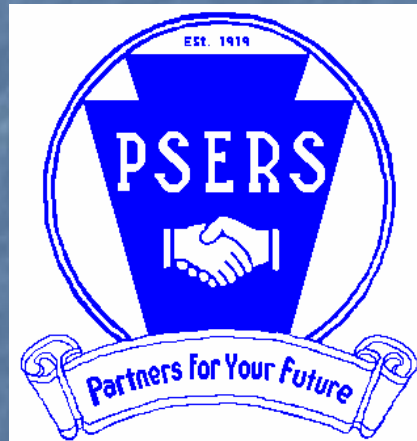


An Update on PSERS

Rate Spike/Plateau Presentation



PSERS' Overview



PSERS' Overview

- The Public School Employees' Retirement System (PSERS) is a governmental, (non ERISA), mandatory, multi-employer, defined benefit pension plan for Pennsylvania school employees
- PSERS was established on July 18, 1917 and thus is one of the oldest public pension plans in the United States
 - PSERS principal plan document "is the Public School Employees' Retirement Code, 24 Pa.C.S. §8101 *et. seq.*
- PSERS is governed by a 15 person Board of Trustees, and has a complement of 310 employees
- PSERS serves over 547,000 members

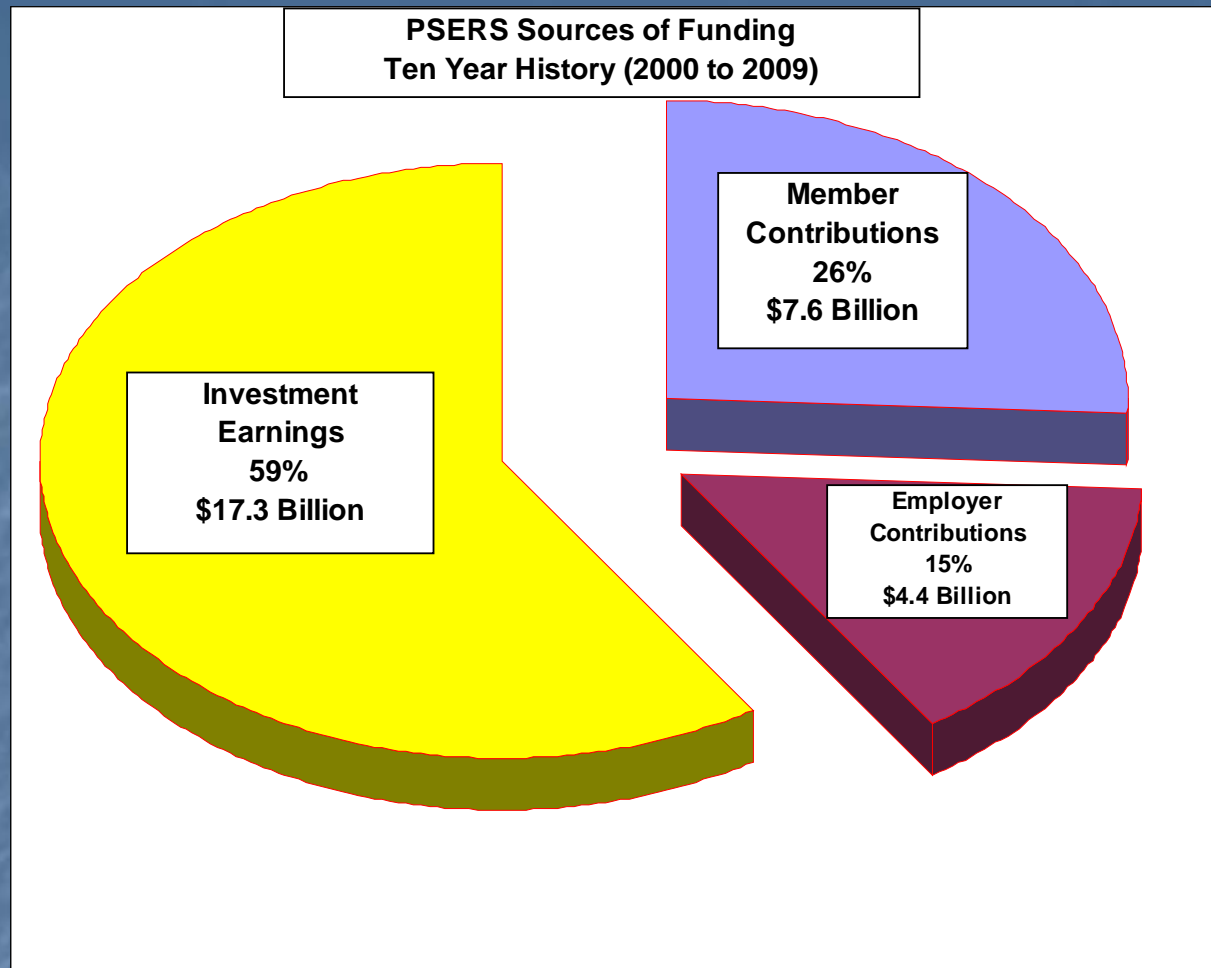
**PSERS manages
assets of approximately \$46.7
billion as of December 31, 2009**

**PSERS is the 16th largest state-
sponsored defined benefit pension
fund in the nation according to
*Pensions and Investments
Magazine***



PSERS' Overview

- PSERS is funded by three sources:
 - Employee Contributions,
 - Employer Contributions, and
 - Investment Earnings
- Investment earnings have been the primary source of funding for PSERS benefits, dwarfing the contributions from both school employers and PSERS active members



Over the last 25 years, 20% of PSERS' funding has come from school employers. Another 15% has come from PSERS' active members. All the rest – 65% – has come from investment earnings

PSERS Overview

- PSERS is a large economic engine in the Commonwealth
- PSERS paid out approximately \$4.9 billion in benefits in FY 2009
 - Since nearly 90% of PSERS' retirees reside in the Commonwealth, a substantial portion of PSERS' estimated \$4.9 billion annual payroll remains in Pennsylvania, thus benefiting the economy of the Commonwealth
- In addition PSERS has a continuing commitment to Pennsylvania companies by contracting with Pennsylvania-based investment advisor companies and by investing in Pennsylvania-based companies

PSERS Overview

The following is a table of Pennsylvania-based investments and other statistics at December 31, 2009 (\$'s in millions):

<i>Asset Class</i>	<i>Total PA Market Value (PSERS' Portion)</i>	<i>Total PA Market Value (Total Invested)</i>	<i># of People Employed</i>	<i>Payroll</i>
U.S. Equities	\$ 113.1	\$ 113.1	*	*
Fixed Income	47.3	47.3	*	*
Private Real Estate	218.4	2,578.6	1,357	\$ 32.2
Private Markets:				
Venture Capital	145.3	1,380.5	5,556	\$ 285.6
Private Equity	1,898.2	12,813.5	28,579	\$ 1,110.9
Private Debt	265.3	3,646.1	14,295	\$ 705.7
Total	\$ 2,687.6	\$ 20,579.1	49,787	\$ 2,134.4

* Statistics for publicly traded companies not included due to the difficulty in obtaining the information.

PSERS' Net Plan Assets as of:

June 30, 2002	\$43.6 Billion (audited)
March 31, 2003	\$38.3 Billion (unaudited)
June 30, 2003	\$42.5 Billion (audited)
June 30, 2004	\$48.5 Billion (audited)
June 30, 2005	\$52.1 Billion (audited)
June 30, 2006	\$57.0 Billion (audited)
June 30, 2007	\$67.5 Billion (audited)
June 30, 2008	\$62.7 Billion (audited)
September 30, 2008	\$54.7 Billion (unaudited)
December 31, 2008	\$45.4 billion (unaudited)
June 30, 2009	\$43.2 billion (audited)
December 31, 2009	\$46.7 billion (unaudited)

S & P 500 Bear Markets/Bull Markets This Decade

<u>BEAR MARKET</u>	<u>PEAK</u>	<u>TROUGH</u>	<u>% CHANGE</u>
03/24/2000 → 10/09/2002	1,527.50	776.76	- 49.15%
<u>BULL MARKET</u>	<u>TROUGH</u>	<u>PEAK</u>	<u>% CHANGE</u>
10/09/2002 → 10/09/2007	776.76	1,565.15	+ 101.49%
<u>BEAR MARKET</u>	<u>PEAK</u>	<u>TROUGH</u>	<u>% CHANGE</u>
10/09/2007 → 3/09/2009	1,565.15	676.53	- 56.78%
<u>BULL MARKET</u>	<u>TROUGH</u>	<u>PEAK</u>	<u>% CHANGE</u>
3/09/2009 → 12/28/2009	676.53	1,127.78	+ 66.70%
<u>TOTAL PERIOD</u>	<u>BEGINNING</u>	<u>ENDING</u>	<u>% CHANGE</u>
12/31/1999 → 12/31/2009	1,469.25	1,115.10	- 24.10%

PSERS' Investment Rates of Return as of:

- FY 1999/2000 - 11.9%
- FY 2000/2001 - (7.4)%
- FY 2001/2002 - (5.3)%
- FY 2002/2003 - 2.7%
- FY 2003/2004 - 19.67%
- FY 2004/2005 - 12.87%
- FY 2005/2006 - 15.26%
- FY 2006/2007 - 22.93%
- FY 2007/2008 - (2.82)%
- FY 2008/2009 - (26.54)%

Below PSERS' annual actuarial earnings assumption therefore resulting in an actuarial loss

Over the past 25 years the Fund earned an annualized rate of return of 9.23% which is above the Fund's actuarial rate of return for the same period

Current Employer Contribution Rate



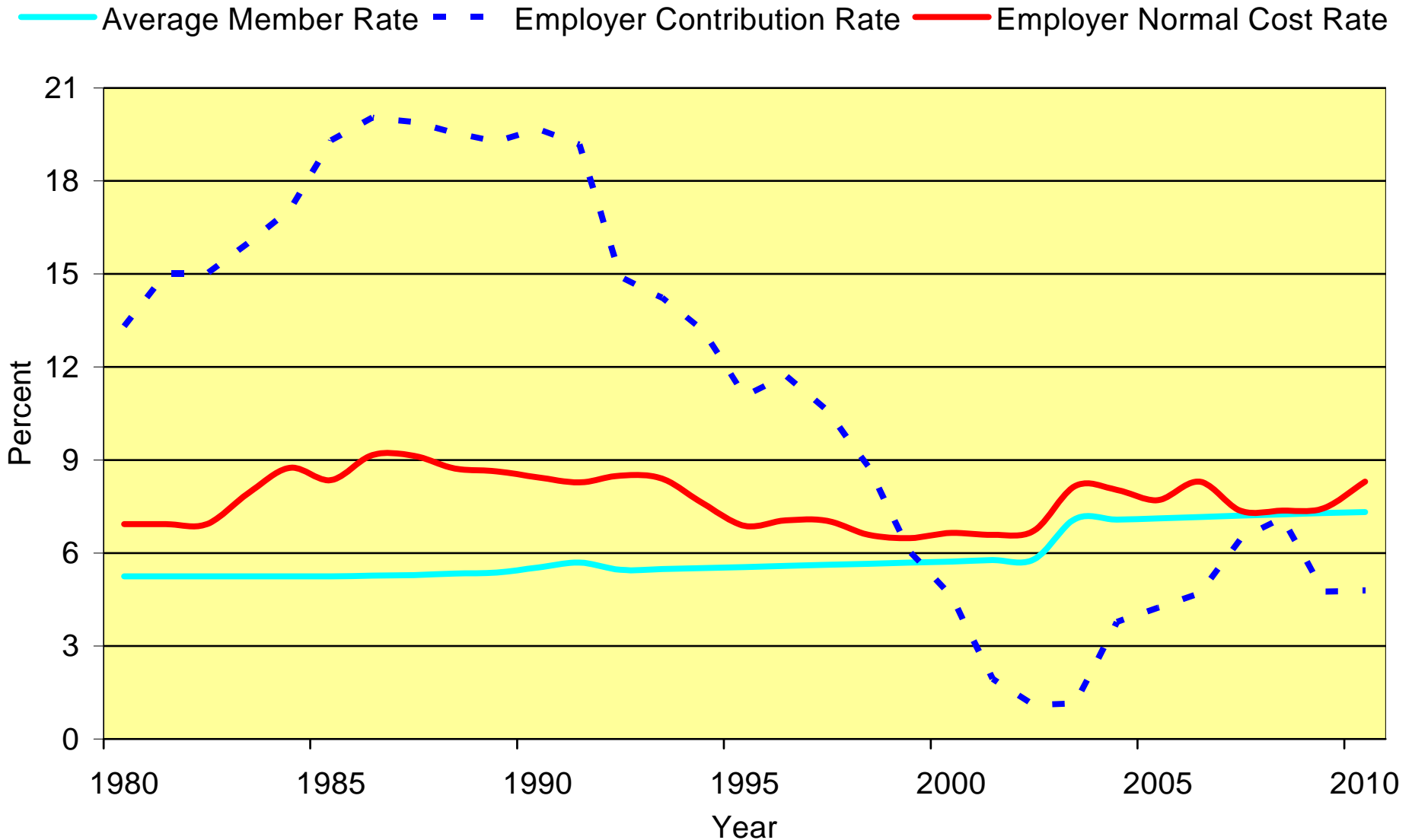
Employer Contribution Rate

- Employer contribution rate for the current fiscal year 2009/2010 - ends June 30, 2010
 - The FY 2009/2010 rate is 4.78%
 - The 4.78% rate is composed of a 0.78% rate for health insurance premium assistance and a pension rate of 4.00%
 - School payroll for FY 2009-2010 is estimated to be \$12.9 billion
- Employer contribution rate for the next fiscal year 2010/2011 - begins on July 1, 2010
 - On December 11, 2009, PSERS Board certified the employer contribution rate for FY 2010-2011
 - The rate for FY 2010-2011 is 8.22% (0.64% for health insurance premium assistance and 7.58% for the pension rate)
 - School payroll for FY 2010-2011 is estimated to be \$13.5 billion
- The Commonwealth reimburses school employers for not less than 50% of the employer contribution rate
 - Statewide average is 55/45% split with the Commonwealth paying 55%

Employer Contribution Rate

- The pension component of the employer contribution rate has been below the employer normal cost for 13 years
 - The “**employer normal cost**” is the amount needed from the school employers to fund the benefits earned by the active members for that year
 - It can be thought of as the minimum payment that would be made by school employers if the System’s actual experience perfectly matched its economic and demographic operating assumptions
- PSERS’ funded status is **79.2%** as of June 30, 2009, down from 86.0% as of June 30, 2008

History of PSERS' Contribution Rates as a Percent of Payroll



History of the Employer Contribution Rate from the Peak Rate in 1986

SCHOOL YEAR ENDED	TOTAL EMPLOYER CONTRIBUTION RATE	AVG. EMPLOYEE CONTRIBUTION RATE
1986	20.040%	5.27%
1987	19.900%	5.29%
1988	19.540%	5.34%
1989	19.270%	5.37%
1990	19.680%	5.53%
1991	19.180%	5.69%
1992	14.900%	5.46%
1993	14.240%	5.48%
1994	13.170%	5.51%
1995	11.060%	5.55%
1996	11.720%	5.59%
1997	10.600%	5.62%
1998	8.760%	5.65%
1999	6.040%	5.69%
2000	4.610%	5.72%
2001	1.940%	5.77%
2002	1.090%	6.43%
2003	1.150%	7.10%
2004	3.770%	7.08%
2005	4.230%	7.12%
2006	4.690%	7.16%
2007	6.460%	7.21%
2008	7.130%	7.25%
2009	4.760%	7.29%
2010	4.780%	7.32%
2011	8.22%	7.34%

Projected Employer Contribution Rate Spike



Public School Employees' Retirement System of Pennsylvania
Projection of Contribution Rates and Funded Ratios As of June 30, 2009

(The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.)

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability (\$ Millions)
2008	\$ 12,881,244	(2.82) %	4.00 %	7.25 %	6.68 %	(0.24) %	6.44 %	0.69 %	7.13 %		86.0 %	\$ 9,923.0
2009	12,500,000	(26.54)	4.00	7.29	6.68	(3.37)	3.31	0.76	4.76		79.2	15,739.2
2010	12,899,000	8.00	4.00	7.32	7.35	(3.72)	3.63	0.78	4.78	\$ 616,572	73.4	20,898.6
2011	13,510,000	8.00	4.00	7.34	8.08	(0.50)	7.58	0.64	8.22	1,110,522	66.8	27,049.9
2012	13,920,859	8.00	4.00	7.37	8.02	1.85	9.87	0.72	10.59	1,474,219	58.3	35,213.4
2013	14,345,321	8.00	4.00	7.38	8.00	20.50	28.50	0.72	29.22	4,191,703	54.2	40,138.3
2014	14,797,664	8.00	4.00	7.40	7.96	23.42	31.38	0.71	32.09	4,748,570	55.1	40,732.8
2015	15,280,148	8.00	4.00	7.42	7.93	24.97	32.90	0.70	33.60	5,134,130	56.7	40,743.0
2016	15,794,512	8.00	4.00	7.43	7.91	24.68	32.59	0.68	33.27	5,254,834	58.5	40,443.9
2017	16,341,270	8.00	4.00	7.44	7.89	24.18	32.07	0.67	32.74	5,350,132	60.5	39,884.5
2018	16,926,735	8.00	4.00	7.45	7.87	23.54	31.41	0.65	32.06	5,426,711	62.6	39,149.0
2019	17,557,664	8.00	4.00	7.46	7.85	22.78	30.63	0.64	31.27	5,490,282	64.7	38,312.8
2020	18,232,076	8.00	4.00	7.46	7.84	21.97	29.81	0.61	30.42	5,546,198	66.8	37,388.2
2021	18,948,040	8.00	4.00	7.47	7.82	21.15	28.97	0.59	29.56	5,601,041	68.9	36,378.2
2022	19,703,172	8.00	4.00	7.47	7.81	20.35	28.16	0.59	28.75	5,664,662	71.0	35,282.2
2023	20,493,701	8.00	4.00	7.48	7.79	19.57	27.36	0.59	27.95	5,727,989	73.0	34,096.3
2024	21,321,539	8.00	4.00	7.48	7.78	18.81	26.59	0.59	27.18	5,795,194	75.0	32,814.5
2025	22,185,011	8.00	4.00	7.48	7.77	18.08	25.85	0.59	26.44	5,865,717	77.0	31,429.6
2026	23,081,835	8.00	4.00	7.48	7.77	17.38	25.15	0.59	25.74	5,941,264	79.0	29,933.6
2027	24,006,797	8.00	4.00	7.49	7.75	16.71	24.46	0.59	25.05	6,013,703	80.9	28,317.8
2028	24,958,599	8.00	4.00	7.49	7.74	16.07	23.81	0.59	24.40	6,089,898	82.8	26,572.8
2029	25,937,456	8.00	4.00	7.49	7.73	15.46	23.19	0.59	23.78	6,167,927	84.6	24,688.1
2030	26,943,962	8.00	4.00	7.49	7.72	14.88	22.60	0.59	23.19	6,248,305	86.5	22,652.6
2031	27,978,093	8.00	4.00	7.49	7.71	14.33	22.04	0.59	22.63	6,331,442	88.2	20,454.2
2032	29,041,527	8.00	4.00	7.49	7.70	13.81	21.51	0.59	22.10	6,418,177	90.0	18,080.0
2033	30,136,493	8.00	4.00	7.49	7.69	11.18	18.87	0.59	19.46	5,864,562	91.4	16,158.1
2034	31,268,441	8.00	4.00	7.49	7.68	9.89	17.57	0.59	18.16	5,678,349	92.7	14,357.1
2035	32,446,271	8.00	4.00	7.50	7.66	8.57	16.23	0.59	16.82	5,457,463	93.8	12,724.7
2036	33,675,824	8.00	4.00	7.50	7.64	7.42	15.06	0.59	15.65	5,270,266	94.7	11,242.6
2037	34,956,565	8.00	4.00	7.50	7.63	6.11	13.74	0.59	14.33	5,009,276	95.5	10,006.0
2038	36,292,078	8.00	4.00	7.50	7.62	5.67	13.29	0.59	13.88	5,037,340	96.2	8,748.9
2039	37,690,635	8.00	4.00	7.50	7.60	6.45	14.05	0.59	14.64	5,517,909	97.1	7,017.7

Genesis of Rate Spike



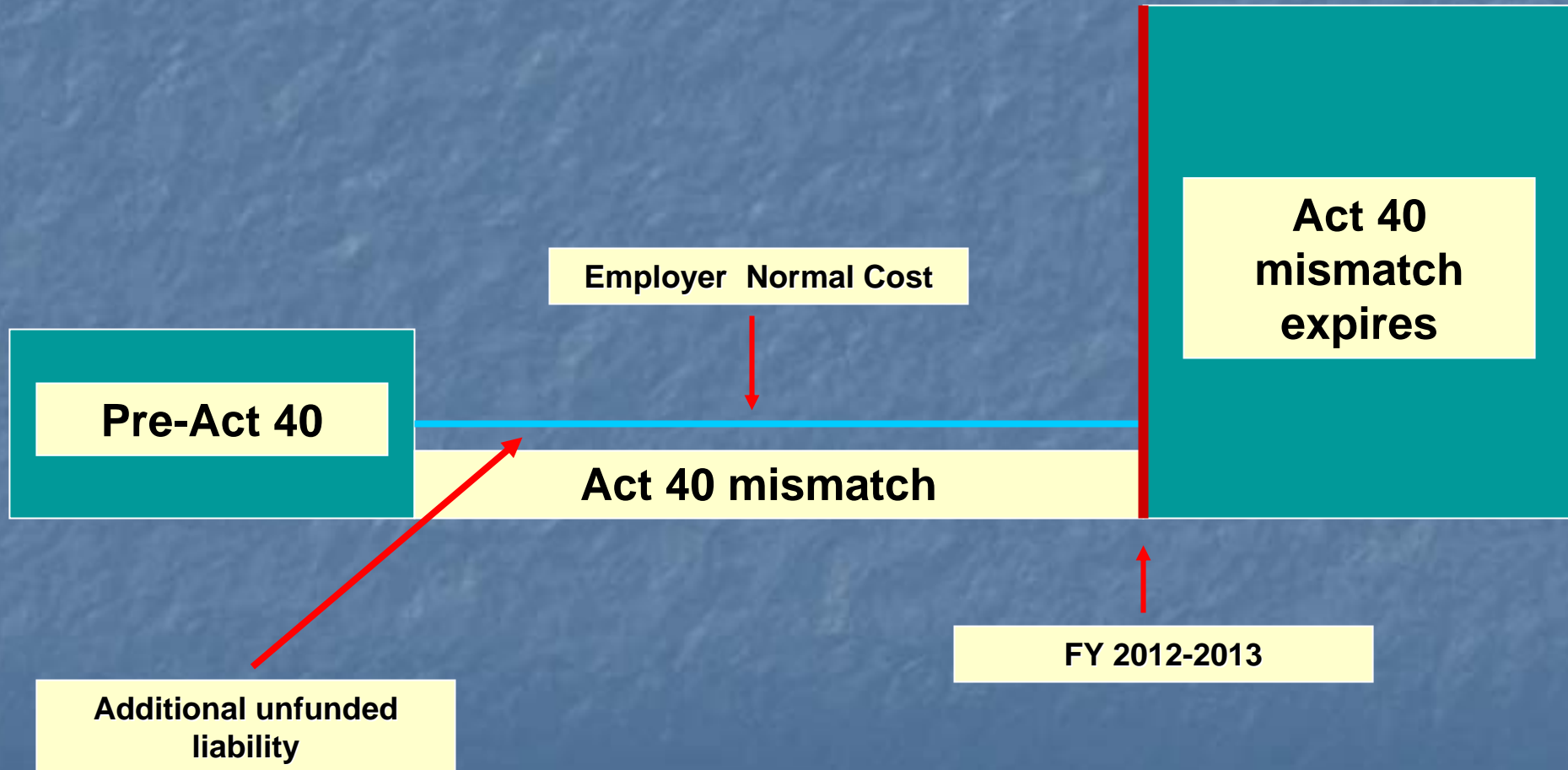
Employer Contribution Rate Spike

- The projected sharp rise in PSERS' employer contribution rate from 10.59% in FY 2011-2012 to an estimated **29.22%** in FY 2012/2013 is primarily the result of:
 - The unfunded liabilities primarily created by
 - The FYs' 2001-2003, 2008-2009 down investment markets
 - Earnings assumption change
 - Cost of deferring contributions
 - Act 2001-9 multiplier increase
 - The Act 2002-38 phased COLA
 - The actuarial funding changes made by Acts 2002-38 and 2003-40

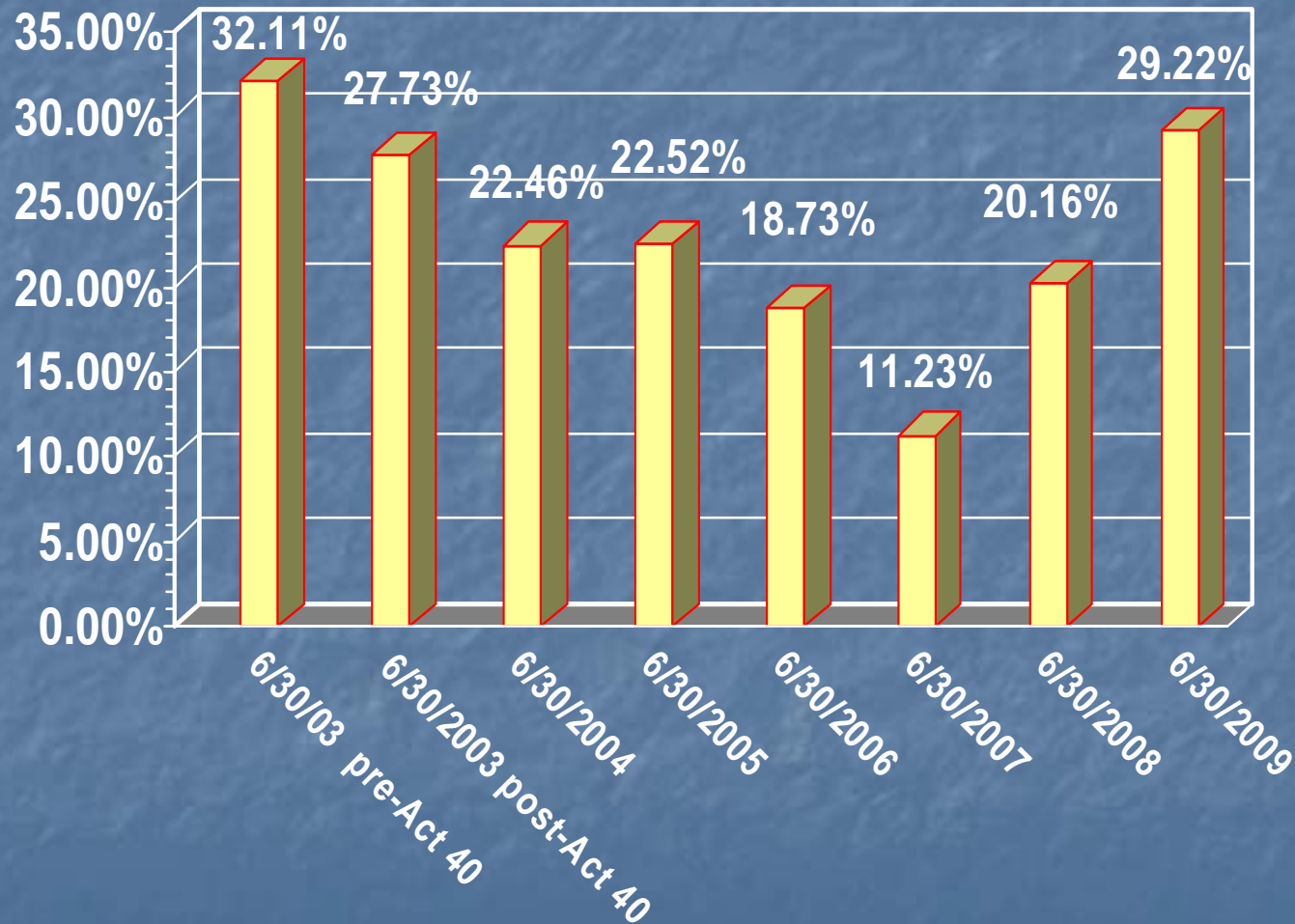
Employer Contribution Rate Spike

- Without going into details about the funding changes of Act 38 and Act 40, each had the effect of pushing off liability to the future to provide fiscal relief to both the Commonwealth and School Employers during recessionary times
 - Of the two, Act 40 had the greatest impact as it created a mismatch of the amortization of PSERS' actuarial gains and losses for 10 years ending with the start of FY 2012-2013
 - This technique lowered the employer contribution rate below the employer normal cost notwithstanding the existence of unfunded liability
 - This artificial suppression has also resulted in additional unfunded liability for PSERS

Employer Contribution Rate Spike



History of PSERS' Employer Contribution Rate Spike in FY 2012-2013



Options to resolve the rate spike



Options

- Fundamentally, there are only three ways to address the funding issues at the Pension Fund
 - Increase the funding of the System
 - Decrease/cut the costs/liabilities of the System
 - Defer the liabilities of the System

Options

- **Increase Funding to the System:**
 - **Increased employer contributions**
 - Employer rate are already projected to increase significantly in FY 2012-2013 and are expected to continue well into the future beyond FY 2012-2013
 - Unlikely the Commonwealth and School Employers can afford these increased costs **without significant and perhaps prohibitive tax increases at the State and/or Local levels**
 - **Increased employee contributions**
 - Can only occur prospectively for new employees due to constitutional impairment of contract issues, therefore not a significant impact on current unfunded liabilities
 - **Significant increased investment returns**
 - Unlikely, under current market conditions

Options

- **Seek another source of funding:**
 - **Use of Federal stimulus funds**
 - Unclear if these funds can legally be directly used to fund pension contributions
 - Obtain a formal Federal bailout of public pension funds
 - Little or no discussion of this option is occurring
 - **Use the proceeds of a pension obligation bond (POB)**
 - POB's are debt instruments issued by a governmental entity to fund all or a portion of the Unfunded Actuarially Accrued Liabilities for pension and/or Other Post Employment Benefits
 - Significant risk involved to the Plan Sponsor/Bond issuer if the pension plan's investment returns are less than the debt costs
 - Potential legal issue whether the Commonwealth can issue a POB
 - May require the approval of the voters via a referendum

Options

- Decrease/cut the costs or liabilities of the System to potentially solve funding issues
 - Convert PSERS to a Defined Contribution or Hybrid plan
 - A Hybrid plan typically is a combination of both DC and DB components
 - Proposed by PSBA
 - Maintain the existing Defined Benefit plan with benefit modifications/cuts, e.g.:
 - Reduce multiplier/repeal Act 2001-9
 - Change terms of retirement
 - Return to a 10-year vesting period
 - Prohibit the withdrawal of a member's contribution

Options

- Each of these would have limited impact on current funding issues because it could only be done prospectively for new employees
 - Any such changes would have to be prospective only, (meaning impacting new hires after the effective date of the change), to avoid the PA Constitution's prohibition against the impairment of a contract (Article I, Section 17)
 - The courts have ruled that PSERS' pension benefits are contracts with the existing members of the System, **regardless of vesting**, and thus subject to the constitutional impairment of contract prohibition
 - See e.g. *Pennsylvania Federation of Teachers v. School District of Philadelphia*, 484 A.2d 751 (Pa. 1984) and *American Federation of State, County and Municipal Employees, AFL-CIO, v. Commonwealth*, 479 A.2d 962 (Pa. 1984)
 - Each, however, would reduce the long term liability of the System and thus reduce the rate plateau

Options

- **Defer liabilities at the System into the future to marginally postpone the impact of funding issues at the System**
 - **Further adjust the actuarial funding methods at the System**
 - No single or combination of changes resolves the rate spike
 - **The Governor's original funding proposal**
 - Uses legislatively prescribed employer contribution rate collars and floors that are tied to the funding status of the System
- **A copy of the proposal is available at the following link:**
 - http://www.budget.state.pa.us/portal/server.pt/community/financial_reports/4574

Options

- **Governor's latest funding proposal**
 - Fresh start accrued liability over thirty years
 - 1% rate cap for FY 2010-2011
 - Will require the PSERB to re-certify the employer contribution rate established in December 2009
 - 3% rate cap for FY 2011-2012 and thereafter
 - For more information on the Governor's proposal see pages 20-21 in the Governor's 2010-2011 Budget in brief available at the following link:
 - http://www.governor.state.pa.us/portal/server.pt/gateway/PTARGS_0_2_24980_2985_368304_43/http%3B/pubcontent.state.pa.us/publishedcontent/publish/cop_general_government_operations/pagov/media/latest_news/budget_in_brief_2010_11_final.pdf

**** - Assumes annual investment rate of return of 8%

Market Returns Scenario 1

*Alternative Funding assumptions:

- Fresh-start accrued liability payments over 30 years.

- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Employee Contribution Rate	Current Law		Alternative Funding*		Pension Rate Floor	Health Care Contribution	Total Employer Rate		Funded Ratio	
				Employer Normal Cost	Unfunded Liability Rate	Employer Normal Cost	Unfunded Liability Rate			Current Law	Alternative Funding*	Current Law	Alternative Funding*
2008	\$ 12,881,244	(2.82) %	7.25 %	6.68 %	(0.24) %	6.68 %	(0.24) %	4.00 %	0.69 %	7.13 %	7.13 %	86.0 %	86.0 %
2009	12,500,000	(26.54)	7.29	6.68	(3.37)	6.68	(3.37)	4.00	0.76	4.76	4.76	79.2	79.2
2010	12,899,000	8.00	7.32	7.35	(3.72)	7.35	(3.72)	4.00	0.78	4.78	4.78	73.4	73.4
2011	13,510,000	8.00	7.34	8.08	(0.50)	8.08	11.51	4.00	0.64	8.22	5.64	66.8	66.3
2012	13,920,859	8.00	7.37	8.02	1.85	8.02	13.51	4.00	0.72	10.59	8.72	58.3	57.4
2013	14,345,321	8.00	7.38	8.00	20.50	8.00	17.43	4.00	0.72	29.22	11.72	54.2	50.3
2014	14,797,664	8.00	7.40	7.96	23.42	7.96	22.22	4.00	0.71	32.09	14.71	55.1	48.1
2015	15,280,148	8.00	7.42	7.93	24.97	7.93	26.04	4.00	0.70	33.60	17.70	56.7	46.7
2016	15,794,512	8.00	7.43	7.91	24.68	7.91	27.22	4.00	0.68	33.27	20.68	58.5	46.0
2017	16,341,270	8.00	7.44	7.89	24.18	7.89	28.23	4.00	0.67	32.74	23.67	60.5	45.9
2018	16,926,735	8.00	7.45	7.87	23.54	7.87	28.85	4.00	0.65	32.06	26.65	62.6	46.5
2019	17,557,664	8.00	7.46	7.85	22.78	7.85	29.12	4.00	0.64	31.27	29.64	64.7	47.6
2020	18,232,076	8.00	7.46	7.84	21.97	7.84	29.07	4.00	0.61	30.42	32.61	66.8	49.4
2021	18,948,040	8.00	7.47	7.82	21.15	7.82	28.72	4.00	0.59	29.56	35.59	68.9	51.7
2022	19,703,172	8.00	7.47	7.81	20.35	7.81	28.08	4.00	0.59	28.75	36.48	71.0	54.4
2023	20,493,701	8.00	7.48	7.79	19.57	7.79	27.14	4.00	0.59	27.95	35.52	73.0	57.0
2024	21,321,539	8.00	7.48	7.78	18.81	7.78	26.09	4.00	0.59	27.18	34.46	75.0	59.6
2025	22,185,011	8.00	7.48	7.77	18.08	7.77	25.08	4.00	0.59	26.44	33.44	77.0	62.2
2026	23,081,835	8.00	7.48	7.77	17.38	7.77	24.10	4.00	0.59	25.74	32.46	79.0	64.6
2027	24,006,797	8.00	7.49	7.75	16.71	7.75	23.17	4.00	0.59	25.05	31.51	80.9	67.1
2028	24,958,599	8.00	7.49	7.74	16.07	7.74	22.29	4.00	0.59	24.40	30.62	82.8	69.4
2029	25,937,456	8.00	7.49	7.73	15.46	7.73	21.45	4.00	0.59	23.78	29.77	84.6	71.8
2030	26,943,962	8.00	7.49	7.72	14.88	7.72	20.65	4.00	0.59	23.19	28.96	86.5	74.0
2031	27,978,093	8.00	7.49	7.71	14.33	7.71	19.88	4.00	0.59	22.63	28.18	88.2	76.2
2032	29,041,527	8.00	7.49	7.70	13.81	7.70	19.16	4.00	0.59	22.10	27.45	90.0	78.4
2033	30,136,493	8.00	7.49	7.69	11.18	7.69	18.46	4.00	0.59	19.46	26.74	91.4	80.5
2034	31,268,441	8.00	7.49	7.68	9.89	7.68	17.79	4.00	0.59	18.16	26.06	92.7	82.6
2035	32,446,271	8.00	7.50	7.66	8.57	7.66	17.15	4.00	0.59	16.82	25.40	93.8	84.6
2036	33,675,824	8.00	7.50	7.64	7.42	7.64	16.52	4.00	0.59	15.65	24.75	94.7	86.6
2037	34,956,565	8.00	7.50	7.63	6.11	7.63	15.91	4.00	0.59	14.33	24.13	95.5	88.6
2038	36,292,078	8.00	7.50	7.62	5.67	7.62	15.33	4.00	0.59	13.88	23.54	96.2	90.6
2039	37,690,635	8.00	7.50	7.60	6.45	7.60	14.76	4.00	0.59	14.64	22.95	97.1	92.5

The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.

Public School Employees' Retirement System of Pennsylvania

Projection of Contribution Rates and Funded Ratios As of June 30, 2009

Market Returns and Pension Rate Floors Set by User

Contributions Determined under Current Law

Market Returns Scenario 1

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability (\$ Millions)	GASB Compliant?
2008	\$ 12,881,244	(2.82) %	4.00 %	7.25 %	6.68 %	(0.24) %	6.44 %	0.69 %	7.13 %		86.0 %	\$ 9,923.0	
2009	12,500,000	(26.54)	4.00	7.29	6.68	(3.37)	3.31	0.76	4.76		79.2	15,739.2	
2010	12,899,000	8.00	4.00	7.32	7.35	(3.72)	3.63	0.78	4.78	\$ 616,572	73.4	20,898.6	
2011	13,510,000	8.00	4.00	7.34	8.08	(0.50)	7.58	0.64	8.22	1,110,522	66.8	27,049.9	
2012	13,920,859	8.00	4.00	7.37	8.02	1.85	9.87	0.72	10.59	1,474,219	58.3	35,213.4	
2013	14,345,321	8.00	4.00	7.38	8.00	20.50	28.50	0.72	29.22	4,191,703	54.2	40,138.3	yes
2014	14,797,664	8.00	4.00	7.40	7.96	23.42	31.38	0.71	32.09	4,748,570	55.1	40,732.8	yes
2015	15,280,148	8.00	4.00	7.42	7.93	24.97	32.90	0.70	33.60	5,134,130	56.7	40,743.0	yes
2016	15,794,512	8.00	4.00	7.43	7.91	24.68	32.59	0.68	33.27	5,254,834	58.5	40,443.9	yes
2017	16,341,270	8.00	4.00	7.44	7.89	24.18	32.07	0.67	32.74	5,350,132	60.5	39,884.5	yes
2018	16,926,735	8.00	4.00	7.45	7.87	23.54	31.41	0.65	32.06	5,426,711	62.6	39,149.0	yes
2019	17,557,664	8.00	4.00	7.46	7.85	22.78	30.63	0.64	31.27	5,490,282	64.7	38,312.8	yes
2020	18,232,076	8.00	4.00	7.46	7.84	21.97	29.81	0.61	30.42	5,546,198	66.8	37,388.2	yes
2021	18,948,040	8.00	4.00	7.47	7.82	21.15	28.97	0.59	29.56	5,601,041	68.9	36,378.2	yes
2022	19,703,172	8.00	4.00	7.47	7.81	20.35	28.16	0.59	28.75	5,664,662	71.0	35,282.2	yes
2023	20,493,701	8.00	4.00	7.48	7.79	19.57	27.36	0.59	27.95	5,727,989	73.0	34,096.3	yes
2024	21,321,539	8.00	4.00	7.48	7.78	18.81	26.59	0.59	27.18	5,795,194	75.0	32,814.5	yes
2025	22,185,011	8.00	4.00	7.48	7.77	18.08	25.85	0.59	26.44	5,865,717	77.0	31,429.6	yes
2026	23,081,835	8.00	4.00	7.48	7.77	17.38	25.15	0.59	25.74	5,941,264	79.0	29,933.6	yes
2027	24,006,797	8.00	4.00	7.49	7.75	16.71	24.46	0.59	25.05	6,013,703	80.9	28,317.8	yes
2028	24,958,599	8.00	4.00	7.49	7.74	16.07	23.81	0.59	24.40	6,089,898	82.8	26,572.8	yes
2029	25,937,456	8.00	4.00	7.49	7.73	15.46	23.19	0.59	23.78	6,167,927	84.6	24,688.1	yes
2030	26,943,962	8.00	4.00	7.49	7.72	14.88	22.60	0.59	23.19	6,248,305	86.5	22,652.6	yes
2031	27,978,093	8.00	4.00	7.49	7.71	14.33	22.04	0.59	22.63	6,331,442	88.2	20,454.2	yes
2032	29,041,527	8.00	4.00	7.49	7.70	13.81	21.51	0.59	22.10	6,418,177	90.0	18,080.0	yes
2033	30,136,493	8.00	4.00	7.49	7.69	11.18	18.87	0.59	19.46	5,864,562	91.4	16,158.1	yes
2034	31,268,441	8.00	4.00	7.49	7.68	9.89	17.57	0.59	18.16	5,678,349	92.7	14,357.1	yes
2035	32,446,271	8.00	4.00	7.50	7.66	8.57	16.23	0.59	16.82	5,457,463	93.8	12,724.7	yes
2036	33,675,824	8.00	4.00	7.50	7.64	7.42	15.06	0.59	15.65	5,270,266	94.7	11,242.6	yes
2037	34,956,565	8.00	4.00	7.50	7.63	6.11	13.74	0.59	14.33	5,009,276	95.5	10,006.0	yes
2038	36,292,078	8.00	4.00	7.50	7.62	5.67	13.29	0.59	13.88	5,037,340	96.2	8,748.9	yes
2039	37,690,635	8.00	4.00	7.50	7.60	6.45	14.05	0.59	14.64	5,517,909	97.1	7,017.7	yes

The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.

Public School Employees' Retirement System of Pennsylvania

Projection of Contribution Rates and Funded Ratios As of June 30, 2009

Market Returns and Pension Rate Floors Set by User

Market Returns Scenario 1

Alternative Funding assumptions: - Fresh-start accrued liability payments over 30 years.

- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability (\$ Millions)	GASB Compliant?
2008	\$ 12,881,244	(2.82) %	4.00 %	7.25 %	6.68 %	(0.24) %	6.44 %	0.69 %	7.13 %		86.0 %	\$ 9,923.0	
2009	12,500,000	(26.54)	4.00	7.29	6.68	(3.37)	3.31	0.76	4.76		79.2	15,739.2	
2010	12,899,000	8.00	4.00	7.32	7.35	(3.72)	3.63	0.78	4.78	\$ 616,572	73.4	20,898.6	
2011	13,510,000	8.00	4.00	7.34	8.08	11.51	19.59	0.64	5.64	761,964	66.3	27,477.1	
2012	13,920,859	8.00	4.00	7.37	8.02	13.51	21.53	0.72	8.72	1,213,899	57.4	36,010.9	
2013	14,345,321	8.00	4.00	7.38	8.00	17.43	25.43	0.72	11.72	1,681,272	50.3	43,592.9	
2014	14,797,664	8.00	4.00	7.40	7.96	22.22	30.18	0.71	14.71	2,176,736	48.1	47,130.6	
2015	15,280,148	8.00	4.00	7.42	7.93	26.04	33.97	0.70	17.70	2,704,586	46.7	50,185.9	
2016	15,794,512	8.00	4.00	7.43	7.91	27.22	35.13	0.68	20.68	3,266,305	46.0	52,725.0	
2017	16,341,270	8.00	4.00	7.44	7.89	28.23	36.12	0.67	23.67	3,867,979	45.9	54,716.7	
2018	16,926,735	8.00	4.00	7.45	7.87	28.85	36.72	0.65	26.65	4,510,975	46.5	56,155.4	
2019	17,557,664	8.00	4.00	7.46	7.85	29.12	36.97	0.64	29.64	5,204,092	47.6	57,021.6	yes
2020	18,232,076	8.00	4.00	7.46	7.84	29.07	36.91	0.61	32.61	5,945,480	49.4	57,230.2	yes
2021	18,948,040	8.00	4.00	7.47	7.82	28.72	36.54	0.59	35.59	6,743,607	51.7	56,676.9	yes
2022	19,703,172	8.00	4.00	7.47	7.81	28.08	35.89	0.59	36.48	7,187,717	54.4	55,681.4	yes
2023	20,493,701	8.00	4.00	7.48	7.79	27.14	34.93	0.59	35.52	7,279,363	57.0	54,574.9	yes
2024	21,321,539	8.00	4.00	7.48	7.78	26.09	33.87	0.59	34.46	7,347,402	59.6	53,378.8	yes
2025	22,185,011	8.00	4.00	7.48	7.77	25.08	32.85	0.59	33.44	7,418,668	62.2	52,086.5	yes
2026	23,081,835	8.00	4.00	7.48	7.77	24.10	31.87	0.59	32.46	7,492,364	64.6	50,690.5	yes
2027	24,006,797	8.00	4.00	7.49	7.75	23.17	30.92	0.59	31.51	7,564,542	67.1	49,182.8	yes
2028	24,958,599	8.00	4.00	7.49	7.74	22.29	30.03	0.59	30.62	7,642,323	69.4	47,554.4	yes
2029	25,937,456	8.00	4.00	7.49	7.73	21.45	29.18	0.59	29.77	7,721,581	71.8	45,795.6	yes
2030	26,943,962	8.00	4.00	7.49	7.72	20.65	28.37	0.59	28.96	7,802,971	74.0	43,896.2	yes
2031	27,978,093	8.00	4.00	7.49	7.71	19.88	27.59	0.59	28.18	7,884,227	76.2	41,844.8	yes
2032	29,041,527	8.00	4.00	7.49	7.70	19.16	26.86	0.59	27.45	7,971,899	78.4	39,629.3	yes
2033	30,136,493	8.00	4.00	7.49	7.69	18.46	26.15	0.59	26.74	8,058,498	80.5	37,236.6	yes
2034	31,268,441	8.00	4.00	7.49	7.68	17.79	25.47	0.59	26.06	8,148,556	82.6	34,652.5	yes
2035	32,446,271	8.00	4.00	7.50	7.66	17.15	24.81	0.59	25.40	8,241,353	84.6	31,861.6	yes
2036	33,675,824	8.00	4.00	7.50	7.64	16.52	24.16	0.59	24.75	8,334,766	86.6	28,847.4	yes
2037	34,956,565	8.00	4.00	7.50	7.63	15.91	23.54	0.59	24.13	8,435,019	88.6	25,592.1	yes
2038	36,292,078	8.00	4.00	7.50	7.62	15.33	22.95	0.59	23.54	8,543,155	90.6	22,076.4	yes
2039	37,690,635	8.00	4.00	7.50	7.60	14.76	22.36	0.59	22.95	8,650,001	92.5	18,279.4	yes

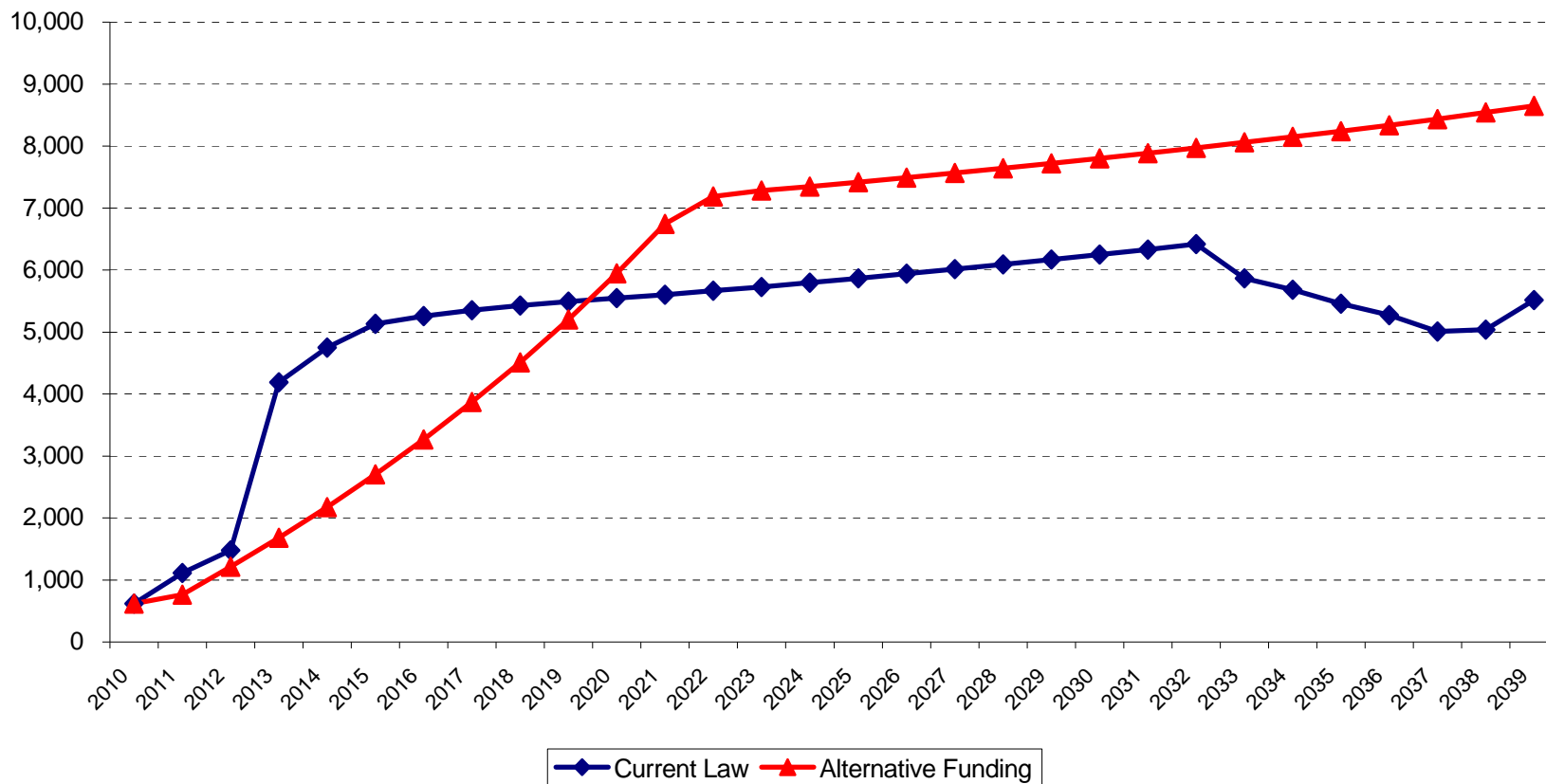
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Public School Employees' Retirement System of Pennsylvania
Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding
Market Returns Scenario 1

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

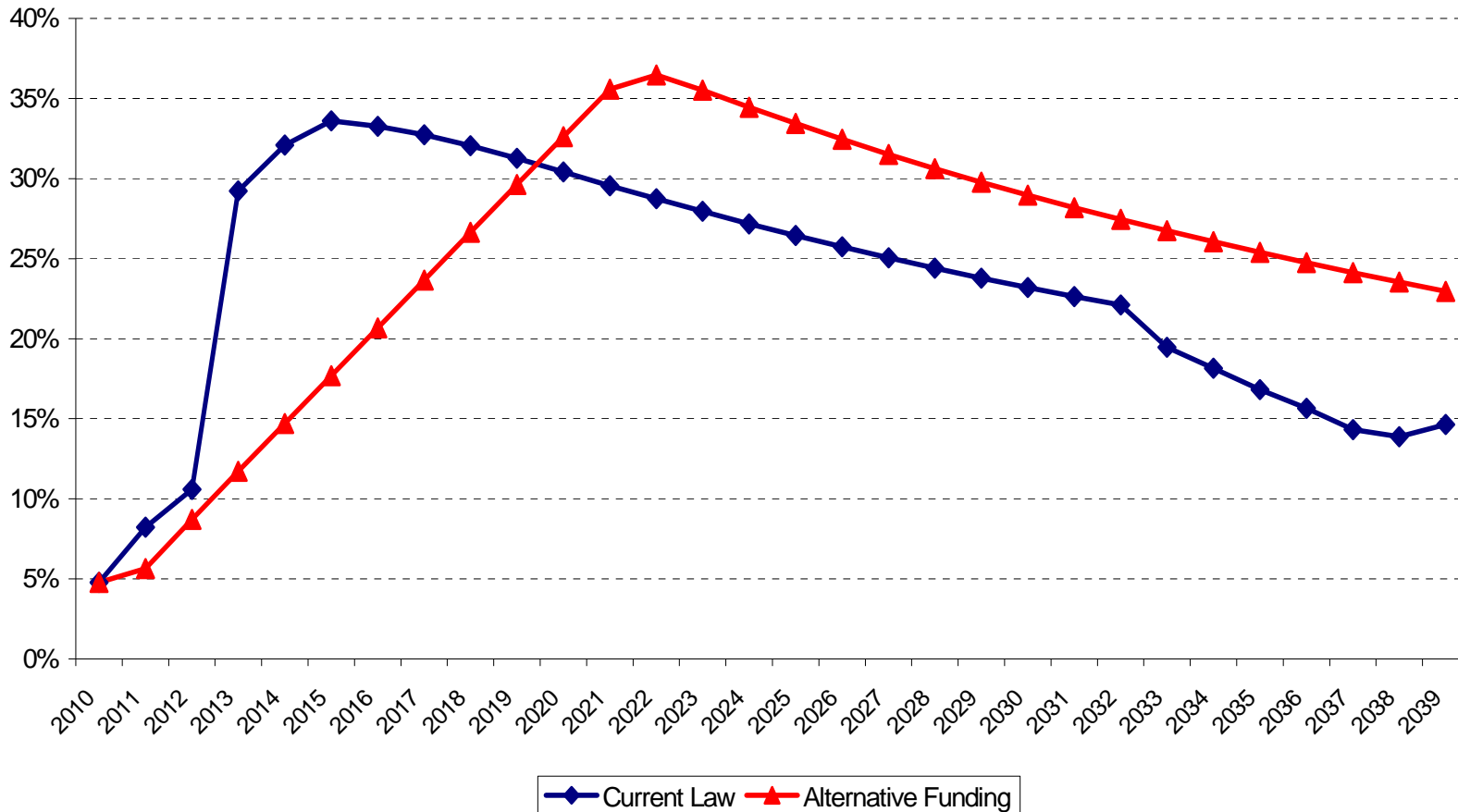
Projection of Employer Contribution Dollars (in Millions)



**Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding
Market Returns Scenario 1**

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

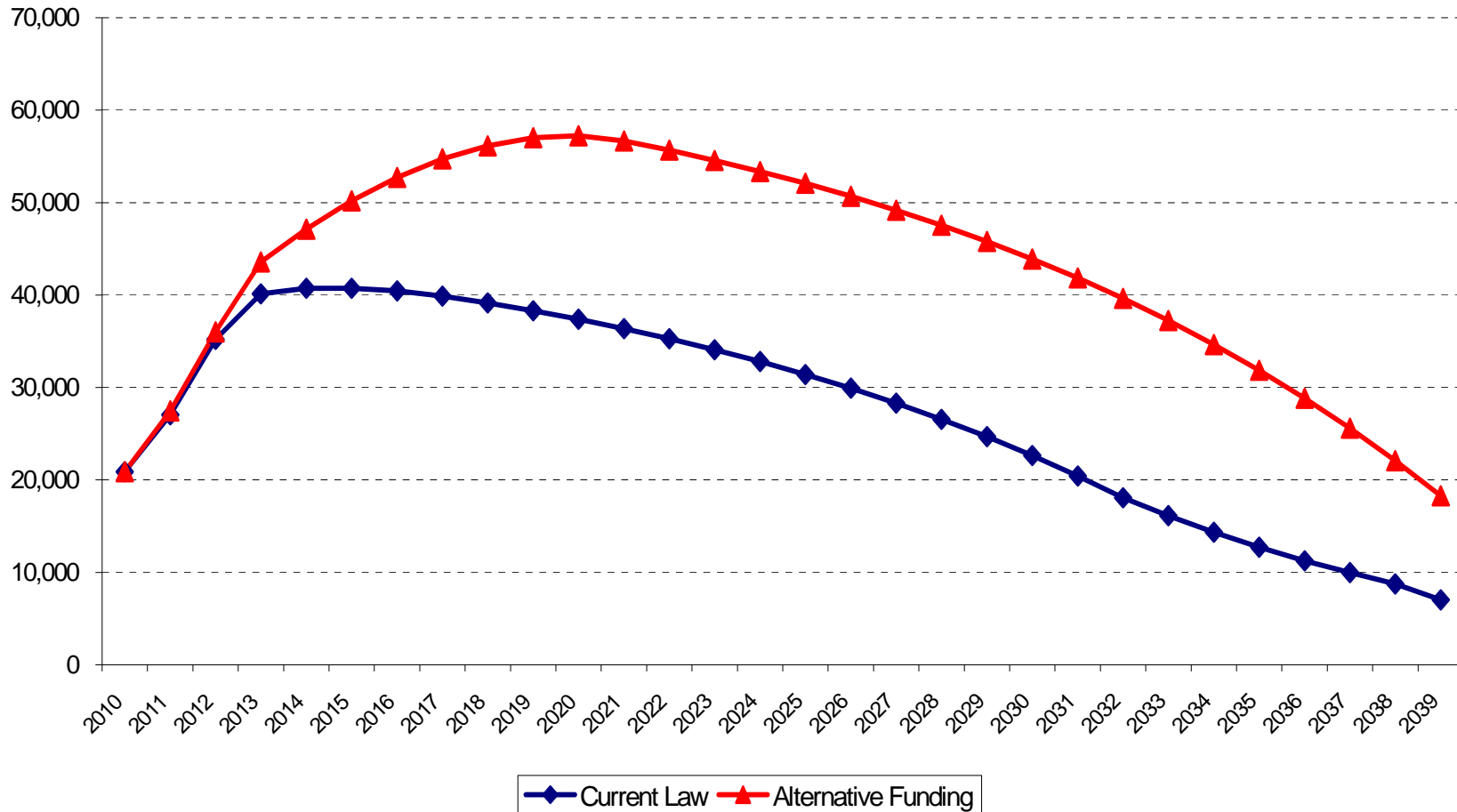
Projection of Total Employer Contribution Rate

Public School Employees' Retirement System of Pennsylvania
Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding
Market Returns Scenario 1

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

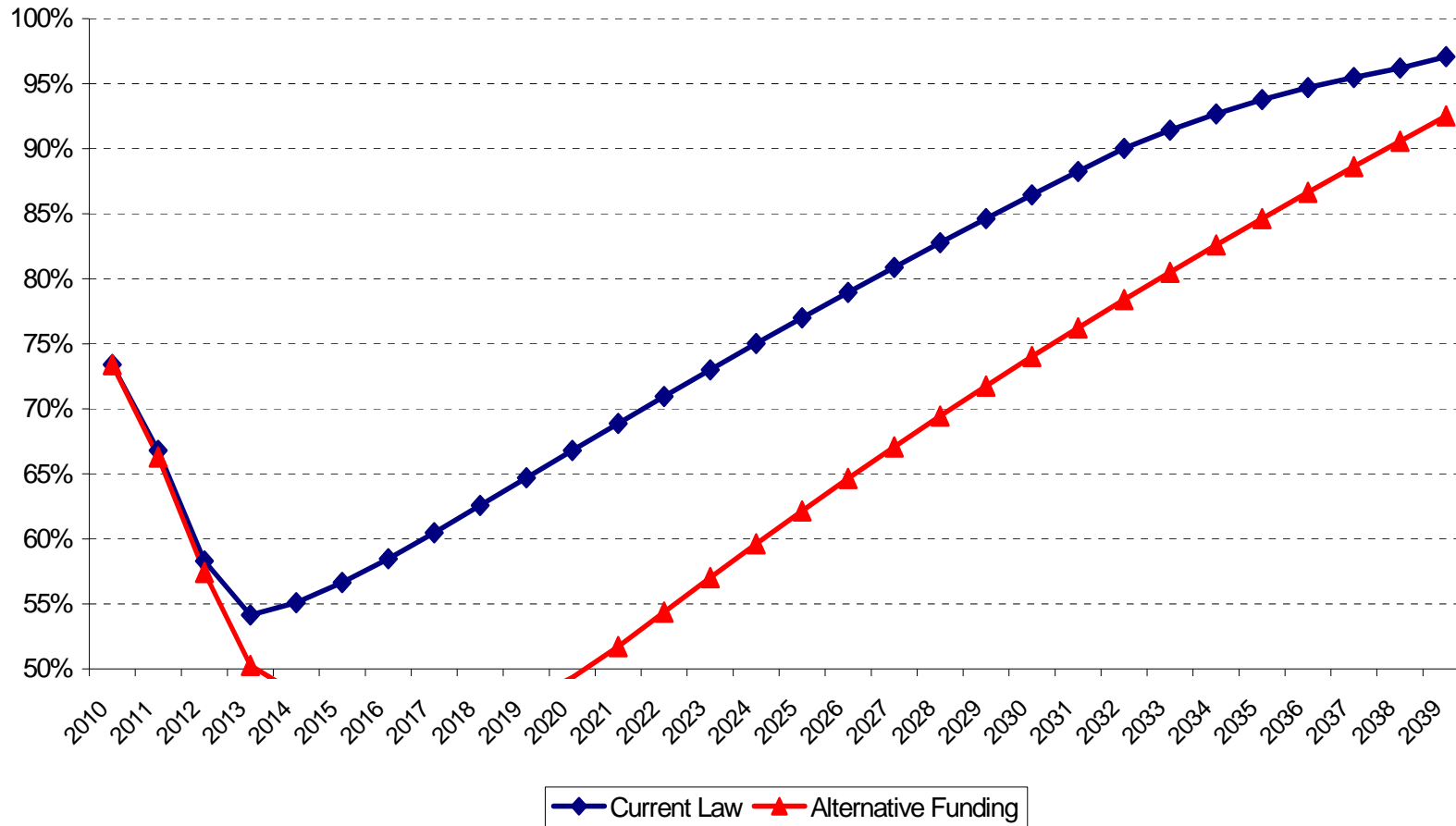
Projection of Unfunded Liability (in Millions)



Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding
Market Returns Scenario 1

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

Projection of Funded Ratio

Options

- Observations concerning the Governor's latest proposal:
 - Next year's rate of 8.22% would be reduced to 5.64%
 - The rate spike in FY 2012-2013 would be reduced from 29.22% to 11.72%
 - The proposal provides short term cash flow relief by significant additional deferral of liability and thus significant additional cost
 - The new and higher rate peak is projected to be 36.48% in FY 2021-2022 as opposed to 33.60% in FY 2014-2015
 - PSERS' funding level will be driven below 50% for seven years, presuming PSERS meets its 8% investment return assumption
 - The proposal will aggravate PSERS' current liquidity concerns
 - The proposal makes PSERS more vulnerable to a future downturn in the investment markets

Public School Employees' Retirement System of Pennsylvania

Projection of Contribution Rates and Funded Ratios As of June 30, 2009

Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding

Market Returns Scenario 1

*Alternative Funding assumptions:

- Fresh-start accrued liability payments over 30 years.

- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1.00% and all succeeding years are limited to the prior FYE's pension rate + 3%.

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Employee Contribution Rate	Current Law		Alternative Funding*		Pension Rate Floor	Health Care Contribution	Total Employer Rate		Funded Ratio	
				Employer Normal Cost	Unfunded Liability Rate	Employer Normal Cost	Unfunded Liability Rate			Current Law	Alternative Funding*	Current Law	Alternative Funding*
2008	\$ 12,881,244	(2.82) %	7.25 %	6.68 %	(0.24) %	6.68 %	(0.24) %	4.00 %	0.69 %	7.13 %	7.13 %	86.0 %	86.0 %
2009	12,500,000	(26.54)	7.29	6.68	(3.37)	6.68	(3.37)	4.00	0.76	4.76	4.76	79.2	79.2
2010	12,899,000	8.00	7.32	7.35	(3.72)	7.35	(3.72)	4.00	0.78	4.78	4.78	73.4	73.4
2011	13,510,000	(7.40)	7.34	8.08	(0.50)	8.08	11.51	4.00	0.64	8.22	5.64	65.2	64.9
2012	13,920,819	(5.30)	7.37	8.02	1.85	8.02	13.51	4.00	0.72	10.59	8.72	54.0	53.3
2013	14,345,320	2.70	7.38	8.00	21.35	8.00	18.17	4.00	0.72	30.07	11.72	46.7	42.9
2014	14,797,664	8.00	7.40	7.96	25.72	7.96	24.33	4.00	0.71	34.39	14.71	44.5	37.3
2015	15,280,148	8.00	7.42	7.93	28.92	7.93	29.81	4.00	0.70	37.55	17.70	43.2	32.3
2016	15,794,512	8.00	7.43	7.91	30.22	7.91	32.77	4.00	0.68	38.81	20.68	43.6	29.3
2017	16,341,270	8.00	7.44	7.89	31.27	7.89	35.64	4.00	0.67	39.83	23.67	45.4	27.8
2018	16,926,735	8.00	7.45	7.87	31.34	7.87	37.47	4.00	0.65	39.86	26.65	47.9	27.4
2019	17,557,664	8.00	7.46	7.85	30.70	7.85	38.49	4.00	0.64	39.19	29.64	50.6	27.6
2020	18,232,076	8.00	7.46	7.84	29.73	7.84	39.03	4.00	0.61	38.18	32.61	53.3	28.4
2021	18,948,040	8.00	7.47	7.82	28.70	7.82	39.25	4.00	0.59	37.11	35.59	56.1	29.9
2022	19,703,172	8.00	7.47	7.81	27.64	7.81	39.16	4.00	0.59	36.04	38.59	58.8	32.1
2023	20,493,701	8.00	7.48	7.79	26.60	7.79	38.78	4.00	0.59	34.98	41.59	61.6	34.8
2024	21,321,539	8.00	7.48	7.78	25.57	7.78	38.11	4.00	0.59	33.94	44.59	64.2	38.3
2025	22,185,011	8.00	7.48	7.77	24.58	7.77	37.14	4.00	0.59	32.94	45.50	66.9	42.0
2026	23,081,835	8.00	7.48	7.77	23.63	7.77	35.87	4.00	0.59	31.99	44.23	69.5	45.7
2027	24,006,797	8.00	7.49	7.75	22.72	7.75	34.49	4.00	0.59	31.06	42.83	72.0	49.3
2028	24,958,599	8.00	7.49	7.74	21.85	7.74	33.18	4.00	0.59	30.18	41.51	74.5	52.8
2029	25,937,456	8.00	7.49	7.73	21.03	7.73	31.92	4.00	0.59	29.35	40.24	76.9	56.2
2030	26,943,962	8.00	7.49	7.72	20.24	7.72	30.73	4.00	0.59	28.55	39.04	79.3	59.5
2031	27,978,093	8.00	7.49	7.71	19.49	7.71	29.60	4.00	0.59	27.79	37.90	81.6	62.7
2032	29,041,527	8.00	7.49	7.70	18.78	7.70	28.51	4.00	0.59	27.07	36.80	83.9	65.8
2033	30,136,493	8.00	7.49	7.69	15.97	7.69	27.48	4.00	0.59	24.25	35.76	85.9	68.9
2034	31,268,441	8.00	7.49	7.68	14.51	7.68	26.48	4.00	0.59	22.78	34.75	87.6	71.9
2035	32,446,271	8.00	7.50	7.66	13.02	7.66	25.52	4.00	0.59	21.27	33.77	89.2	74.9
2036	33,675,824	8.00	7.50	7.64	11.71	7.64	24.59	4.00	0.59	19.94	32.82	90.6	77.8
2037	34,956,565	8.00	7.50	7.63	10.24	7.63	23.69	4.00	0.59	18.46	31.91	91.9	80.6
2038	36,292,078	8.00	7.50	7.62	9.65	7.62	22.82	4.00	0.59	17.86	31.03	93.1	83.4
2039	37,690,635	8.00	7.50	7.60	10.28	7.60	21.97	4.00	0.59	18.47	30.16	94.4	86.2

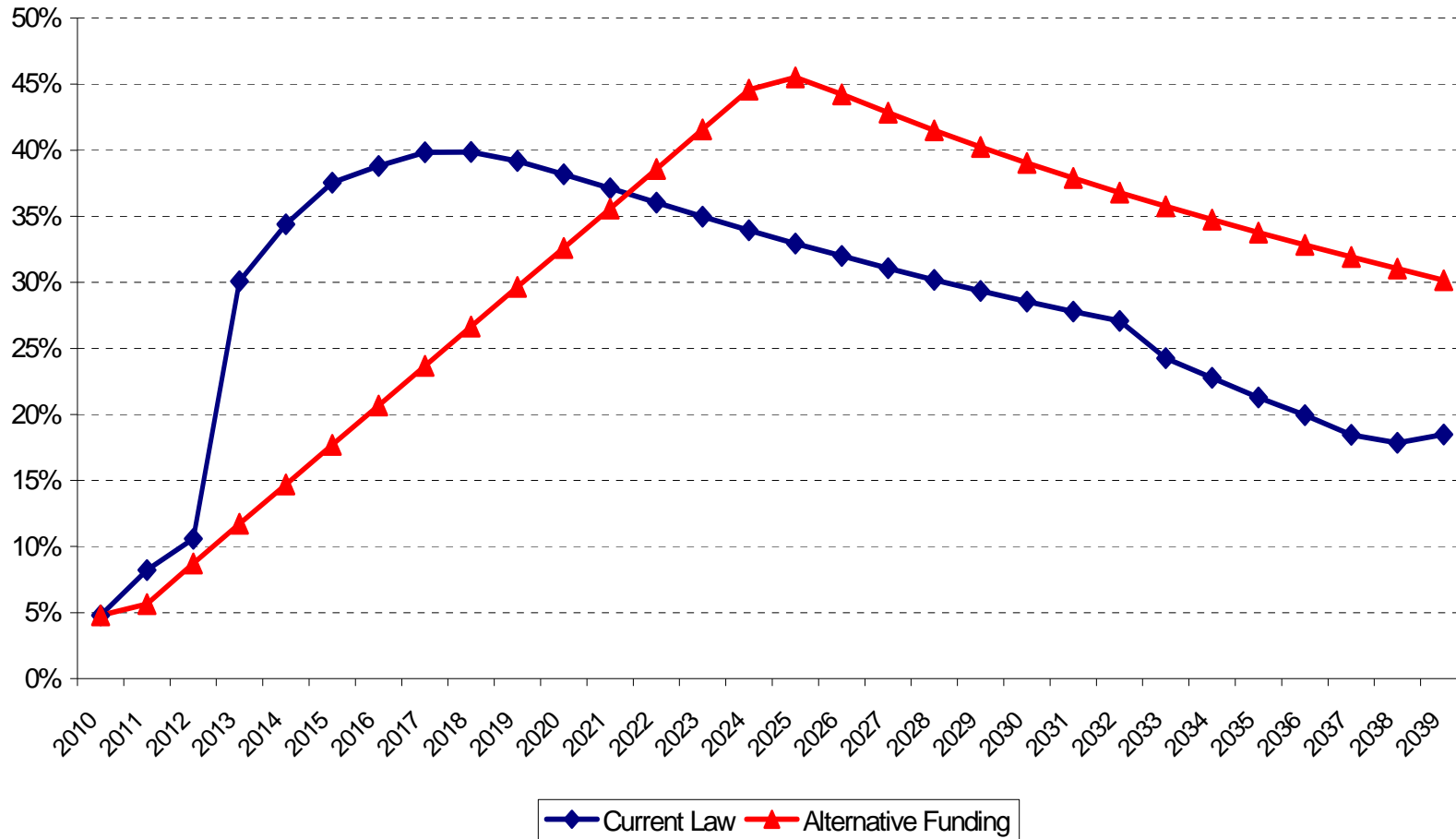
The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.

Public School Employees' Retirement System of Pennsylvania
Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding
Market Returns Scenario 1

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1.00% and all succeeding years are limited to the prior FYE's pension rate + 3%.

Projection of Total Employer Contribution Rate

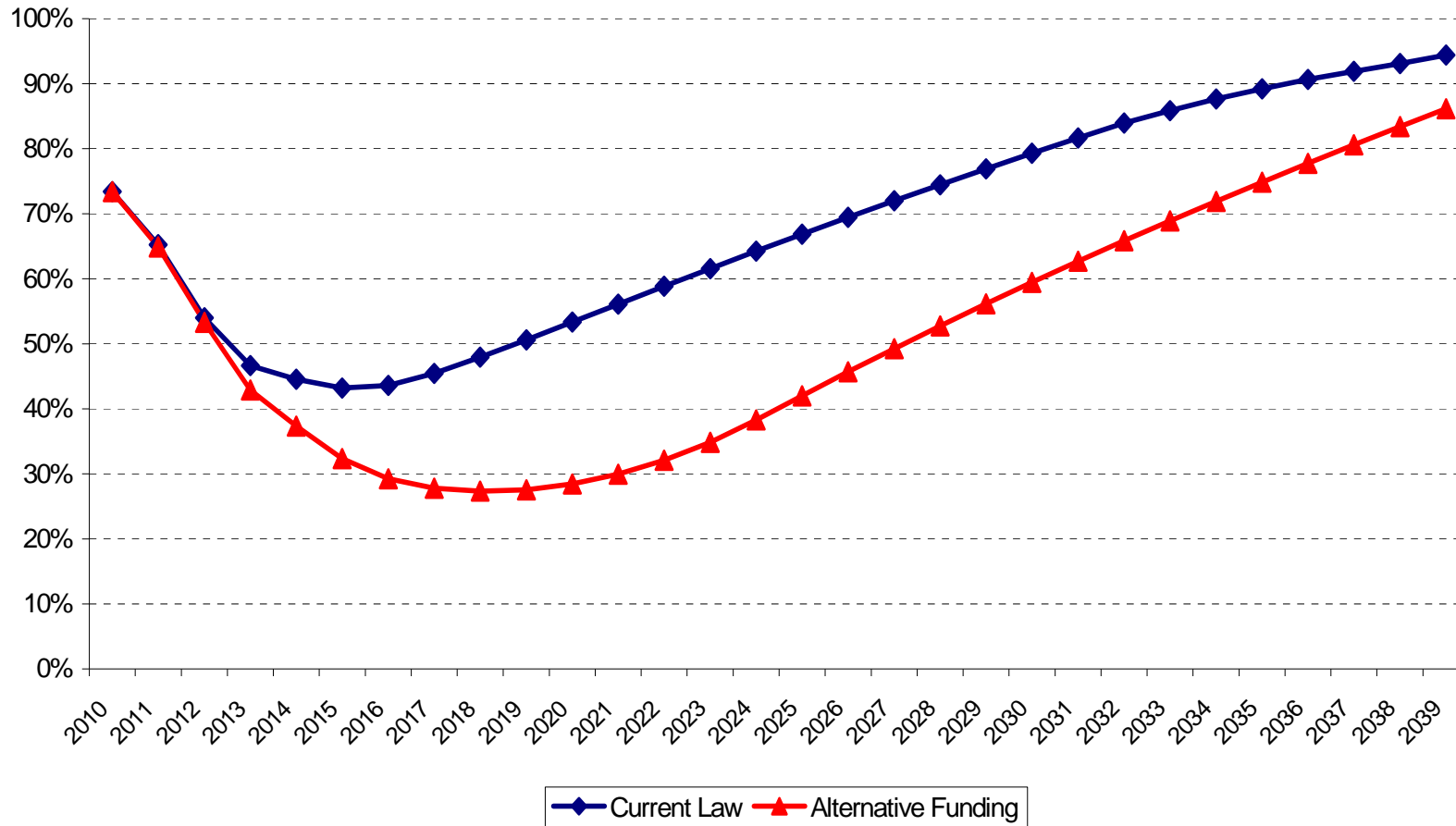


Market Returns Scenario 1

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1.00% and all succeeding years are limited to the prior FYE's pension rate + 3%.

Projection of Funded Ratio



Projection Showing Alternative Funding Proposal

FOR EXAMPLE PURPOSES ONLY

Public School Employees' Retirement System of Pennsylvania													
Projection of Contribution Rates and Funded Ratios As of June 30, 2008													
Market Returns and Pension Rate Floors Set by User													
Market Returns Scenario 1							Alternative Benefit Provisions for Members Enrolled after 6/30/10						
Alternative Funding assumptions:							- Ten year vesting.						
- Fresh-start accrued liability payments over 30 years							- An 8.0% conversion rate is used to determine annuity equivalent of member contribution.						
- PUC funding method is used beginning FY2011.							Other Special Funding Provisions						
- Fresh-start asset smoothing over 10 years beginning FY2010.							- The Total Employer Pension Contribution Rate is limited to the prior FY contribution plus: 3.46% for FY2011, 3.50% for FY2012 and 4.50% for FY2013 and after.						
Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Year Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability (\$ Millions)	GASB Compliant?
2007	\$ 11,821,951	22.93 %	4.00 %	7.21 %	6.62 %	(0.95) %	5.67 %	0.74 %	6.46 %		85.8 %	\$ 9,438.0	
2008	12,881,244	(2.82)	4.00	7.25	6.68	(0.24)	6.44	0.69	7.13		88.2	8,372.2	
2009	12,402,702	(26.54)	4.00	7.29	6.68	(3.37)	3.31	0.76	4.76	\$ 590,369	87.3	9,027.7	
2010	12,899,000	8.00	4.00	7.32	7.35	(4.90)	2.45	0.78	4.78	616,572	83.0	12,468.1	
2011	13,297,917	8.00	4.00	7.34	8.97	4.62	13.59	0.76	8.22	1,093,089	78.8	16,116.0	
2012	13,703,700	8.00	4.00	7.36	8.91	5.62	14.53	0.75	11.71	1,604,703	74.9	19,699.6	
2013	14,132,543	8.00	4.00	7.38	8.75	7.14	15.89	0.74	16.20	2,289,472	71.6	23,015.0	
2014	14,586,335	8.00	4.00	7.40	8.55	8.53	17.08	0.73	17.81	2,597,826	68.4	26,415.1	
2015	15,066,759	8.00	4.00	7.41	8.36	9.76	18.12	0.72	18.84	2,838,577	65.2	29,967.7	yes
2016	15,573,718	8.00	4.00	7.43	8.17	10.96	19.13	0.70	19.83	3,088,268	62.0	33,657.7	yes
2017	16,142,656	8.00	4.00	7.44	7.98	12.15	20.13	0.69	20.82	3,360,901	58.9	37,463.1	yes
2018	16,775,322	8.00	4.00	7.45	7.80	13.30	21.10	0.66	21.76	3,650,310	56.0	41,358.5	yes
2019	17,455,288	8.00	4.00	7.46	7.66	14.41	22.07	0.65	22.72	3,965,841	55.4	43,197.0	yes
2020	18,162,732	8.00	4.00	7.46	7.56	15.51	23.07	0.63	23.70	4,304,567	55.2	44,759.1	yes
2021	18,892,698	8.00	4.00	7.47	7.48	15.86	23.34	0.63	23.97	4,528,580	55.3	46,144.3	yes
2022	19,647,596	8.00	4.00	7.47	7.42	16.16	23.58	0.63	24.21	4,756,683	55.6	47,342.3	yes
2023	20,410,266	8.00	4.00	7.48	7.39	16.42	23.81	0.63	24.44	4,988,269	56.1	48,344.2	yes
2024	21,193,946	8.00	4.00	7.48	7.36	16.65	24.01	0.63	24.64	5,222,188	56.8	49,142.6	yes
2025	22,003,426	8.00	4.00	7.48	7.33	16.85	24.18	0.63	24.81	5,459,050	57.7	49,731.8	yes
2026	22,834,366	8.00	4.00	7.48	7.30	17.01	24.31	0.63	24.94	5,694,891	58.8	50,107.2	yes
2027	23,685,324	8.00	4.00	7.49	7.26	17.15	24.41	0.63	25.04	5,930,805	60.0	50,266.0	yes
2028	24,555,722	8.00	4.00	7.49	7.22	17.28	24.50	0.63	25.13	6,170,853	61.4	50,206.4	yes
2029	25,449,735	8.00	4.00	7.49	7.17	17.39	24.56	0.63	25.19	6,410,788	62.8	49,927.7	yes
2030	26,363,516	8.00	4.00	7.49	7.11	17.50	24.61	0.63	25.24	6,654,151	64.4	49,413.2	yes
2031	27,298,062	8.00	4.00	7.49	7.05	17.61	24.66	0.63	25.29	6,903,680	66.1	48,642.8	yes
2032	28,257,334	8.00	4.00	7.49	6.97	17.72	24.69	0.63	25.32	7,154,757	67.8	47,594.1	yes
2033	29,244,417	8.00	4.00	7.49	6.88	17.82	24.70	0.63	25.33	7,407,611	69.7	46,241.7	yes
2034	30,273,768	8.00	4.00	7.49	6.79	17.92	24.71	0.63	25.34	7,671,373	71.7	44,557.2	yes
2035	31,352,280	8.00	4.00	7.50	6.69	18.00	24.69	0.63	25.32	7,938,397	73.9	42,508.9	yes
2036	32,474,039	8.00	4.00	7.50	6.59	18.09	24.68	0.63	25.31	8,219,179	76.1	40,061.5	yes
2037	33,646,269	8.00	4.00	7.50	6.49	18.16	24.65	0.63	25.28	8,505,777	78.5	37,176.0	yes
2038	34,868,123	8.00	4.00	7.50	6.39	18.23	24.62	0.63	25.25	8,804,201	81.1	33,809.6	

Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding

Market Returns Scenario 1

Alternative Benefit Provisions for Members Enrolled after 6/30/10

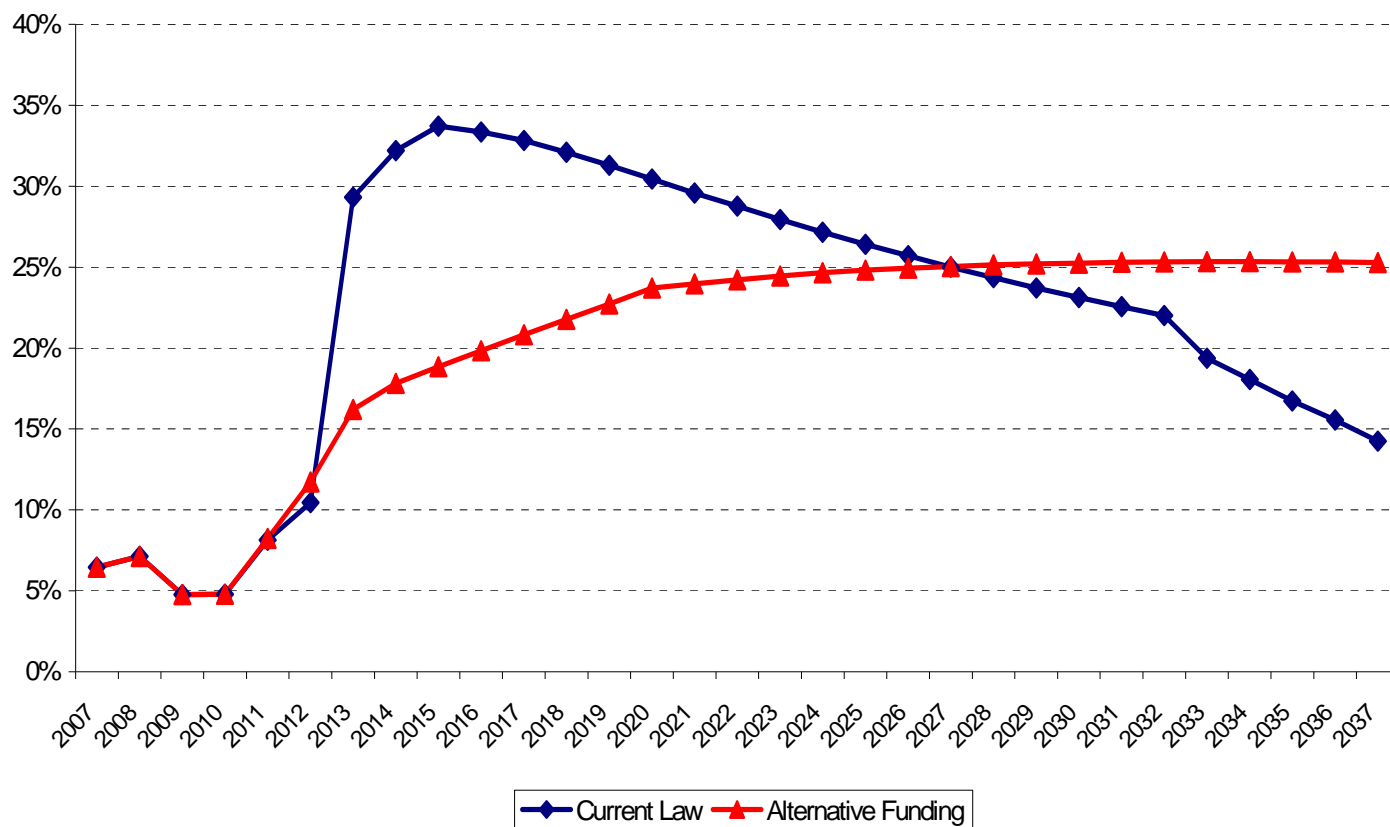
- Ten year vesting.
- An 8.0% conversion rate is used to determine annuity equivalent of member contribution.

Other Special Funding Provisions

- The Total Employer Pension Contribution Rate is limited to the prior FY contribution plus:
3.46% for FY2011, 3.50% for FY2012 and 4.50% for FY2013 and after.

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years
with level percent of pay amortization beginning FY2011.
- PUC funding method is used beginning FY2011.
- Fresh-start asset smoothing over 10 years beginning FY2010.

Projection of Total Employer Contribution Rate

The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.

This projection model was created at the request of, and sole use by, PSERS. Any unauthorized user should contact PSERS or Buck for proper interpretation of results.

Public School Employees' Retirement System of Pennsylvania

Market Returns and Pension Rate Floors Set by User and are the same for both Current and Alternative Funding

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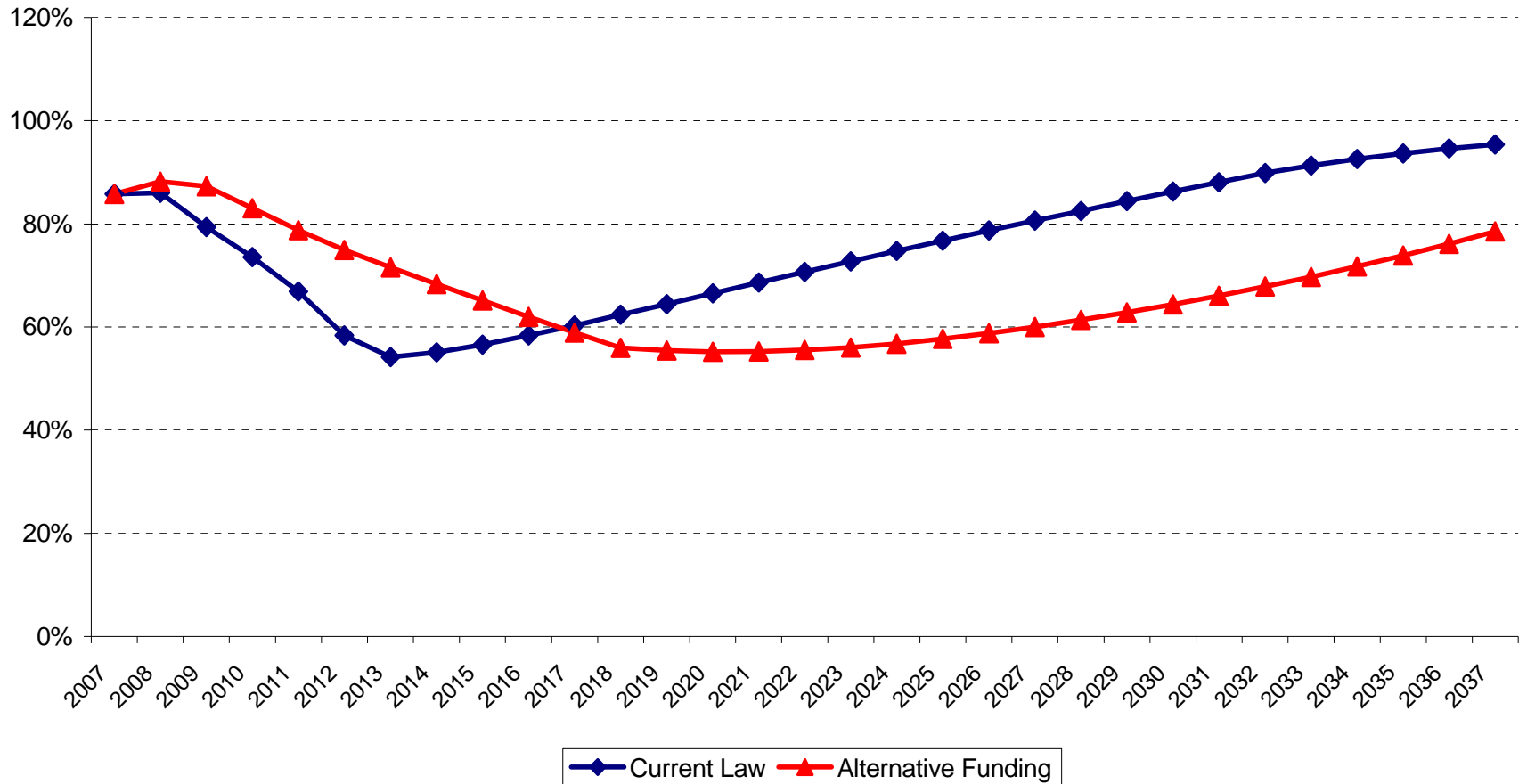
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Projection of Funded Ratio



Alternative Proposal:

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Alternative Benefit Provisions for Members Enrolled after 6/30/10

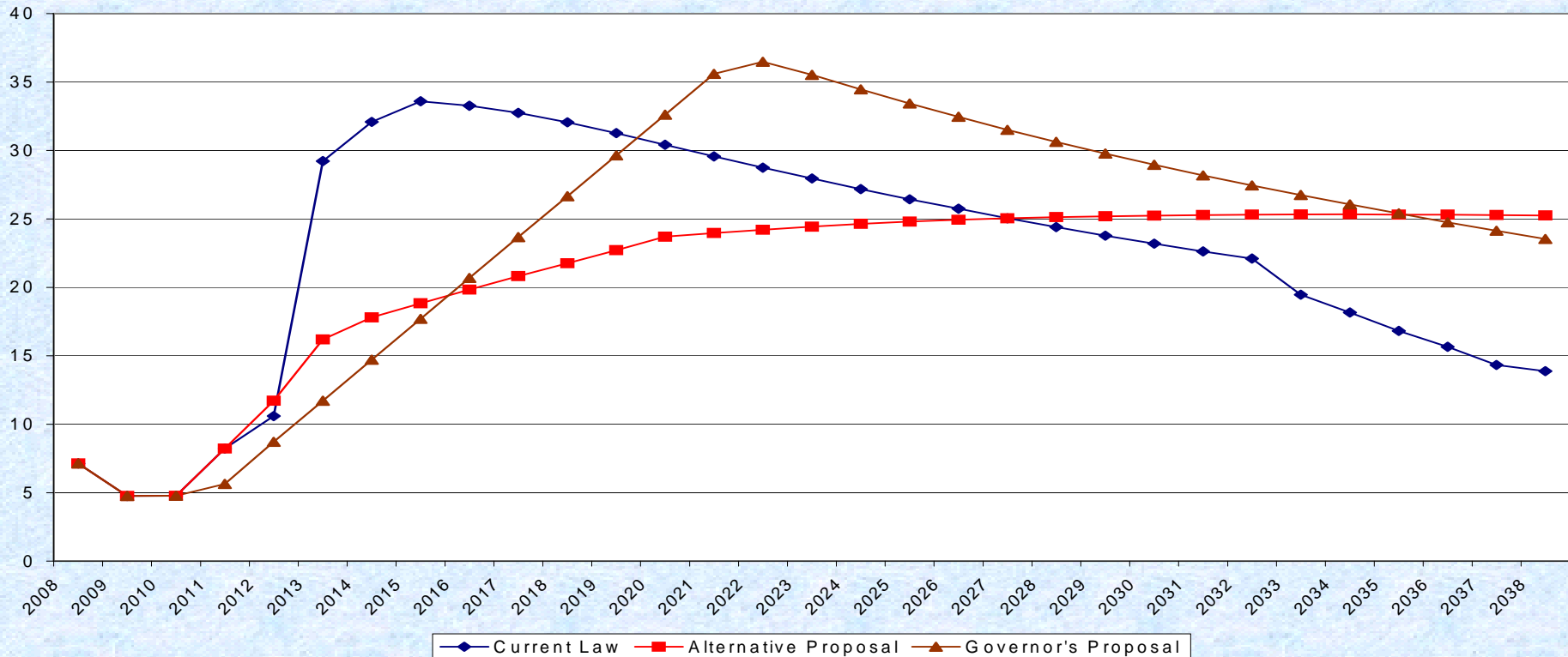
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Governor's Proposal:

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years.
- If applicable, the FYE 2011 rate is limited to the FYE 2010 pension rate + 1% and all succeeding years are limited to the prior FYE's pension rate + 3%.

**Projection of Total Employer Contribution Rate
As Percentage of Payroll**



Alternative Proposal:

Alternative Funding Assumptions:

- Fresh-start accrued liability payments over 30 years with level percent of pay amortization beginning FY2011
- PUC funding method is used beginning FY2011
- Asset smoothing over 10 years beginning FY2010

Alternative Benefit Provisions for Members Enrolled after 6/30/10

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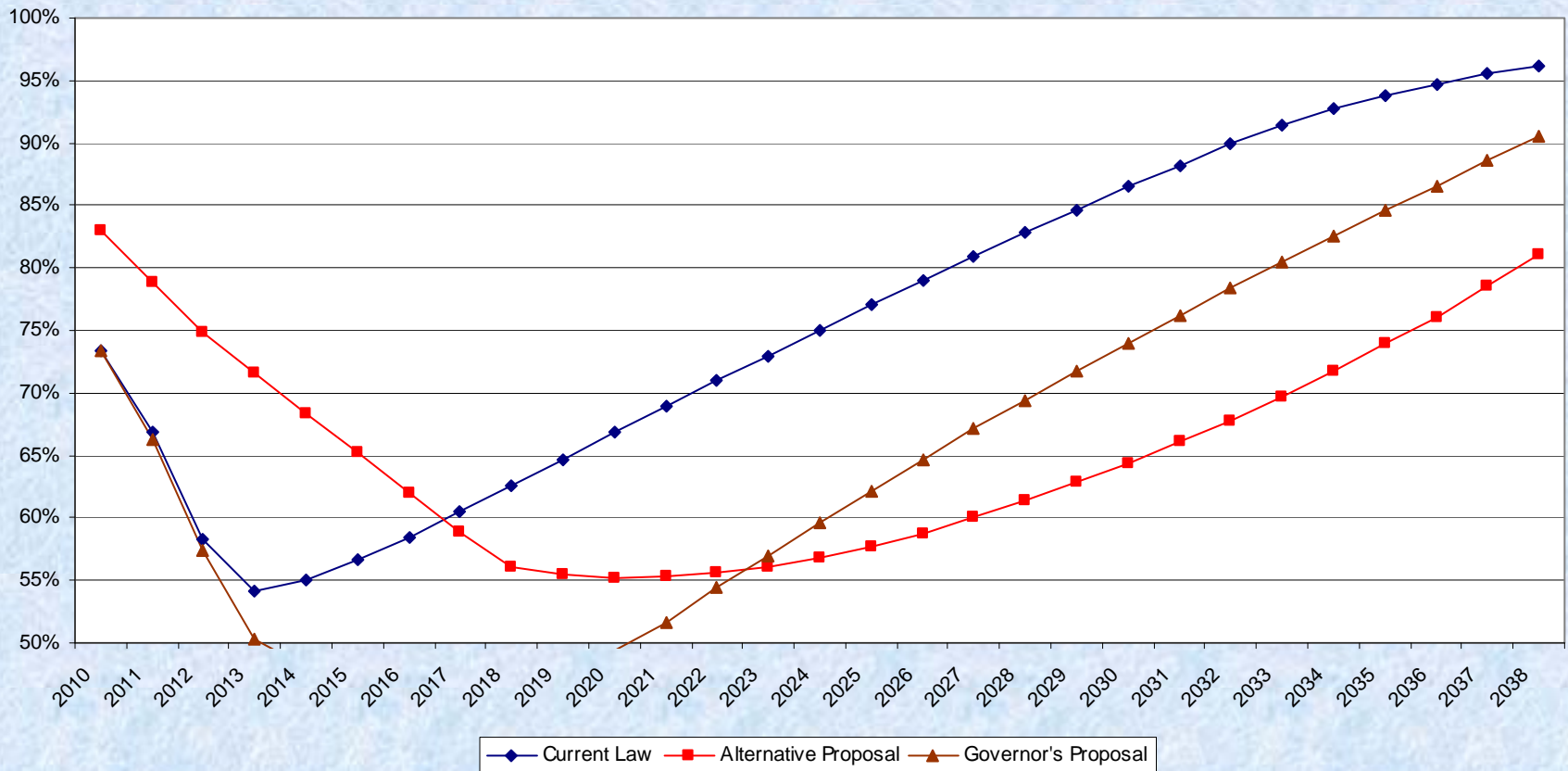
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- Fresh-start accrued liability payments over 30 years.

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Projection of Funded Ratio



Options

- Whatever solution is developed, however, should be governed by the following principles:
 - It must be actuarially reasonable
 - It should have an employer contribution rate that at a minimum, should be the employer normal cost plus some reasonable amount to amortize the System's unfunded liability
 - It should be able to withstand reasonable stress tests
 - It should reflect fiscally doable increases in the employer contribution rate to a reasonable plateau
 - To the extent possible, it should have budgetary predictability
 - It should incorporate provisions to avoid/mitigate a future funding crisis, e.g. a employer contribution rate floor set at the employer normal cost

Options

- It should avoid undue risk, e.g. avoid excessive reliance on POB's
- It should set the policy with respect to future COLA's, i.e. either:
 - Are they to continue on an automatic or *ad hoc* basis, in which case they should be pre-funded to reduce overall costs; or
 - Are they are to be discontinued for all or some portion of present and/or future retirees
- It should address the potential of future benefit enhancements, e.g., when and at what funding level will they be permissible, if at all

Options

- It must provide an adequate pension benefit at a reasonable cost that will attract and retain employees, and reasonably sustain them when retired
- The proposed solution must be politically acceptable or reasonably "sellable" to the General Assembly, the Governor, the public, PSERS' constituent groups, the media, etc.
- The proposed solution must be legally correct/defensible, i.e. not subject to potentially successful litigation

Conclusions

Conclusions

- There is no silver bullet to resolve PSERS' funding issues
 - Solution will likely be a combination of several approaches and will only smooth out the rate plateau and lower the peak
- Under all options, however, there will be a need for significant additional funding to the System
- Increases in the employer contribution rate will occur before FY 2012-2013
 - The FY 2010-2011 rate will be 8.22% compared to 4.78% for FY 2009-2010
 - The FY 2011-2012 rate is projected to exceed the FY 2010-2011 rate

Conclusions

- Converting the System to a DC or Hybrid plan will not effect the current liabilities or resolve the immediate funding concerns
 - In fact it may aggravate the Commonwealth's and School Employer's cash flow problems as they will be supporting two pension plans
- Politically, some prospective benefit cuts are probably inevitable, even if only symbolic in nature with respect to resolving the rate spike
- Similarly, politically, benefit enhancements are not likely now or in the near future

Conclusions

- Finally, this issue posits the fundamental question/dilemma of what level of benefits and employer contribution rate are affordable for the Commonwealth and School Employers versus what is an adequate level of retirement benefits for school employees, both active and retired
 - Is a plan with an annual employer normal cost of 8% +/- affordable?
 - What impact will possible structural changes have on the attraction and retention of school employees?
 - Will structural changes create a larger problem by substituting inadequate and unsecured retirement options that may ultimately cause future retirees to rely on other government programs, each with their own funding issues?

Conclusions

- As such, the resolution of the current funding issues confronting PSERS is a vital imperative for the Agency and represents the greatest challenge the Agency has faced in its history
- Therefore PSERS is committed to providing all available assistance to the Governor, General Assembly and School Employers to solve the rate spike and future funding issues, ASAP
 - PSERS will continue to be very public with the issue in an attempt to raise awareness
 - Will keep you apprised of developments in the coming year

Questions?

