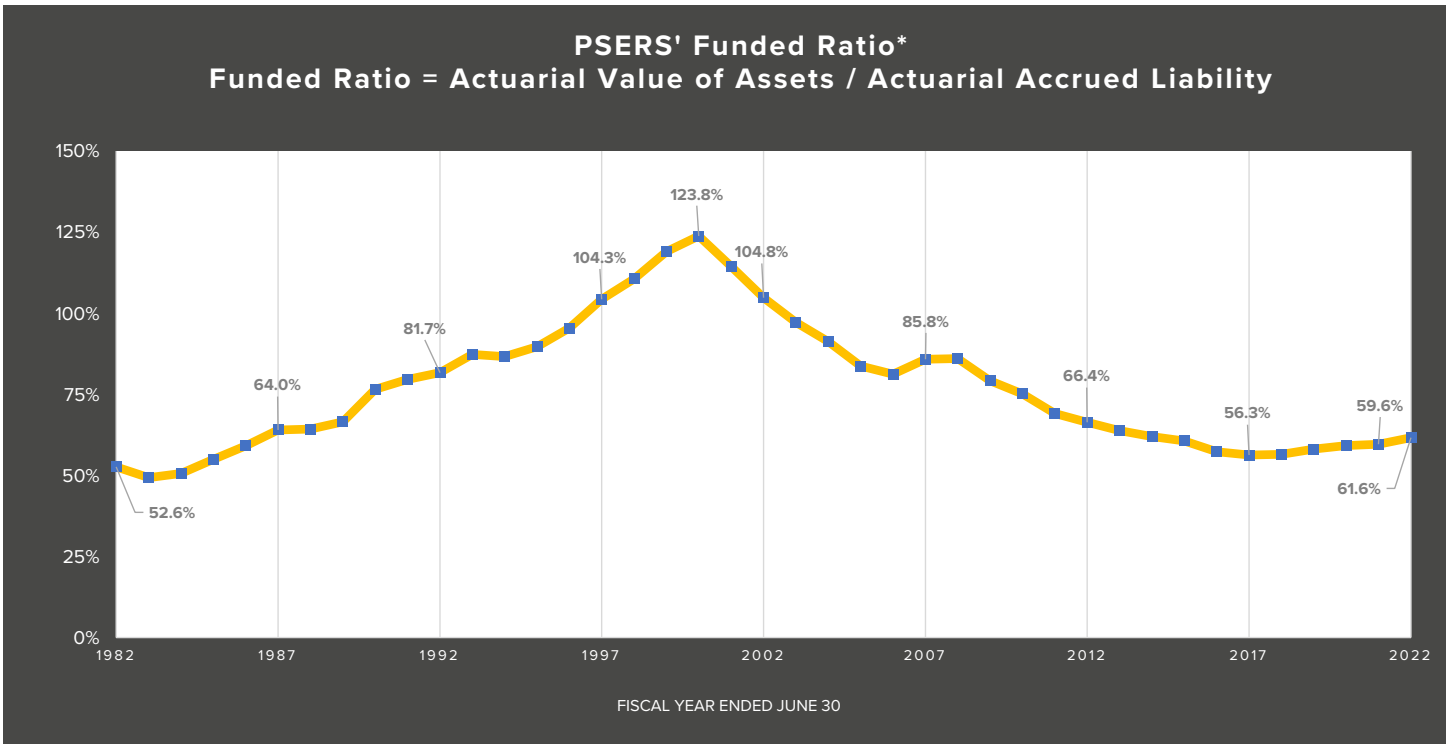
Funded ratio or funded status is a percentile measurement between the amount of assets/money the system has on hand at a given time compared to the amount of money the system needs to cover all present and future benefits for the System's members

An independent review of PSERS' assets and liabilities is performed annually. As part of this review, the progress toward funding PSERS' pension obligations (or funded ratio) is measured. PSERS' actuarial funded ratio increased from 59.6% at June 30, 2021 to 61.6% as of June 30, 2022, the most recent actuarial valuation, due to full actuarially determined employer contributions, favorable demographic experience, and positive investment returns. The unfunded accrued liability on an actuarial basis decreased from \$45.5 billion at June 30, 2021 to \$44.0 billion at June 30, 2022.

The results of operations for FY 2023 will be reflected in the actuarial valuation for the year ended June 30, 2024. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the 2023 calendar year and will be reported in the financial statements for the fiscal year ending June 30, 2024 (FY 2024). The funded ratio is expected to improve at June 30, 2023, based on the investment performance for the 10-year period finishing above the System's long-term 7.00% investment assumption and the System receiving full actuarially determined contributions from employers and the Commonwealth.

Funding History

Prior to Act 120, PSERS' Annual Required Contribution (ARC) percentage of contributions received under Governmental Accounting Standards Board (GASB) standards was only 27%. As a result of the Act 120 funding increases, on July 1, 2016, PSERS began receiving 100% of actuarially required contributions based on sound actuarial practices and principles for the first time in 15 years. This marked a significant milestone in PSERS' contribution history and established a path to full funding. PSERS received the actuarially required contributions from FY 2016 to FY 2022, and the large annual employer contribution rate increases that occurred from FY 2012 to FY 2018 are now complete. Employer contribution rate increases in the future are expected to be in line with or less than inflation.



* 2022 is the most recent actuarial valuation available

Investment Highlights

PSERS 10-Year Annualized Rate of Return was 7.46%

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the actuarial soundness of the Fund. The annualized time-weighted rate of return for the 10-year period ended June 30, 2023, was 7.46% and exceeded the Fund's current long-term investment rate of return assumption (7.00%). Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits.

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

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

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

Annualized Net-of-Fees Returns

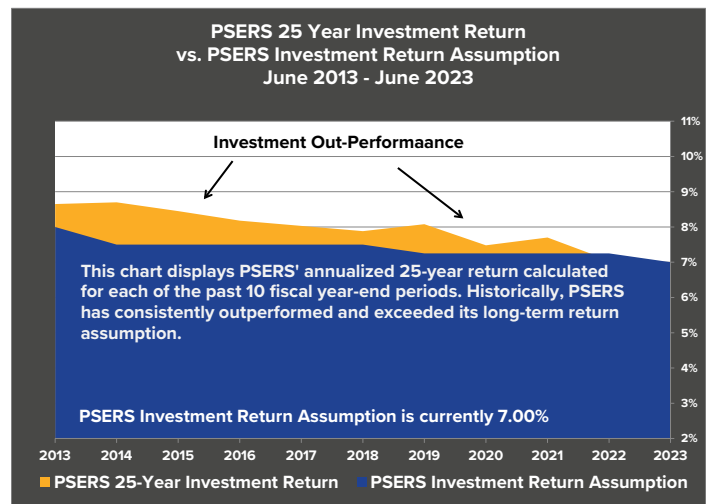
- 10-year: 7.46%, added \$44.7 billion in cumulative net investment income
- Five-year: 7.30%, added \$26.6 billion in cumulative net investment income
- One-year: 3.54%, added \$2.8 billion in net investment income

Long-Term Investment Performance Consistently Outperforms

PSERS has built a diversified asset allocation that positions the Fund to earn its return assumption of 7.00% over the long-term (i.e., 25 to 30 years) although annual fluctuations will occur. PSERS believes the best way to achieve its long-term objectives is to maintain a diversified portfolio.

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

As shown in the chart to the right, PSERS 25-year return, has historically 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. However, the most recent 25-year period return through June 30, 2023 was 6.57%, which is 43 basis points below this assumption. PSERS investments still outperformed a blended 60% ACWI (IMI) Index and 40% Bloomberg Bond Index benchmarks by 0.99% annualized (5.58% vs. 6.57%) over the same period. Overall, long-term investment performance has resulted in declining employer contribution rates and/or contribution rates lower than the annual normal cost of benefits.



Investment Highlights (continued)

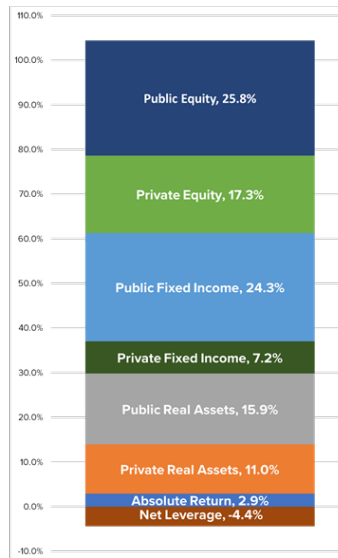
The PSERS Board of Trustees believes the System's assets should be managed in accordance with the System's unique liability stream, funding sources, cash flows, and portfolio size, focusing on the prudent accumulation of wealth over the long term to meet the retirement benefit obligations established by the plan sponsor to its members.

To achieve the System's objectives, the Board meets periodically to review the overall asset allocation plan and investment policies for the System. Implementation of investment policy decisions necessitates asset management. The Board consults with its actuary, consultants, Investment Office professionals, and other sources of information it deems appropriate in formulating the asset allocation. The level of risk assumed by the System is largely a result of the asset allocation. The Board, in determining its long-term asset allocation, takes the following factors into consideration:

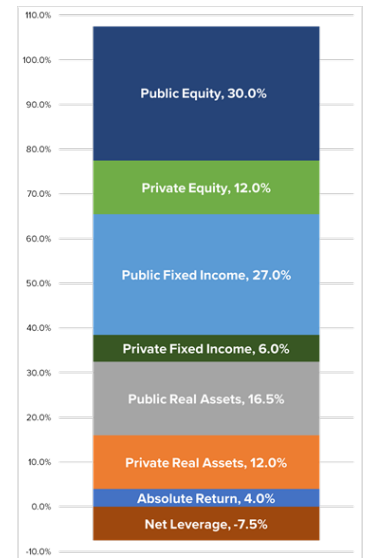
- The System's investment time horizon;
- The demographics of the plan participants and beneficiaries;
- The cash flow requirements of the System;
- The actuarial assumptions approved by the Board;
- The funded status of the System;
- The Board's willingness and ability to take risk; and
- The employers' (Commonwealth and school districts) financial strength.

In approving the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations for each asset class, as prepared by its general investment consultant.

Actual Asset Allocation
(as of June 30, 2023)



Target Allocation
(as of June 30, 2023)



*Leverage is utilized at the asset allocation level to provide additional exposure to diversifying asset classes. Total Leverage is allocated at -10.5%; Total Leverage is netted against the System's Cash allocation of 3% for a Net Leverage allocation of -7.5%.

** The Board's allocation changes includes the elimination of its absolute return holdings which is expected to be implemented prudently over time.

Investment Office Developments

FY 2022 and FY 2023 was a time of continued development in the Investment Office. In addition to new leadership and the heightened focus on internal controls noted above, the investment staff continues its focus on implementing the Strategic Asset Allocation (SAA) targets approved by the PSERS Board, most recently on August 11, 2023, affective from October 1, 2023. While continuing the prudent reductions to more expensive strategies approved for the previous targets, the new targets reduce leverage from 7.5% to zero, increase investment grade fixed income assets from 10% to 14%, and make other adjustments within public equity and real assets that reflect better present economic environment.

As a result of the Board's direction to prudently reduce its allocations to more expensive strategies, investment related expenses relative to net assets continues to decline. As the Fund's net assets rose 23 percent to \$72.8 billion between FY2020 and FY2023, Investment Related Expenses declined 30 basis points (bps), from 87 bps to 56 bps, representing a go-forward annualized savings of \$215 million assuming present plan asset values.

Prospectively, investment related expenses as a percent of net assets should reduce further to approximately 39 bps once the investment staff brings allocations in line with the SAA targets.

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

Internal Controls & Reporting

Annual Audit

An annual audit of the System by an independent certified public accounting firm is required by the Retirement Code. PSERS has contracted with SB & Company, LLC for the fiscal year 2023 audit of its financial statements and has received an unmodified opinion as evidenced in the Report of Independent Public Accountants in the Financial Section of this ACFR. An unmodified opinion means that PSERS' financial statements fairly present, in all material respects, its financial condition. No significant findings were noted during this audit and, therefore, a management letter was not issued. This is the fourteenth consecutive year that a management letter was not issued by the independent auditors and is reflective of the hard work and dedication of PSERS' Board and staff to continue to improve the internal controls, operations, and efficiency of the System.

Internal Controls

PSERS' management is responsible for implementing internal controls which are designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. This report has been prepared in accordance with accounting principles generally accepted in the United States of America. The System maintains a full accrual accounting system. (More specific accounting information is detailed in the Summary of Significant Accounting Policies (Note 2) in the notes to the financial statements found in the Financial Section of this report.)

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

PSERS' management believes the internal accounting controls currently in place are both adequate to meet the purpose for which they were intended and that the financial statements, supporting schedules, and statistical tables are fairly presented.

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

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

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

PSERS' Investment Professionals Certifications and Education

Investment management is a dynamic profession that continuously adapts to new technologies and evolving professional standards. PSERS investment professionals demonstrate their commitment to continuing education through completion of recognized investment industry designation programs and degree programs.

PSERS Investment Office Professional' Certifications & Education

27 Chartered Financial Analysts (CFA)
9 Certified Public Accountants (CPA)
14 Chartered Alternative Investment Analysts (CAIA)
4 Certified Treasury Professionals (CTP)
2 Financial Risk Managers (FRM)
1 Professional Risk Managers (PRM)
1 Certified Financial Planner (CFP)

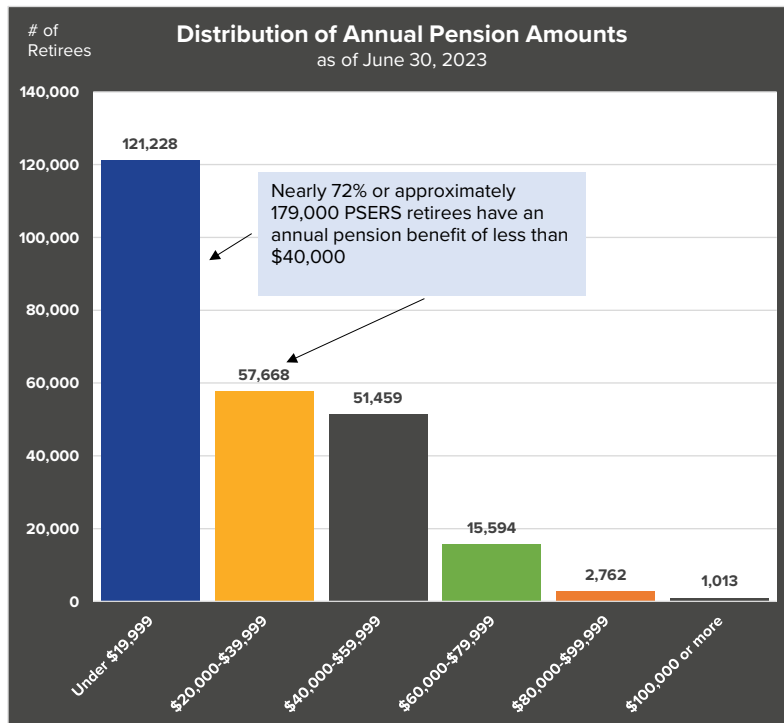
50 Bachelor's Degrees
22 Master's Degrees (MBA)
1 Doctoral Degree (EdD)

Numbers as of June 30, 2023

Distribution of Annual Pension Benefit Amounts

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

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



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

Awards for Financial Reporting

Government Finance Officers Association (GFOA) of the United States and Canada Certificate of Achievement for Excellence in Financial Reporting - The Certificate of Achievement awarded by the GFOA is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. PSERS has received a Certificate of Achievement for 40 consecutive years from FY 1983 to FY 2022.

GFOA Popular Annual Financial Reporting Award - GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to PSERS for its Popular Annual Financial Report for the fiscal year ended June 30, 2022, which PSERS refers to as its Summary Annual Financial Report. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. PSERS has received a Certificate of Achievement for seven consecutive years from FY 2016 to FY 2022.

Public Pension Coordinating Council Public Pension Standards Award - The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2022. This award is in recognition of meeting professional standards for plan design and administration.

PSERS Board of Trustees

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Active Member/Participant

Richard Vague, Board Vice Chair
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State Senator

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State Representative

Honorable Torren Ecker
State Representative

Nathan G. Mains
PA School Boards Association CEO

Jason M. Davis
Active Member/Participant

Brian A. Reiser
Active Member/Participant

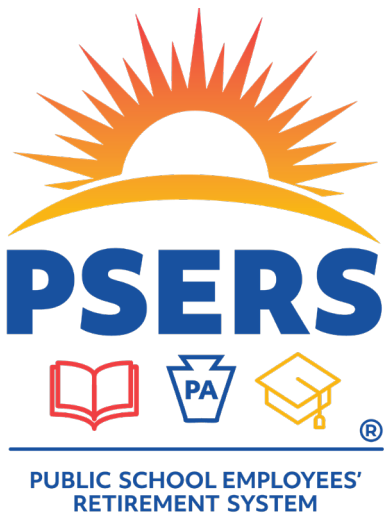
Ann Monaghan
Active Member/Participant

Susan C. Lemmo
Retired Member/Participant

Eric O. DiTullio
PA Public School Board Member

PSERS Board Education and Training Program

Act 128 of 2020 required PSERS Board of Trustees to receive 10 hours of investment-related education and one hour of ethics training each year. In 2022, PSERS 15 Board members and their 13 designees completed 522 hours of investment-related education and ethics training. On average, each board member and designee received over 18 hours of education, far exceeding the education requirement.



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