Commonwealth of Pennsylvania
State Employees' Retirement System

Comprehensive Annual Financial Report

For the year ended December 31, 2008

08

A Component Unit of the Commonwealth of Pennsylvania

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State Employees' Retirement System

Comprehensive Annual Financial Report
For the year ended December 31, 2008

Prepared by the staff of the
Pennsylvania State Employees' Retirement System

Leonard M. Knepp
Executive Director

Francis J. Donlevy
Chief Financial Officer

State Employees' Retirement System
30 North Third Street, Suite 150
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A Component Unit of the Commonwealth of Pennsylvania

Commonwealth of Pennsylvania
State Employees' Retirement System
30 North Third Street, Suite 150
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Nicholas J. Maiale
Chairman

June 2009

Honorable Edward G. Rendell, Governor
Commonwealth of Pennsylvania

Members, Pennsylvania General Assembly

Members, Pennsylvania State Employees' Retirement System

Dear Governor Rendell, Legislators and Members:

The Board of the Pennsylvania State Employees' Retirement System (SERS) is pleased to present our Comprehensive Annual Financial Report (CAFR) on the SERS Fund for calendar year 2008. The CAFR provides us with a vehicle to compile and publicly disclose extensive financial, investment and actuarial reports with introductions from SERS management and the Fund's consulting actuary.

This report reflects the serious setback suffered by SERS, along with virtually all other large institutional investors, as a result of the collapse of the global economy and global investment markets in 2008. After five very strong years of investment performance, the SERS Fund produced a 2008 return, net of fees, of -28.7%. These dramatic losses were generally consistent with results reported by other large pension funds.

One serious consequence is that the projected 2012-13 rate "spike," which has been long anticipated but which had declined into single digits, is now projected to be even larger than originally feared. As discussed in more detail in the Transmittal Letter, rates are projected to rise above 30% of payroll and remain at that level for an extended period of time.

We recognize that increases of that magnitude would impose a great and perhaps unsustainable budgetary burden on our member employers. On behalf of the 11-member SERS Board and SERS staff, I assure you we will continue working with the General Assembly and the Administration to explore options for moderating the impact on our participating employers. Unfortunately, however, there is not any realistic scenario under which SERS employers will not be facing a sustained period of much higher rates.

Board and staff also will continue to pursue prudent long–term investment strategies to assure the solvency of the Fund and the quality of pension–related services to all SERS members.

Sincerely,

Nicholas J. Maiale
SERS Board Chairman

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

State Employees' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2008

Presented to

Pennsylvania State Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

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May 30, 2009

Mr. Chairman and Members of the Board:

We are pleased to present you with the Comprehensive Annual Financial Report (CAFR) of the Pennsylvania State Employees' Retirement System ("the System" or "SERS") for the calendar year ended December 31, 2008. Although SERS is not legally required to produce a CAFR, we do so in the interest of public accountability. Publication of this CAFR also serves to comply with the requirement, contained in the State Employees' Retirement Code, that SERS' financial statements be published, after auditing by an independent certified public accountant, on or before July 1 of each year.

Financial Information

The System's management is responsible for the preparation, accuracy and objectivity of the information included in this report, and accepts full responsibility for the contents, including not only the audited financial statements but all other information as well. The basic financial statements were prepared by management in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, and have been audited by an independent auditor. Users of the financial statements are encouraged to review the Management's Discussion and Analysis ("MD&A"), which accompanies the basic financial statements and discusses the market conditions, legislation and changes in operations that affected the financial results and funded status of the System.

SERS maintains an effective system of internal controls designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements conform to generally accepted accounting principles. It should be recognized, however, that all internal controls have inherent limitations. These limitations exist because of several factors, including cost: The cost of attempting to establish a perfect internal control system would far outweigh the benefits derived. Another limitation is the potential for controls to be overridden by management, either individually or through collusion of two or more staff. To mitigate the risk caused by these inherent limitations, the System's Audits, Reporting, and Compliance division provides a continuing review of the adequacy and effectiveness of the System's internal control structure. Also, our independent external auditor, Clifton Gunderson LLP, conducts an annual audit of the financial statements in accordance with generally accepted auditing standards. Their audit includes tests and procedures designed to provide reasonable assurance that the financial statements are fairly presented. The external auditors have full and unrestricted access to the SERS Board members to discuss their audit and related findings regarding the integrity of financial reporting and adequacy of the internal control structure.

The annual financial audits show that the money entrusted to SERS is being properly managed so that we can continue meeting our obligation to our active and retired members, and their Beneficiaries. Our members can be reassured that their retirement system is well managed and their benefits are secure.

The System also receives independent financial audits on all of its private equity, venture capital, pooled real estate, and absolute return fund–of–funds limited partnerships, as well as audits for its directly held real estate portfolios and collective trust fund statements.

Profile of SERS

SERS is a component unit of the Commonwealth of Pennsylvania, and administers a cost-sharing, multiple-employer defined benefit retirement plan. Founded in 1923, SERS is a mature pension plan with the number of Annuitants and active members rapidly approaching a 1:1 ratio; as of December 31, 2008 the System had 110,866 active members and 108,146 Annuitants and Beneficiaries.

The System is administered by an independent 11 member administrative board comprised of: the State Treasurer, ex officio; two senators; two members of the House of Representatives; and six members appointed by the Governor. Through the Governor, the Board submits to the General Assembly an annual budget covering all proposed administrative expenditures, which includes proposed expenditures the Board intends to pay through the use of directed commissions. The expenditures are approved by the General Assembly in an appropriation bill and paid from the Fund.

Membership, Funding and Contribution Trends

As a mature plan, SERS pays out far more in benefits and refunds each year than it receives in contributions: $2.2 billion in payouts versus $572 million in contributions in 2008. The difference must come from the Fund's earnings and accumulated reserves, necessitating an investment policy that maintains the short-term liquidity while pursuing long-term returns of at least the actuarially assumed rate (currently 8.0%, recently reduced from 8.5%).

After a five-year period of remarkably strong investment performance (a net compounded annualized return of 17.5%), SERS' 2008 performance fell far short of the assumed return. The global economic collapse adversely affected performance of all asset classes, with negative returns in most and an overall return of -28.7%, net of all fees. SERS' one-year performance ranked in the third quartile, but within one percentage point of the median, in The Bank of New York Mellon Universe of Public Pension Funds Greater Than $1 Billion (rankings gross-of-fees). Long-term, SERS continues to compare favorably with its peers: Bank of New York Mellon places SERS in the top 25% of large public funds over the last two years, in the top 7% over the last five years and in the top 3% over the last ten years. The 2008 losses caused the system's actuarial funded status to decrease, from 97.1% to 89.0%

Although the purpose of the CAFR is to provide information regarding SERS status as of December 31, 2008, readers also should be aware of two anticipated future developments:

First, as the Fund continues to mature, the number of retired members is expected to continue to grow, while the number of active members is expected to remain relatively constant. As the number of retirees grows, the amount that must be paid out in benefits is expected to continue to increase. It is projected that by 2010 the number of retired members will exceed the number of active members and by 2014 annual benefit payments will reach $3 billion, 56% more than in 2006.

Second, the anticipated 2012 rate "spike," which had been declining as a result of the sustained strong investment performance noted above, has, as a result of the 2008 investment losses, reemerged at even higher levels than ever before. Whereas we were able to report in the 2007 CAFR that the actuarial unfunded liability had fallen below $1 billion, the actuarial shortfall is now $3.8 billion. Likewise, the 2007 CAFR reported employer contribution rates were projected to remain at the 4% floor rate through 2011-12, then peak in 2012-13 at 5.7% of payroll. But it is now projected rates will remain at 4% only through 2009-10, will jump to 28.3% in 2012-13 and will not peak until the following year, when the rate is projected to hit 31.4% Furthermore, rates are expected to remain above 25% through 2025-26. It must be emphasized that these projections assume, first, that the system will continue to achieve its assumed rate of return and, second, that no new supplemental annuities ("COLAs") are granted. If earnings fall short of assumptions or if supplemental annuities are granted, projected rates could be even higher. Should earnings exceed the assumption, rate projections could decline.

Initiatives
Administrative initiatives included the development and launch of the SERS Professional Development Program in 2008. The program will not only provide training and development opportunities for all SERS employees but also facilitate a transfer of job knowledge while building depth within the agency workforce. Through this program, employees have an opportunity to identify training needs and possible career progression. Similarly, agency administration can identify knowledge sharing needs to ensure the agency operates uninterrupted by the absence of staff either through planned departures or unplanned absences.

Awards
We are very pleased to note that the Government Finance Officers Association of the United States and Canada (GFOA) again awarded SERS with a Certificate of Achievement for Excellence in Financial Reporting for SERS' 2007 CAFR. The certificate of achievement is a national award, recognizing conformance with the highest standards in government accounting and financial reporting. We believe our current CAFR meets GFOA requirements and will submit it to the GFOA for review.

In addition, SERS received the Public Pension Coordinating Council (PPCC) Standards Award recognizing "a high level of plan design, funding, member communications and administrative practices." PPCC comprises three national associations that, combined, represent retirement systems serving the vast majority of public employees in the U.S.

Acknowledgements
This report reflects the dedicated efforts of the SERS staff under the direction of the SERS Board. We would like to take this opportunity to express our gratitude to the Board, the staff, our advisors and others who have worked diligently to administer the System, enhance delivery of member services and manage the Fund's assets in a prudent fashion.

We will continue to strive to administer the System in a manner that ensures the accurate, timely payment of benefits, prompt and courteous service, and prudent management of the Fund's assets on behalf of our members and the Commonwealth's taxpayers.

Respectfully submitted,

Leonard M. Knepp
Executive Director

Francis J. Donlevy
Chief Financial Officer

Honorable Nicholas J. Maiale

Chairman

Michael J. Acker

Senior Vice President Triad Strategies

Honorable Robert A. Bittenbender

Former State Secretary of the Budget

David R. Fillman

Executive Director, AFSCME Council 13

Ms. Lynne P. Fox

Manager, International VP Phila. Joint Board UNITE HERE!

Honorable Michael F. Gerber

State Representative

Honorable Robert W. Godshall

State Representative

Honorable Robert M. McCord

State Treasurer

Honorable Charles T. McIlhinney, Jr.

State Senator

Honorable Raphael J. Musto

State Senator

Honorable M. Joseph Rocks

Retired Member and Former State Senator

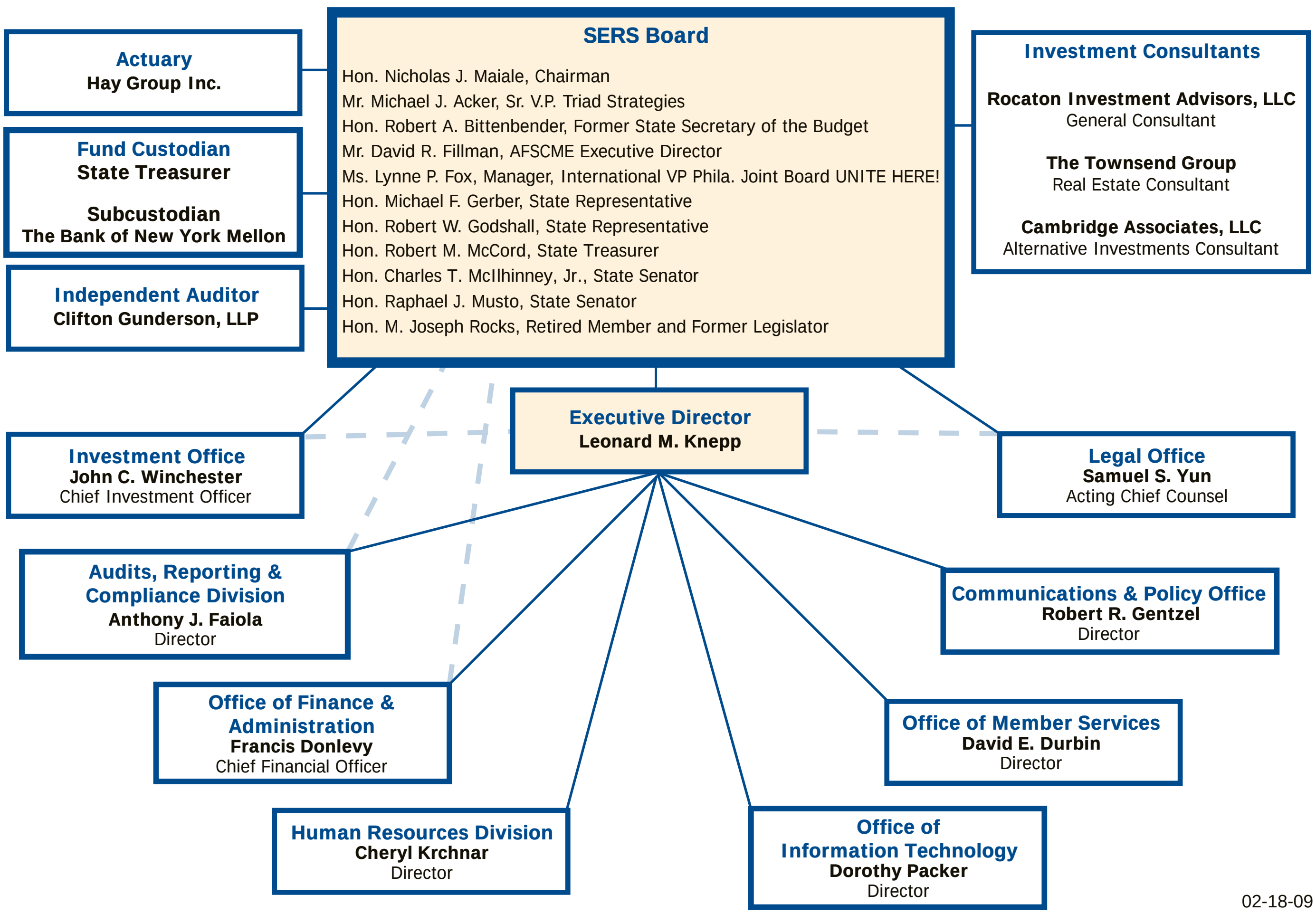
SERS' Vision

By 2012, SERS will have implemented programs for personnel and leadership transitions while continuing to address funding, policy and operational challenges.

SERS' Mission

The mission of SERS is to provide retirement benefits and services to our members through sound administration and prudent investments.

SERS' Organizational Chart



Financial Section

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Members of the Board
Commonwealth of Pennsylvania
State Employees' Retirement System

We have audited the accompanying statements of plan net assets of the Commonwealth of Pennsylvania State Employees' Retirement System (the System), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended December 31, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Commonwealth of Pennsylvania State Employees' Retirement System as of December 31, 2008 and 2007, and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information included in Management's Discussion and Analysis and Required Supplemental Schedules 1 and 2 and the notes thereto is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory, investment, actuarial and statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
May 18, 2009

Offices in 17 states and Washington, DC

Member of HLB International

This section presents Management's Discussion and Analysis of the Pennsylvania State Employees' Retirement System's (the System) financial statements and the significant events and conditions which affected the operations and performance of the System during the years ended December 31, 2008 and 2007.

The Management's Discussion and Analysis includes forward-looking statements that involve certain risks and uncertainties. Actual results and performance may differ materially from those expressed or implied in the forward looking statements due to a wide range of factors including: changes in securities markets, general economic conditions, interest rates, energy policies, legislation and global conflicts.

Overview of the Financial Statements and Accompanying Information

1) **Fund Financial Statements.** The System presents Statements of Plan Net Assets as of December 31, 2008 and 2007 and Statements of Changes in Plan Net Assets for the years then ended. These statements reflect resources available for the payment of benefits as of year-end, and the sources and uses of those funds during the year.

2) **Notes to Financial Statements.** The notes to financial statements are an integral part of the financial statements. We encourage readers to review them because the additional detailed information will provide a better understanding of the financial statements. The notes provide information about the System's organization, benefits and contributions, how asset values are determined, the use of derivatives in managing the System's assets, contingencies and commitments, actuarial methods, assumptions, and funding.

3) **Required Supplementary Information.** The required supplementary information consists of:
    - A schedule reflecting the funding progress of the System
    - A schedule showing the employer required contributions in dollars and percentage
    - This Management's Discussion and Analysis.

4) **Other Supplemental Schedules.** Other schedules include detailed information on administrative expenses incurred by the System, a breakout of investment related expenses, and fees paid to consultants for professional services.

Financial Analysis

The System provides retirement benefits to the employees of the Commonwealth of Pennsylvania and certain other public agencies. The System's benefits are funded through member and employer contributions, and investment income. The net assets of the System decreased approximately $12.7 billion for the year ended December 31, 2008 compared to the increase of approximately $3.5 billion for the year ending December 31, 2007, as reflected in the table on page 7. The global economic crisis and resulting recession, negatively impacted the SERS' Fund in 2008 resulting in a net investment loss to the Fund of $11.1 billion. Investment returns for 2007 reflected strong returns from the non-US equity securities markets, real estate, inflation protection and private equity asset classes, which enabled the System's investments to earn approximately $5.2 billion in net investment income. The System's 2008 actuarial funded status of 89.0% decreased from 97.1% in 2007. By comparison, as reported in the Wilshire Associates' "2009 Wilshire Report on State Retirement Systems", a compilation of 2008 data on 59 state pension plans, the average funding level of state plans was 81%. Every five years, the System undergoes an Actuarial Experience study to determine whether the assumptions used in the annual actuarial valuation are representative of current and anticipated trends. The latest experience study for the period 2001 - 2005 was completed in 2006. An interim review was completed in 2009 due to the unprecedented one-year asset value declines. The actuary, in coordination with Board oversight, reviewed the assumed future investment returns on fund assets as well as economic assumptions regarding salary increases, turnover, retirement, disability, and death rates. This review resulted in a recommendation and adoption of the actuarial assumed rate of return on assets to be reduced to 8.0% from 8.5%.

Annually, the System reviews and modifies, if necessary, its ***Annual Strategic Investment Plan***. This process enables the System to position itself to respond to changing dynamics and fulfill its primary mission of meeting its benefit obligations to the System's members. Benefit expenses, including refunds of contributions, were $2.2 billion in 2008. This expense level represents a decrease in benefit expenses of 5.7% from the $2.3 billion for 2007. The System experienced a large increase in retirements in June 2007 due to employee contract changes, resulting in higher benefit payments for the last half of 2007. The number of retirement age employees as of December 31, 2008 and 2007 were 6,900 and 6,400, respectively. This compares to 8,400 as of December 31, 2006. The decrease in retirements in 2008 reflects a return to a more normal level of retirements over those experienced in 2007.

Funded Ratio

The funded ratio of the plan measures the ratio of actuarially determined assets against actuarial liabilities and is a good indicator of a pension fund's fiscal strength and ability to meet its obligations to its members. The System is required by statute to perform an annual actuarial valuation. The actuarial process to develop the funded ratio is highly dependent on estimates and assumptions, particularly those regarding investment returns, salary growth, inflation, and demographics. In addition, the selection of methods such as amortization periods affects employer contribution rates and the funded ratio of the Plan. The Plan's funded ratio as of December 31, 2008 was 89.0%, a decrease from 97.1% at December 31, 2007. The funded ratio of the Plan changed due to a decrease in actuarial assets and an increase in actuarial liabilities.

Actuarial assets decreased from $30.8 billion at December 31, 2007 to $30.6 billion at December 31, 2008 for a 0.7% decrease. The decrease is primarily attributable to investment returns well below the actuarial assumed rate of 8.5% in 2008. The drop in actuarial value of assets was not significant when compared to the significant negative 37.2% variance between the assumed actuarial rate of return and actual investment return. The fact that the actuarial assets did not drop in proportion to the level of negative returns, is due to the five year smoothing of investment returns as mandated by the Retirement Code. As a result of this smoothing, only 20% of the 2008 loss was recognized in the current year, with the remaining 80% to be recognized over the next four years. We should expect to see an additional decrease in the actuarial value of assets in future years as the remaining 80% loss is amortized over the next four years. The increase in actuarial liabilities from $31.8 billion at December 31, 2007 to $34.4 billion at December 31, 2008 or 8.2% is primarily attributable to the change in the assumed rate from 8.5% to 8.0%, the cost of additional benefits that accrued during the year, and the general interest growth in active liabilities (due to a shorter period of time until payments are expected to be made to future retirees).

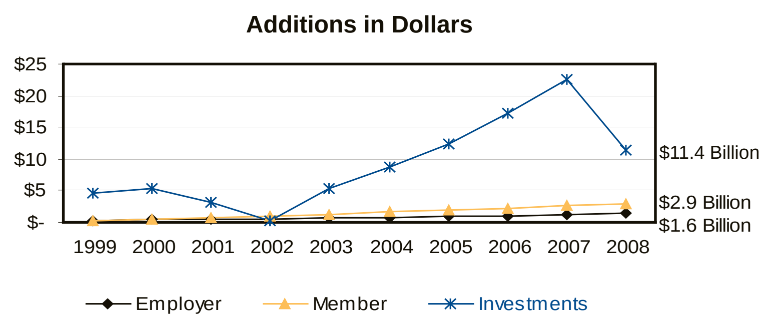
Member Contributions

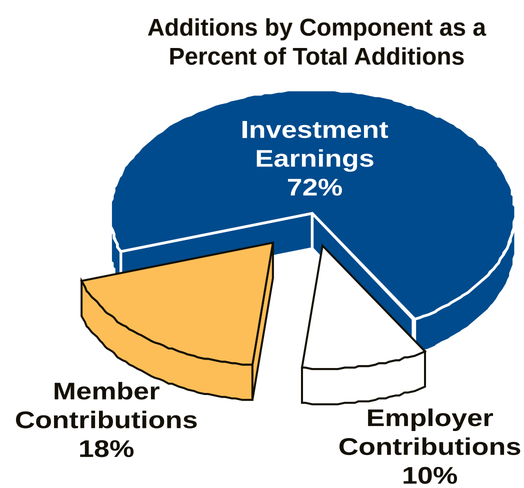
Additions to plan net assets include employer and member contributions and net income from investment activities. Member contributions were approximately $337 million, $334 million, and $318 million, for the years ended December 31, 2008, 2007 and 2006, respectively, with 2008 contributions representing an increase of approximately $3 million compared to 2007. The member rate of 6.25% of gross salary for most members is set by statute and has remained unchanged. The increase in gross salary of active members was the primary reason for the increase in contributions. The gross salary increased to $5.4 billion in 2008 from $5.3 billion in 2007.

Employer Contributions

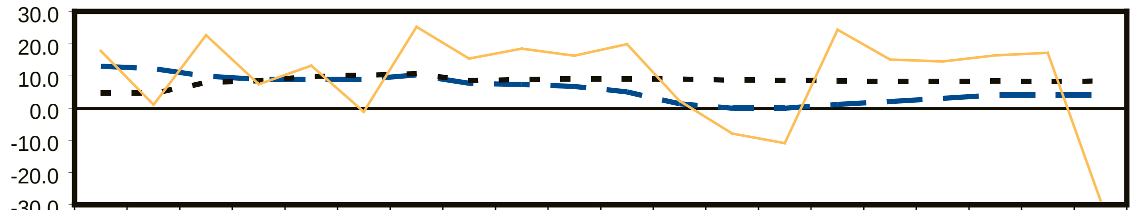
Employer contributions were approximately $235 million, $244 million, and $196 million, for the years ended December 31, 2008, 2007, and 2006, respectively, with 2008 contributions representing a decrease of $9 million compared to 2007. The decrease is a result of a reduction in inter-agency receipts for multiple service payouts due to decreased retirements from 2007 to 2008. The employer composite rate as of December 31, 2008, 2007, and 2006 was 4.0% each year of total employer payroll. The employer contribution rate floor, originally established by Act 40 in 2003 and expired in 2007, was made permanent at 4.0% by Act 8 of 2007. The employer contributions represent less than half of the normal cost and have been low when compared to historical standards. Over the last 10 years, employer contributions have been the smallest component of additions to the System's plan net assets. From 1999 through 2008, employer contributions totaled $1.6 billion, representing 10% of total additions to plan net assets, compared to $2.9 billion or 18% of total additions attributed to member contributions, and $11.4 billion or 72% of total additions attributed to investment earnings as demonstrated in the following charts:

Ten Year Cumulative Additions to Plan Net Assets





History of SERS Employer Contribution Rates and Investment Returns



	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08
Employer Contribution Rates %	13.0	12.3	9.9	8.9	8.9	8.9	10.3	7.7	7.3	6.7	5.0	1.4	-	-	1.1	2.0	3.0	4.0	4.0	4.0
Employer Normal Cost Rates %	4.7	4.7	7.9	8.5	9.8	10.2	10.7	8.5	8.9	9.0	9.0	9.0	8.7	8.6	8.4	8.3	8.3	8.4	8.2	8.4
Investment Return %	17.8	1.0	22.6	7.4	13.2	(1.1)	25.2	15.4	18.5	16.3	19.9	2.2	(7.9)	(10.9)	24.3	15.1	14.5	16.4	17.2	(28.7)

Over this time period, the active membership payroll has grown from $4.3 billion in 1999, to slightly under $5.4 billion in 2008.

Through 2007, the System's ten year annualized investment return of 10.1% exceeded the actuarial assumed rate of return of 8.5%. The primary reason for the low employer contribution rate has been due to the System's overall positive investment returns. The benefits of reduced employer contributions pass directly back to the participating Commonwealth agencies and the taxpayers of Pennsylvania. For example, had the Commonwealth agencies paid the Employer Normal Cost rate over the last ten years, there would have been an additional $2.9 billion in employer contributions into the System. The Normal Cost is the cost of future benefits that is allocated to the current year by the actuarial cost method. In theory, if the unfunded actuarial liability were zero, and there were no deviations from the actuarial assumptions or amendments to the Retirement Code, the Normal Cost would be that amount required to fund the on-going liabilities for plan participants. The above chart presents the relationship between investment returns and contribution rates. When returns are strong and above the actuarial assumed rate, as they have been in 13 of the past 20 years, the employer's level of contributions will generally be below the Normal Cost. Conversely, when investment returns lag the actuarially assumed rate, those losses are amortized into the Fund through increased employer contributions.

In 2008, the System's ten year annualized investment return fell to 4.9%. The unprecedented market conditions of 2008 will have a significant impact on future employer contribution rates. The employer rate is expected to increase substantially; however due to Act 40 of 2003 and the actuarial five-year smoothing of investment returns, the full impact of 2008's negative investment return will not be felt until the fiscal year beginning July 1, 2012 at which point we expect the employer contribution rate to spike significantly.

Net Investment Income

Investment portfolio performance produced investment returns of negative 28.7%, positive 17.2%, and positive 16.4%, for the years 2008, 2007, and 2006, respectively. Performance contributed to a net investment loss of approximately $11.1 billion in 2008, and investment income of $5.2 billion in 2007, and $4.7 billion in 2006. Strong international equity markets helped to fuel performance in 2007 and 2006, but in 2008 international equity performance was responsible for the largest losses. The MSCI World Index lost 40.7% in 2008 while the domestic Russell 3000 index lost 37.3% in 2008. For the five, seven, and ten year periods ended December 31, 2008, the System earned compounded annual rates of return of 5.1%, 5.2%, and 4.9%, respectively. Below are the System's annual rates of returns for the last three years:

Annual Rates of Returns

Asset	2008	2007	2006
Global Equities	-37.5%	12.3%	N/A
Domestic Equities	-45.4	9.5	18.8%
International Equities	-52.4	17.0	26.7
Absolute Return	-15.9	N/A	N/A
Fixed Income Securities	-17.5	6.1	7.7
Cash / STIF	3.4	5.1	4.9
Real Estate	-10.8	22.6	17.6
Private Equity	-6.8	41.0	23.2
Venture Capital	-0.2	16.7	5.4
Inflation Protection	-31.1	31.4	-6.3
Total Fund	**-28.7%**	**17.2%**	**16.4%**

The most significant deduction from investment income is investment manager fees. The System's assets are managed 100% by external investment managers hired by the Board. Many of these managers are paid a fee based on the assets under management. Accordingly, those managers were generally compensated less in 2008 than in prior years because of the effect of decreasing asset values. However, the industry practice for the limited partnership investments is for the limited partners to pay fees to the general partner based on commitments to the partnership during the initial years. In fact, manager fees related to alternative investments increased in 2008 based on increased commitments from new and continuing limited partnerships. Investment expenses decreased $34 million in 2008 compared to an increase of $47 million in 2007.

Benefits, Refunds and Expenses

Benefits are the most significant recurring deduction from Plan Net Assets. During 2008 the System paid out approximately $2.2 billion in benefits and refunds compared to $2.3 billion for 2007. There were 4,841 new retirees added to the annuity payroll in 2008 with an average annual benefit of $21,767. This was down from the 8,761 retirees added in 2007. These new additions in 2008 retired with a much higher annual benefit than those removed from rolls. There were 3,825 retirees removed from the rolls with an average annual benefit of $11,783. In 2008, supplemental payments decreased 45.3%, from $575 million in 2007 to $315 million in 2008. This decrease is attributable to the reduced number of retirements in 2008 as compared to 2007. Supplemental payments are mainly the result of members withdrawing their accumulated contributions and interest from the System. Those withdrawals reduce the retirees' annuity payments over the annuitants' remaining life.

Although benefit expenses decreased in 2008, going forward, the System expects benefit expenses to steadily rise. This is attributable to the fact that the number of new retirees added to the rolls is expected to be about 50% higher than retirees removed from the rolls. Additionally, new retirees' monthly annuity is approximately 85% higher than the annuity of those being removed. The System was established in 1923 but did not pay more than $1 billion in annual benefits until 1997. The System's annual benefit payments reached $2 billion in 2007 and based on recent actuarial projections, it will reach $3 billion by 2014. The following table shows the increase in retirees and monthly benefit payments since 2006.

Growth in Annuity Payroll

	Dec. 2008	Dec. 2007	Dec. 2006
Monthly Annuity Payroll	$159 million	$154 million	$138 million
Retirees	108,146	107,130	102,060

The administrative costs of the System represented 0.1% of average net assets in 2008 and 2007. All costs were within budget.

Plan Assets

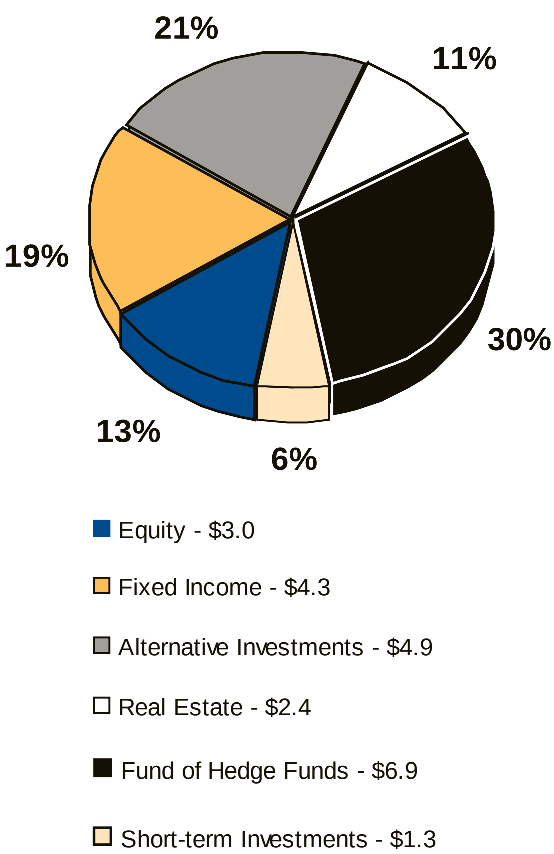
The System's investments are the most significant component of the System's assets. Investments decreased to $22.8 billion in 2008 from $35.7 billion as of December 31, 2007. The $12.9 billion decrease in investments was primarily due to the investment loss of $11.1 billion and benefit payments of $2.2 billion in 2008.

The System values its assets at "fair value" as discussed in the accounting policies footnote 2(c) to the financial statements. Fair value is the value the System expects to receive in a current sale between a willing buyer and a willing seller that are equally motivated; that is, other than a forced or liquidation sale. The value of publicly traded securities, stocks and bonds, are determined using the latest quote from national exchanges or pricing services. Those prices reflect the securities' pricing at the close of business and are affected by such items as liquidity, current events and the size of lots being traded. Real Estate is valued by the investment advisor using discounted cash flows, recent comparable sales, and current market conditions to arrive at a fair value. The real estate portfolios undergo an annual independent financial audit of the estimated fair values as well as an independent appraisal process on a routine cycle conducted by approved appraisers who meet specified professional qualifications. The appraisal process involves a significant amount of judgment and estimating. As a result, the ultimate value on sale of the asset may differ from the appraised value.

Values for alternative investments are determined by the general partners and by valuation committees. The partnerships' investments, as well as the assumptions and estimates used in developing the investment values, are subject to annual independent audits. Because the investments in those partnerships are generally illiquid and holding periods may last for several years, the ultimate value realized by the System on the disposition may differ from the estimated values reflected in the financial statements, and those differences could be material.

As of December 31, 2008, funds of hedge funds fair values were $6.9 billion, a decrease of $2.6 billion from December 31, 2007. Equity fair values of $3.0 billion for December 31, 2008 represent a decrease of $5.9 billion from 2007. The fixed income fair values were $4.3 billion, a decrease of $3.3 billion from December 31, 2007. The alternative investment and real estate asset classes fair values were $4.9 billion and $2.4 billion, respectively. This represents a decrease of $0.6 billion in both alternative investments and real estate for 2007. The total investment portfolio fair value of $22.8 billion and fund allocation is shown by the following chart:

Investments at Fair Value
(in Billions)
As of December 31, 2008



The System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System for borrowed securities generally equal to 102% to 105% of the borrowed securities. The System invests the collateral to earn interest. Income, net of expenses, from security lending is dependent on the volume of lending generated at the custodian bank and the spreads (profits) on those loaned securities. In 2008, certain securities purchased with cash collateral by the lending agent had values significantly less than the amortized cost reflected on the custodian records. The loss to the System is estimated at $25 million and has been recorded as a liability in the financial statements. Due to the increased risk associated with the recent market uncertainty, the security lending program was scaled back in 2008. The pool's investment guidelines provide for investment of cash collateral in highly liquid, highly rated securities. As of December 31, 2008 and 2007, the fair value of loaned securities was $0.8 billion and $3.0 billion, respectively; the fair value of the associated collateral was $0.9 billion and $3.0 billion, of which $0.7 billion and $2.6 billion was cash, respectively.

Derivatives

The System uses derivatives as a means to provide market exposure to domestic and global equity markets, and commodity asset classes, and to manage interest rate risk in the fixed income portfolios. Used properly, these derivatives deliver returns similar to indexed returns in the respective asset classes in a cost-efficient manner without disrupting the liquidity needs of the System. The System's investment advisors manage counterparty credit risk by entering into contracts with parties with strong credit ratings and by establishing collateral requirements. The System monitors derivative levels and types to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

Liquidity

The System's liquidity needs are met through member and employer contributions and earnings from its well diversified investment portfolio. At December 31, 2008, the Fund holds over $2.6 billion in high quality core fixed income securities. The Fund also holds over $2.8 billion in highly liquid large cap equity securities. Investments in real estate and alternative investments are generally considered illiquid. Because of their characteristics, investments in emerging markets, high yield fixed income securities, and fund-of-hedge funds strategies, are not considered a primary source of liquidity.

Condensed Financial Information
(in Millions)

Net Assets

Assets:	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Total receivables	$138	$(158)	$296	$39	$257
Total investments	22,765	(12,934)	35,699	3,648	32,051
Securities lending collateral pool	680	(1,956)	2,636	(603)	3,239
Total assets	23,583	(15,048)	38,631	3,084	35,547
Liabilities:					
Accounts payable and accrued expenses	48	(10)	58	(11)	69
Security lending collateral pool payable	25	25	-	-	-
Investment purchases and other liabilities	34	(387)	421	235	186
Obligations under security lending	680	(1,956)	2,636	(603)	3,239
Total liabilities	787	(2,328)	3,115	(379)	3,494
Total net assets	**$22,796**	**$(12,720)**	**$35,516**	**$3,463**	**$32,053**

Changes in Net Assets

Additions:	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Member contributions	$337	$3	$334	$16	$318
Employer contributions	235	(9)	244	48	196
Investment gain (loss)	(11,061)	(16,307)	5,246	516	4,730
Total additions	(10,489)	(16,313)	5,824	580	5,244
Deductions:					
Benefits and refunds	2,204	(132)	2,336	417	1,919
Administrative expenses	27	2	25	1	24
Total deductions	2,231	(130)	2,361	418	1,943
Increase (decrease) in net assets	**$(12,720)**	**$(16,183)**	**$3,463**	**$162**	**$3,301**

Statements of Plan Net Assets
As of December 31, 2008 and 2007
(Dollar Amounts in Thousands)

	2008	2007
Assets:		
Receivables		
Plan members	$1,034	$855
Employers	8,544	7,752
Investment income	66,297	84,374
Investment proceeds and other receivables	50,793	190,076
Miscellaneous	10,930	12,472
Total receivables	137,598	295,529
Investments		
Short-term investments	1,310,140	1,183,444
United States government securities	1,329,553	2,363,079
Corporate and foreign bonds and notes	1,506,117	2,595,382
Common and preferred stocks	2,053,162	6,630,015
Collective trust funds	2,322,775	4,901,215
Fund of hedge funds	6,882,608	9,520,352
Real estate	2,442,613	3,044,609
Alternative investments	4,918,246	5,461,398
Total investments	22,765,214	35,699,494
Securities lending collateral pool	679,634	2,635,880
Total assets	23,582,446	38,630,903
Liabilities:		
Accounts payable and accrued expenses	47,721	58,004
Security lending collateral pool payable	24,713	-
Investment purchases and other liabilities	34,565	420,821
Obligations under securities lending	679,634	2,635,880
Total liabilities	786,633	3,114,705
Net assets held in trust for pension benefits	**$22,795,813**	**$35,516,198**

(A Schedule of Funding Progress is presented on page 22.)

These financial statements should be read only in connection with the accompanying notes to the financial statements.

Statements of Changes in Plan Net Assets
As of December 31, 2008 and 2007
(Dollar Amounts in Thousands)

	2008	2007
Additions:		
Contributions		
Plan members	$336,833	$333,818
Employers	235,288	243,936
Total contributions	572,121	577,754
Investment gain (loss)		
Net appreciation (depreciation) in fair value of investments	(9,979,685)	4,164,231
Collective trust fund appreciation (depreciation) and income	(1,377,568)	798,941
Interest	342,163	347,507
Dividends	154,779	149,488
Real estate	109,523	112,148
Miscellaneous	5,969	6,149
	(10,744,819)	5,578,464
Investment expenses	(310,454)	(344,707)
Net gain (loss) from investing activities	(11,055,273)	5,233,757
From securities lending activities		
Securities lending income	41,319	155,067
Securities lending expenses	(47,253)	(142,094)
Net income (loss) from securities lending activities	(5,934)	12,973
Total net investment gain (loss)	(11,061,207)	5,246,730
Total additions	(10,489,086)	5,824,484
Deductions:		
Benefits	2,195,206	2,328,185
Refunds of contributions	9,373	8,183
Administrative expenses	26,720	24,748
Total deductions	2,231,299	2,361,116
Net increase (decrease)	(12,720,385)	3,463,368
Net assets held in trust for pension benefits:		
Balance, beginning of year	35,516,198	32,052,830
Balance, end of year	**$22,795,813**	**$35,516,198**

These financial statements should be read only in connection with the accompanying notes to the financial statements.

(Dollar Amounts in Thousands)

(1) Organization and Description of the System

(a) Organization

The Commonwealth of Pennsylvania State Employees' Retirement System (the System) was established as of June 27, 1923, under the provisions of Public Law 858, No. 331. The System was developed as an independent administrative agency of the Board which exercises control and management of the System, including the investment of its assets. The System's Board has 11 members including the State Treasurer (ex officio), two Senators, two members of the House of Representatives, and six members appointed by the Governor, one of whom is an Annuitant of the System. At least five board members are active members of the System and at least two have ten or more years of Credited Service.

The System is the administrator of a cost-sharing multiple-employer defined benefit retirement plan established by the Commonwealth of Pennsylvania (Commonwealth) to provide pension benefits for employees of state government and certain independent agencies. The System is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. Administration costs are financed through contributions and investment earnings.

Membership in the System is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option to participate. At December 31, 2008 and 2007, System membership consisted of:

System Membership

	2008	2007
Retirees and Beneficiaries currently receiving benefits	108,146	107,130
Terminated employees entitled to benefits but not yet receiving them	6,009	5,692
Current active employees	110,866	109,610
Total members	**225,021**	**222,432**
Number of participating agencies	108	108

(b) Pension Benefits

The System provides retirement, death, and disability benefits. Cost of Living Adjustments (COLA) are provided at the discretion of the General Assembly. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly.

Members who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50, with at least three years of service.

Most members of the System, and all state employees hired after June 30, 2001 (except State Police officers and certain members of the judiciary and legislators), are Class AA members. The multiplier for Class AA is 1.25, which translates into an annual benefit of 2.5% of the member's highest three-year average salary times years of service and became effective for members July 1, 2001. The general annual benefit for Class A members is 2% of the member's highest three-year average salary times years of service. State police are entitled to a benefit equal to a percentage of their highest annual salary, excluding their year of retirement. The benefit is 75% of salary for 25 or more years of service and 50% of salary for 20-24 years of service. Judges are entitled to a benefit of 4% of final average salary for each of the first ten years of service and 3% for subsequent years. District Justices are entitled to a benefit of 3% of final average salary for each year of service. Act 9 also created a new class of service for current legislators, Class D-4. The multiplier for Class D-4 is 1.5, which translates into an annual benefit of 3% of the final average salary for each year of service. Most members vest with five years of Credited Service.

According to the Retirement Code, all obligations of the System will be assumed by the Commonwealth should the System terminate.

(c) Contributions

The System's funding policy, as set by the System's Board, provides for periodic active member contributions at statutory rates. The System's funding policy also provides for periodic employer contributions at actuarially-determined rates, expressed as a percentage of annual covered payroll, such that they, along with member contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. A variation of the entry-age normal actuarial cost method is used to determine the liabilities and costs related to all of the System's benefits, including superannuation, withdrawal, death, and disability benefits, and to determine contribution rates. The significant difference between the method used for the System and the typical entry-age normal actuarial cost method is that the normal cost is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. The System believes that this variation should produce approximately the same results as the typical method over the long run. These rates are computed based upon actuarial valuations on the System's fiscal year end of December 31 and applied to the Commonwealth based on its fiscal year end June 30; therefore, the employer contribution rates, in effect for the System's year-end of December 31, reflect a blended average of calculated rates. The blended contribution rates were as follows:

(Dollar Amounts in Thousands)

Blended Contribution Rates

	2008	2007
Employer normal cost	8.32%	8.30%
Amortization of unfunded actuarial assets in excess of liabilities	-12.83	-11.39
Amortization of supplemental annuities	4.89	5.08
Minimum rate factor	3.66	2.04
Total employer cost	**4.04%**	**4.03%**

In addition to the employer normal cost, the total employer cost includes other costs and credits resulting from COLAs, differences between actual investment results and actuarial estimated returns, and changes in benefits. These additional costs and credits are amortized over a period of future years as set by the Legislature. On December 10, 2003, Act 2003-40 (Act 40) revised the amortization periods of these additional costs and credits to the following amortization periods:

Act 40 Amortization Periods

Pre-Act 2001-9 funding credit	10 years
Act 2001-9 liability	30 years
Post 2000 gains and losses	30 years
Existing and future COLAs	10 years

Act 2007-8 established a permanent minimum employer contribution rate floor of 4%.

The general membership contribution rate for all Class A and Class AA members is 5% and 6.25% of salary, respectively. The contribution rate for Class D-4 members is 7.5%. Judges and district justices have the option of electing special membership classes requiring a contribution of 10% and 7.5%, respectively. All member contributions are recorded in an individually identified account that is credited with interest, calculated at 4% per annum, as mandated by statute. Accumulated member contributions and credited interest vest immediately and are returned to the member upon termination of service if the member is not eligible for other benefits.

(d) Benefits Completion Plan (BCP)

Act 2002-234 amended the State Employees Retirement Code by adding Section 5941 to the Code. Section 5941 directs the State Employees Retirement Board to establish and serve as trustee of a retirement benefit plan that is in conformity with Internal Revenue Code (IRC) Section 415(m), the Benefits Completion Plan (BCP). The BCP is a separate trust fund established to provide benefits to all annuitants of the System's Defined Benefit Plan and their survivor annuitants and beneficiaries whose retirement benefit exceeds the IRC Section 415(b) limits.

The BCP is funded on an ongoing basis. A monthly annuity or death benefit is paid under the BCP only if a corresponding monthly annuity or death benefit is paid from the Defined Benefit Plan to the extent permitted by IRC Section 415(b) and the Retirement Code. At December 31, 2008, there were 16 members receiving benefits from the BCP.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are based on when member salaries are earned and are recognized when due, pursuant to statutory requirements and formal commitments. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(b) Use of Estimates

Management of the System has made certain estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Investments in venture capital, alternative investments, and real estate are generally illiquid. Because of the inherent uncertainty in valuing privately held securities, the fair value may differ from the values that would have been used had a ready market for such securities existed, and the difference can be material. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

(c) Investments

The System's investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale. The investments in short-term investment funds, including those managed by the Treasurer of the Commonwealth of Pennsylvania, are reported at cost plus allocated interest, which approximates fair value. The security lending collateral pool, which is a fund operated by the securities lending agent, also is accounted for at cost plus accrued interest, which approximates fair value. U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, and the underlying holdings in funds-of-hedge funds, are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The fair value of equity and commodity swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread. Real estate investments, which are subject to annual independent audits, are primarily valued based on independent appraisals. Properties that have not been appraised are valued using the present value of the projected future net income stream. Alternative investments, which are subject to an annual independent audit, include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments, are valued based on estimated fair value established by valuation committees.

The collective trust funds (CTF) consist primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of the CTF is based on the reported share value of the respective fund. The CTF is subject to annual independent audit.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the System's investment operations.

(d) Commitments

As of December 31, 2008 and 2007, the System had contractual commitments totaling approximately $3.3 billion and $4.0 billion, respectively, to fund future alternative investments, and $557 million and $591 million, respectively, to fund future real estate investments.

(e) Compensated Absences

The System accrues a liability for vacation leave as the benefits are earned by the employees to the extent the System will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Vacation leave vests 100% at the time it is earned up to 45 days, which is carried over to the next year at December 31. The System also accrues a liability for sick leave as the benefits are earned by the employees to the extent the System will compensate the employee for the benefits through cash payments at termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days. As of December 31, 2008 and 2007, $2.9 million and $2.7 million, respectively, was accrued for unused vacation and sick leave for System employees.

(Dollar Amounts in Thousands)

(f) Federal Income Taxes

Management believes the System meets the definition of a Governmental Plan. In the System's communications with the Internal Revenue Service (IRS), it has been treated as a qualified plan, and is, therefore, considered exempt from federal income taxes. Therefore, the System has not requested a determination letter from the IRS relating to the status of the System under the IRC.

(g) Risk Management

The System is exposed to various liabilities and risks of loss related to theft or destruction of assets, injuries to employees, and court challenges to fiduciary decisions. As an administrative agency of the Commonwealth, the System is accorded sovereign immunity. The System participates in certain Commonwealth pooled insurance programs and requires asset managers to carry certain insurance coverage. The System is self-insured for fiduciary and director and officer liability. During the past three fiscal years, SERS' insurance settlements did not exceed insurance coverage.

(3) Description of Funds

The Retirement Code requires the System to maintain the following funds representing the net assets held for future and current benefit payments:

The **Member Savings Account** accumulates contributions and interest earnings of active employees. Member balances are transferred to the Annuity Reserve Accounts as members retire.

The **State Accumulation Account** accumulates contributions of the employer and the net earnings of the Fund. Funds are transferred to the Annuity Reserve Accounts as members retire. The amount transferred is determined actuarially.

The **Supplemental Annuity Account** accumulates contributions for supplemental annuities. The negative balances represent the liability for past cost of living adjustments that are being amortized to actuarial required contributions. The balance in this account is actuarially determined.

The **Annuity Reserve Accounts** are the accounts from which all death and retirement benefits and supplemental annuities are paid. The balances in these accounts are actuarially determined.

The **Interest Reserve Account** accumulates all income earned by the Fund and from which all administrative and investment expenses incurred by the Fund and the Board necessary for operation of the System are paid. Any balance in this reserve is transferred to the State Accumulation Account at year-end.

The **Benefit Completion Plan Reserve Account** accumulates all BCP employer contributions and net earnings of the Fund less any benefits paid out of the Fund.

Fund balances at December 31, 2008 and 2007 are as follows:

Funds

	2008	2007
Members Savings Account	$4,068,036	$3,849,293
State Accumulation Account	2,995,316	16,227,380
Supplemental Annuity Account	(810,918)	(999,666)
Annuity Reserve Accounts:		
Annuitants and Beneficiaries	15,038,052	15,008,395
State Police	1,456,525	1,381,739
Enforcement Officers	42,109	44,065
Benefit Completion Plan Reserve Account	6,693	4,992
Total	**$22,795,813**	**$35,516,198**

(4) Investments

As provided by statute, the System's Board has exclusive control and management responsibility of System funds and full power to invest the funds. In exercising its fiduciary responsibility to System membership, the Board is governed by the "prudent investor" rule in establishing investment policy. The "prudent investor" rule, requires the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to permanent disposition of the funds, considering the probable income to be derived there from, as well as the probable safety of their capital. The Board has adopted its Statement of Investment Policy to formally document investment objectives and responsibilities. This policy, as well as applicable state law, establishes guidelines for permissible investments of the System.

The System's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Pursuant to Title 71, Pennsylvania Consolidated Statutes Section 5931 [c], the State Treasurer serves as custodian of the Fund. In accordance with a contractual relationship between the Commonwealth's Treasury Department and its custodial agent, substantially all investments, where securities are used as evidence of the investment, are held by the custodian in book-entry form in the System's name. Those investments are defined as insured or registered investments for which the securities are held by the System or its agent and, therefore, have very minimal level of custodial credit risk losses. All remaining investments do not have securities that are used as evidence of the investments. These investments are primarily in collective trust funds and limited partnerships, which include real estate, alternative investments, and absolute return funds-of-hedge funds.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services (Moody's), Standard & Poor's, and Fitch Ratings (Fitch). As directed by the System's investment policy, each year the Board approves an ***Annual Strategic Investment Plan***. This plan manages the overall credit risk of the fixed income asset class through a clearly defined long-term asset allocation policy, which established a long-term target allocation to the fixed income asset class at 15% of the Fund. Of the 15% allocation, 6% of the Fund will be allocated to a core segment of the fixed income asset class and composed of investment grade, relatively liquid public domestic securities. These securities will be comprised of two components: 1) a dedicated portfolio of Treasury Inflation Protected Securities (TIPS) that are designed to capture unanticipated changes in inflation, and 2) Treasury and credit strategies based on the Barclays Capital Aggregate Bond Index. In addition to the core segment, the System will also allocate fixed income investments to a high yield segment. The high yield segment is composed primarily of less liquid, public and private securities and has a target allocation of 5% of the Fund. The high yield component will focus on debt instruments offering higher return premiums and different risk characteristics than traditional core fixed income securities. The fixed income class also has dedicated a 4% allocation of the fund to emerging market debt. Emerging market debt investments are made using dollar denominated sovereign debt as well as local currency sovereign and corporate debt. For securities exposed to credit risk in the fixed income portfolio, the table on the following page discloses aggregate fair value, by the least favorable credit rating issued using Moody's, Standard & Poor's, and Fitch credit ratings at December 31, 2008 and 2007.

U.S. Treasuries with a fair value of $1.7 billion and $1.8 billion as of December 31, 2008 and 2007 respectively, were not included in Table 1 on the next page because they are not subject to credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means for limiting the System's exposure to fair value losses arising from rising interest rates, the System's long-term asset allocation policy diversifies its fixed income core segment between intermediate duration and longer duration strategies based on the Barclays Capital Aggregate Index. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The System measures interest rate risk using option adjusted duration, which considers the effect of a security's embedded options on cash flows. At December 31, 2008 and 2007, the System's fixed income portfolio had the option-adjusted durations by fixed income sector as listed in Table 2 on the next page.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program to manage risk and enhance returns, the System invests in global markets. At December 31, 2008 and 2007, the System had the currency exposures listed in the tables on page 16.

(Dollar Amounts in Thousands)

Table 1
Fixed Income Securities Exposed to Credit Risk

Rating[a]	2008 Fair Value	2007 Fair Value
AGY[b]	$99,717	$542,683
AAA	18,680	432,948
AA	10,213	45,576
A	90,184	215,069
BAA	170,100	295,343
BA	457,523	616,948
B	418,047	799,257
CAA	133,657	177,688
CA	8,161	2,202
C	7,195	2,893
D	5,625	11,834
NA[c]	202,989	109,647
STIF[d]	820,125	1,066,068
Total	**$2,442,216**	**$4,318,156**

a. *The rating represents all of the securities that fall within Moody's equivalent subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of BA in this table.*

b. *AGY rating is assigned to securities issued by privately owned government sponsored enterprises (GSEs) such as Federal National Mortgage Association (Fannie Mae), Federal Home Loan Bank Corporation (Freddie Mac) and several others entities that do not have a rating. Through recent capital injections by the U.S. government, GSEs have an implied guarantee but are still subject to credit risk.*

c. *NA represents securities that were either not rated or had a withdrawn rating. NA also includes the fair value of certain swaps, which by nature do not have credit quality ratings. See Note 6 for additional information regarding the nature of these swap agreements.*

d. *Represents investments in the Commonwealth Treasury Department's Short-Term Investment Fund (STIF). This fund is comprised of short-term, investment grade securities, which are mainly U.S. Treasuries, agencies, or repurchase agreements.*

e. *Other Investments represents certain securities with maturities ranging through the year 2024 and the value of swap agreements as of December 31.*

Table 2
Fixed Income Portfolio Option-Adjusted Durations

	2008		2007	
Fixed Income Sector	Fair Value	Option-Adjusted Duration	Fair Value	Option-Adjusted Duration
Agencies	$30,361	1.8	$52,060	2.1
Asset Backed Securities	6,368	1.8	128,341	0.9
Corporates	842,393	3.4	1,285,624	3.6
Government	1,262,227	3.3	1,822,787	4.1
Sovereign Debt	416,921	4.6	521,593	5.7
Mortgage Backed Securities	74,847	2.5	815,504	2.8
U.S. Private Placements	200,832	2.9	373,114	4.2
STIF	820,125	0.1	1,066,068	0.1
Other Investments[e]	491,736	N/A	76,813	N/A
Total Fixed Income and STIF	**$4,145,810**		**$6,141,904**	

(Dollar Amounts in Thousands)

Foreign Currency Exposures 2008

Currency	Short Term Investments[a.]	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency Unit	$7,367	$4,772	$604,864	$21,801	$274,218	$913,022
Japanese Yen	4,682	-	387,330	43,936	-	435,948
British Pound Sterling	3,862	115	363,715	10,464	-	378,156
Swiss Franc	1,958	-	169,743	2,079	-	173,780
Hong Kong Dollar	736	-	139,820	31,040	-	171,596
Australian Dollar	454	-	40,726	21,899	-	63,079
South Korean Won	3	-	58,033	-	-	58,036
Brazil Real	713	18,423	25,114	506	-	44,756
S African Comm Rand	1,297	15,584	19,798	-	-	36,679
New Taiwan Dollar	820	-	32,609	-	-	33,429
Singapore Dollar	146	-	22,361	6,010	-	28,517
Thailand Baht	1,144	11,496	11,830	-	-	24,470
Swedish Krona	532	-	18,997	2,316	1,761	23,606
Canadian Dollar	6	4,829	11,175	3,696	-	19,706
Mexican New Peso	645	14,729	4,237	-	-	19,611
Polish Zloty	619	18,175	735	-	-	19,529
Indian Rupee	110	-	17,731	-	-	17,841
Other Currencies (16)	2,293	38,670	62,401	-	-	103,364
Total	**$27,387**	**$126,793**	**$1,991,219**	**$143,747**	**$275,979**	**$2,565,125**

Foreign Currency Exposures 2007

Currency	Short Term Investments[a.]	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency Unit	$21,949	$6,367	$1,521,034	$42,047	$233,454	$1,824,851
British Pound Sterling	(5,166)	654	961,353	35,058	-	991,899
Japanese Yen	503	-	715,889	60,008	-	776,400
Hong Kong Dollar	(37)	-	360,465	61,956	-	422,384
Swiss Franc	2,899	-	333,979	-	-	336,878
South Korean Won	375	-	196,911	-	-	197,286
Australian Dollar	(1,747)	-	88,637	61,625	-	148,515
Singapore Dollar	526	-	90,663	13,696	-	104,885
Norwegian Krone	(2,712)	-	104,451	1,642	-	103,381
Brazil Real	823	38,944	55,951	2,376	-	98,094
Swedish Krona	(233)	-	95,442	1,536	-	96,745
New Taiwan Dollar	4,824	-	70,948	-	-	75,772
Canadian Dollar	21	6,725	39,454	5,432	-	51,632
S African Comm Rand	51	-	48,586	-	-	48,637
Indian Rupee	(101)	-	47,869	-	-	47,768
Malaysian Ringgit	882	12,264	30,015	-	-	43,161
Mexican New Peso	144	9,743	23,277	-	-	33,164
Danish Krone	(904)	-	29,715	-	-	28,811
Thailand Baht	109	-	27,227	-	-	27,336
Other Currencies (15)	59	26,396	92,441	-	1	118,897
Total	**$22,265**	**$101,093**	**$4,934,307**	**$285,376**	**$233,455**	**$5,576,496**

[a.] *Includes receivables and payables as of December 31, for securities sold and purchased.*

(5) Securities Lending

In accordance with a contract between the Commonwealth's Treasurer and its custodian, the System participates in a securities lending program.

The custodian, acting as lending agent, lends the System's equity, debt, and money market securities for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities loaned except for the equity securities of non-U.S. corporations, for which collateral of 105% is required. Collateral is marked-to-market daily. If the collateral falls below guidelines for the fair value of the securities loaned, additional collateral is obtained. Cash collateral is invested by the lending agent in accordance with investment guidelines approved by the Board. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

As of December 31, 2008 and 2007, the System's credit exposure to individual borrowers was limited because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. The Treasurer's contract with the lending agent requires the agent to indemnify the System if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All loaned securities at December 31, 2008 and 2007 could be terminated on demand by either the lending agent or the borrower. Cash collateral is invested in a short-term collective investment pool. The duration of the investments in the pool at December 31, 2008 and 2007 was 20 days and 21 days, respectively. Interest rate risk may be posed by mismatched maturities and could be affected by other program features, such as the lending agent's ability to reallocate loaned securities among all of its lending customers.

In 2008, certain securities purchased with cash collateral by the lending agent, had values at levels significantly less than amortized cost reflected on the custodian records. The loss to the System is estimated at $25 million and is reflected as a liability in the financial statements.

As of December 31, 2008 and 2007, the fair value of loaned securities was $0.8 billion and $3.0 billion, respectively; the fair value of the associated collateral was $0.9 billion and $3.0 billion, of which $0.7 billion and $2.6 billion was cash, respectively.

(6) Derivative and Structured Financial Instruments and Restricted Assets

The System enters into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its portfolio. It enters into foreign exchange contracts and foreign currency options contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and to manage interest rate risk, and swaps to gain broad equity exposure, as well as hedge against the effects of inflation.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The System uses these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the System generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in the System's net assets and represents the fair value of the contracts on December 31. At December 31, 2008 and 2007, the System's contracts to purchase and sell by major foreign currencies were as listed in the tables on the next page.

(Dollar Amounts in Thousands)

Foreign Exchange Contracts

Contracts as of December 31, 2008

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro Currency Unit	$18,392	$1,302	$35,576	$1,918
Brazil Real	16,139	(179)	4,131	93
Singapore Dollar	13,433	(128)	6,846	(132)
Chinese Yuan Renminbi	13,375	(87)	4,608	72
Malaysian Ringgit	11,804	218	1,846	(53)
Mexican New Peso	8,125	(488)	8,901	294
Australian Dollar	6,694	(1,151)	3,154	(5)
Indonesian Rupian	6,319	18	1,774	(2)
British Pound Sterling	5,338	(1,126)	15,018	3,297
New Turkish Lira	4,811	141	-	-
Czech Koruna	4,661	183	4,661	(26)
Chilean Peso	4,254	(200)	-	-
Russian Rubel	4,007	(1,429)	3,577	384
Thailand Baht	3,338	(29)	2,446	(26)
Polish Zloty	2,975	(168)	3,980	301
Columbian Peso	2,192	90	1,881	(103)
Peruvian Nuevo Sol	2,123	(47)	-	-
Philippines Peso	1,294	(54)	1,303	(23)
Swiss Franc	1,077	(21)	4,990	91
Other (11)	2,043	90	17,189	(1,243)
Total	**$132,394**	**$(3,065)**	**$121,881**	**$4,837**

Contracts as of December 31, 2007

Currency	Purchases	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Japanese Yen	$65,781	$2,409	$61,499	$(2,174)
Swiss Franc	28,623	1,883	38,190	(1,772)
Euro Currency Unit	9,678	(30)	53,968	(946)
British Pound Sterling	5,222	(12)	95,476	1,835
Chinese Yuan Renminbi	3,598	37	1,886	(12)
Brazil Real	2,820	258	3,777	(287)
Norwegian Krone	2,742	12	-	-
Russian Rubel	2,214	61	-	-
Hong Kong Dollar	1,741	1	1,800	(1)
Australian Dollar	1,297	1	-	-
Other (10)	2,515	(11)	3,344	(47)
Total	**$126,231**	**$4,609**	**$259,940**	**$(3,404)**

(Dollar Amounts in Thousands)

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The System has entered into certain futures contracts maturing through December 14, 2009. The notional value of these contracts at December 31, 2008 and 2007 is listed below.

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The System pledges investment securities to provide the initial margin requirements on the futures contracts it buys.

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates and credit worthiness. During 2008 and 2007, the System entered into commodity swaps, S&P 500 total return swaps, Russell 2000 swaps, MSCI EAFE swaps, MSCI Emerging Market Free (EMF) swaps, credit default swaps, and interest rate swaps. Under commodity swap arrangements, the System receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for a spread, which it pays to the counterparty. Commodity swaps are used as an inflation hedge and settle on a monthly basis. The S&P 500 total return swaps, Russell 2000 swaps, MSCI EAFE swaps, and MSCI EMF swaps are used to gain broad market equity exposure. Under those arrangements, the System receives the return of the respective equity indices in exchange for a short-term rate plus a spread. The System uses contracts with multiple counterparties as well as collateral posting requirements to manage its counterparty credit risk. The contracts have varying maturity dates ranging from February 27, 2009 through December 31, 2009. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The System's advisors use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The System uses interest rate swaps as a cost-effective way of gaining exposure to certain sectors of the fixed income market.

The following tables present the System's futures contracts and swap exposure at December 31.

Futures Contracts

	2008		2007	
	Buy Contracts	**Sell Contracts**	**Buy Contracts**	**Sell Contracts**
Treasury Futures	$194,137	-	$510,799	$302,933
S&P 500 Futures	-	-	86,564	-
Russell 2000 Futures	-	-	14,595	-
Eurodollar Futures	143,441	-	316,550	56,741
S&P Midcap Futures	-	58,286	-	-

Swap Exposure

	Notional Value		Receivable/(Payable)	
	2008	**2007**	**2008**	**2007**
S&P 500 Total Return Index	$1,484,908	$4,761,782	$(363,123)	$32,786
MSCI EAFE Index	1,270,215	1,581,651	(467,621)	(17,591)
MSCI EMF Total Return Index	39,275	87,503	2,994	2,821
Goldman Sachs Commodity Index	-	711,885	-	39,146
Russell 2000 Index	112,386	349,517	(38,880)	(1,540)
Interest Rate	170,000	130,000	6,886	(236)
Credit Default	57,300	121,325	(11,614)	(2,729)
Lehman Brothers Aggregate	40,000	-	1,228	-

The System mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting portfolio managers and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

The System also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds. Those collective trust funds invest in those instruments directly, and indirectly (through a securities lending collateral pool), to hedge foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

(7) Commission Recapture Program

The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investments directly to the System. During the years ended December 31, 2008 and 2007, the System earned $200 thousand and $254 thousand of benefits resulting from a commission recapture program, respectively. No expenditures were paid from the program in either year. At December 31, 2008 and 2007, the System has accumulated $3.6 million and $3.4 million, respectively, that are available for future expenditures.

(8) Pension Plan for Employees of the System

The System makes employer contributions to the pension plan. The System's member contribution requirements and benefits are described in Note 1 to these financial statements. The System also participates in the Commonwealth of Pennsylvania Office of Administration's (OA) Retired Employees Health Program (REHP). The REHP is a single-employer plan and provides certain healthcare benefits to qualifying individuals meeting specified age and/or service requirements. The OA, in its sole discretion, determines available REHP benefits on an ongoing basis. REHP funding is arranged between OA and the Pennsylvania Employees' Benefit Trust Fund (PEBTF). In May 2008, the Commonwealth released an Actuarial Valuation of its Post-Retirement Medical Plan covering the fiscal year ended June 30, 2008. The valuation indicated the Commonwealth's overall Annual Required Contribution (ARC) of $590.5 million with the System's allocated portion at $1.6 million. The Governor's Budget Office states that the Commonwealth's policy is to fully fund the $590.5 million ARC. The PEBTF is a third-party administrator for the REHP under the provisions of an Administrative Agreement between OA and the PEBTF. The actuarial valuation is available at the Office of the Budget's Web site at: http://www.budget.state.pa.us/portal/server.pt/community/financial_reports/4574.

(9) Litigation and Contingencies

The System is involved in various individual lawsuits, generally related to benefit payments, which, if settled adversely, could increase estimated actuarial liabilities by approximately $1 billion. Some of the individual cases involve legal issues that, if extended to the entire membership, may result in significant costs to the System. If such an event were to occur, the additional costs would be recovered by the System through adjustments to the employer contribution rate.

(10) Additional Pension Disclosures

(a) Plan Description

The System is the administrator of a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, death, and disability benefits. COLAs are provided at the discretion of the General Assembly. The System was developed as an independent administrative agency of the Board which exercises control and management of the System, including the investment of its assets. The System issues a publicly available financial report that includes financial statements and Required Supplementary Information (RSI).

The System investments are reported at fair value as discussed in Note 2 (c) Summary of Significant Accounting Policies. The ARC is actuarially determined. There is no maximum annual contribution rate; however the minimum has been set at 4% through Act 2007- 8.

(b) Funding Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was 89.0% funded. The Actuarial Accrued Liability (AAL) for benefits was $34.4 billion, and the actuarial value of assets was $30.6 billion, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $3.8 billion. The covered payroll (projected annual payroll of active members covered by the plan) was $5.7 billion, and the ratio of the UAAL to the covered payroll was 67.2%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

(c) Actuarial Methods and Assumptions

In the December 31, 2008 actuarial valuation, a variation of the entry-age actuarial cost method was used. The significant difference between the method used for SERS and the typical entry-age actuarial cost method is that the normal cost is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. The SERS variation should produce approximately the same results as the typical method over the long run. The actuarial assumptions included (a) 8.0% investment rate of return for 2008 valuation and 8.5% for 2007, (b) projected salary increases ranging from 4.9% to 20.2% with an average increase of 7.1%, and (c) a 3.0% rate of inflation. The assumptions did not include a cost-of-living adjustment. The remaining amortization period at December 31, 2008, was 3 - 30 years, closed. The unprecedented market conditions will have a significant impact on the actuarial value of assets over the next five years. The funding ratio could decrease substantially; however due to Act 40 of 2003, and the actuarial five-year smoothing of investment returns, the full impact of 2008's negative investment return will not be felt until the fiscal year beginning July 1, 2012.

(11) New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments ("GASB 53" or the "Statement"), which establishes a comprehensive framework for measurement, recognition, and disclosure of derivative transactions in order to enhance the usefulness and comparability of reported derivative instrument activity. The System's derivative instruments fall within the scope of GASB 53. This Statement is effective for financial statements for periods beginning after June 15, 2009. The System is currently assessing the full impact of GASB 53 on future financial reporting.

(12) Reclassification

Certain amounts in the 2007 financial statements have been reclassified to be in conformity with the presentation of these amounts in the 2008 financial statements.

This information is an integral part of the accompanying financial statements.

Schedule 1
Schedule of Funding Progress
(Dollar Amounts in Millions)

Actuarial Valuation Year Ended December 31	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Covered Payroll	UAAL as a Percentage of Covered Payroll
2008	$30,636	$34,437	$3,801	89.0%	$5,660	67.2%
2007	30,840	31,754	914	97.1	5,529	16.5
2006	28,149	30,365	2,216	92.7	5,662	39.1
2005	26,794	28,852	2,058	92.9	5,138	40.1
2004	26,900	27,999	1,099	96.1	5,094	21.6
2003	27,466	26,180	(1,286)	104.9	4,965	(25.9)

Schedule 2
Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended December 31	Annual Required Contributions	Percentage Contributed
2008	$584,248	39.9%
2007	617,253	39.3
2006	548,745	35.6
2005	319,190	46.1
2004	105,229	100.0
2003	55,079	123.4

GASB 25 establishes a range of actuarial cost and amortization methods for the UAAL. The scheduled payments for the year beginning July 1, 2005 are below the minimum amount required to meet the GASB 25 minimum. This is a temporary result of financing implemented by Act 2003-40 in December 2003. After 2010, the employer contribution is expected to exceed the GASB 25 minimum.

During 2003 actual contributions exceeded the ARC. For the period July 1, 2001 through June 30, 2003 the ARC was set at zero. However, the System required payment from certain agencies that provided age 50 retirement and from special classes for payment for past liabilities for retroactive benefit enhancements. Collection of those amounts resulted in the actual contributions exceeding the ARC.

Schedule of Administrative Expenses
(Dollar Amounts in Thousands)
December 31, 2008

Personnel services:		
Salaries	$10,556	
Benefits	4,770	
Temporary personnel wages, overtime, and outservice training	145	
Total personnel services		$15,471
Professional services:		
Consultant fees	3,035	
Treasury Department services	1,147	
Commonwealth services	808	
Consultant contractual services vendor provided	530	
Consultant services EDP	462	
Legal fees	30	
Total professional services		$6,012
Rentals:		
Real estate rent	1,438	
Other equipment rental	501	
Total rentals		$1,939
Communication:		
Postage	386	
Telephone	370	
Printing and advertising	185	
Total communication		$941
Other expenses:		
Supplies	966	
Maintenance	436	
Subscriptions and memberships	357	
EDP and office equipment	324	
Travel and conferences	194	
EDP software	80	
Total other expenses		$2,357
Total Administrative Expenses		**$26,720**

Summary of Investment Expenses and Consulting Fees
(Dollar Amounts in Thousands)
December 31, 2008

Investment Expenses

		Fees
Investment manager fees:		
	Alternative Investments	$122,336
	Equity	88,531
	Real Estate	32,572
	Absolute Return	20,318
	Fixed Income	18,091
	Inflation Protection	12,559
	Total investment manager fees	294,407
Investment related expenses:		
	Alternative Investments	13,983
	Real Estate	1,628
	Custodial	209
	Other	227
	Total investment related fees	16,047
Total Investment Expenses		**$310,454**

Consulting Fees

Firm	Category	Fees
Cambridge Associates, LLC	Alternative Investments	$1,816
Rocaton Investments Advisors, LLC	General Consultant	487
Hay Group Inc.	Actuary	300
The Townsend Group	Real Estate	235
Institutional Shareholder Services	Proxy Services	103
Other		94
Total Consulting Fees		**$3,035**

Investment Section

John C. Winchester
Chief Investment Officer

June 2009

Dear Members:

The following pages provide details of the SERS investment program. The data contained in the Investment Section was compiled in conjunction with SERS investment, financial reporting and auditing staff; SERS' consultants, Rocaton Investment Advisors, Cambridge Associates and the Townsend Group; and SERS' custodian, BNY Mellon. Performance was calculated using the Modified Dietz day-weighted return methodology.

The Fund is managed in accordance with the investment policy and objectives set out by the Board, operating as fiduciaries in the sole interest of the Fund. The primary investment objective of the Fund is to assure the adequate accumulation of reserves at the least cost to the citizens of the Commonwealth, while preserving the principal of the Fund against erosion due to inflation. SERS' investment objectives further state that the Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of broad diversification of investments by type, industry, investment manager style and geographic location. As a long-term investor, this concept of diversification is a key component to achieving return objectives while controlling risk.

The SERS Investment Office, in conjunction with the Fund's consultants, performs an annual review of the Fund, recommending modifications to asset allocation. The results of this annual review and its recommendations are presented to the Board for comment and approval.

Asset allocation decisions are among the most important decisions the Board makes in striving to achieve the Fund's investment objectives. The Fund invests in a broad range of diversified asset classes and strategies, outlined in the following Investment Summary.

From an investor's standpoint, 2008 proved to be a particularly challenging year. The financial and economic crisis caused by the greed and leverage employed at a handful of financial institutions quickly spread like a pandemic from Wall Street to the rest of the investment world. As a result, stock and bond market values plummeted, sinking the world economy into a protracted recession. Unfortunately, the traditional benefits of SERS' broad portfolio diversification initiatives were undermined, as all asset classes felt the brunt of massive global deleveraging and resulting illiquidity.

Outside of cash and U.S. Treasuries, it did not matter where investors had allocated their assets. Market valuations declined precipitously across the board. As a result, investors' wealth declined by levels not seen since the Great Depression. This steep decline in stock, bond and commodity markets significantly increased the Fund's relative allocations to less liquid asset classes such as private equity and real estate. SERS' absolute return strategy managers also experienced liquidity pressure as investors rushed to redeem. As a consequence, some of these funds placed restrictions on investors' ability to access their capital. This put pressure on the Fund to create additional liquidity via its public markets assets.

In light of these events, the following steps were taken to protect the principal of the Fund and secure assets to meet benefit obligations. At the onset of this crisis in June 2007, several preliminary steps were taken by the Fund to lower the levels of risk in the portfolio. First, SERS' Board approved the removal of two of SERS' fund-of-hedge funds managers from the portable alpha strategy and reallocated these managers to stand-alone status. This decision had the effect of significantly reducing the Fund's equity exposure. The second action taken by the Board was in September of 2007 when two stand-alone hedge funds were discontinued, which accounted for a further reduction in equity exposure.

As it became increasingly apparent that the global capital markets would face a more severe contraction, SERS instituted an aggressive liquidity management program to mitigate the potential effects of a broader liquidity squeeze in the financial markets. As a consequence of the unexpected bankruptcy of Lehman Brothers in mid-September of 2008, and the unprecedented levels of market volatility that followed, a systemic liquidity crisis emerged. During this period, the Fund continued to reduce market exposures to avoid losses. SERS' multi-pronged risk reduction and liquidity efforts, designed to reduce volatility and raise cash, resulted in an estimated $2 billion in savings to the Fund.

In terms of performance, the Fund recorded a loss of 28.7% for the year. While these near-term results are disappointing, more importantly, SERS' ten-year performance places it firmly in the top quartile of a universe of large public pension funds. However, as a result of the recent market turmoil, SERS' ten-year annualized return of 4.9% fell below the actuarial return assumption of 8.5% for the first time in many years.

Despite the effects of the market downturn on the Fund, the employer contribution rate for 2009 remains at the statutorily required floor, still well below the actuarially determined normal employer contribution rate, due in large part to the Fund's exceptional long–term performance.

SERS continues to invest in the Commonwealth of Pennsylvania, providing funding for investments that have a positive impact on the economy of the State. In aggregate, the Fund had $1.3 billion, or 5.5% of the Fund invested in Pennsylvania. Investments include stocks, fixed income, real estate, venture capital and private equity.

In the past, SERS had cautioned all stakeholders not to presume that the past record of positive performance would persist indefinitely. Financial markets are inherently cyclical. Although the economic outlook for the foreseeable future is uncertain, there are possible signs of a bottoming and global stock and bond markets have had a significant rally as of the writing of this report.

SERS' Investment Office continuously monitors economic and market events, working to position the Fund through a broad diversification strategy in order to perform well under a wide variety of economic scenarios. Under the supervision and guidance of the Board, be assured that SERS is making every effort to ensure that members receive the financial security they have earned and deserve.

Sincerely,

John C. Winchester

John C. Winchester
Chief Investment Officer

The State Employees' Retirement Board (Board) originally adopted a formal ***Statement of Investment Policy*** in 1979. It has been revised periodically, to reflect and incorporate legislative changes governing investments and amendments to policies and procedures guiding the investment of the defined benefit portfolio. The latest Policy was amended in 2009. The purpose of the statement is to formalize the Board's investment objectives, policies, and procedures; to establish guidelines for the investment of Fund assets, and to define the duties and responsibilities of the various entities involved in the investment process. The major elements of the statement are:

- As fiduciaries, the Board will exercise that degree of judgment, skill and care under the circumstances then prevailing which investors of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs in investment matters;

- The Fund's overall investment objective is to provide a total rate of return, over full economic cycles, which exceeds the return of a fully diversified market portfolio within each asset class. The Board seeks to meet this objective within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, quality and geographic location;

- The Board employs an investment staff and also contracts with investment advisors and consultants to provide expert, professional judgment in all investment decisions;

- An ***Annual Strategic Investment Plan*** is prepared to establish the allocation of funds during the year among investment advisors and categories of assets;

- Guidelines are established for each category of assets used by the Fund's investment advisors to provide a framework for monitoring quality, diversification and liquidity; and

- Where investment characteristics, including yield, risk and liquidity are equivalent, the Board's policy favors investments which have a positive impact on the economy of Pennsylvania.

To assure an adequate accumulation of reserves in the Fund at the least cost to the citizens of the Commonwealth and to provide some protection against the erosion of principal by inflation, the long–term investment objectives of the Fund are:

- Achieve a net total return equivalent to the actuarial return assumption, or preferably in excess of this rate over market cycles in order to improve the funded ratio of the Fund through investment earnings;
- Achieve in Global Stocks a total return that exceeds the total return of the MSCI World Index;
- Achieve in U.S. Stocks a total return that exceeds the total return of the Russell 3000 Index;
- Achieve in Non–U.S. Stocks a total return that exceeds the total return of the SERS Custom International Stock Index;
- Achieve in the stand alone Absolute Return Strategy a total return that exceeds LIBOR plus 300 basis points;
- Achieve in the Fixed Income asset class a total return that exceeds the total return of the SERS Custom Fixed Income Benchmark;
- Achieve in the Real Estate asset class a total return that exceeds the total return of the Townsend Stylized Benchmark;
- Achieve in the Private Equity asset class a total return that exceeds the Cambridge Private Equity Benchmark;
- Achieve in the Venture Capital asset class a total return that exceeds the Cambridge Venture Capital Benchmark;
- Achieve in Inflation Protection a total return that exceeds the total return of the SERS Inflation Protection Custom Benchmark; and
- Achieve in the Cash asset class a total return that exceeds the total return on U.S. Treasury Bills (90 days).

Total return includes income, both realized and unrealized gains and losses, and is computed on market value. The Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, investment manager style, and geographic location.

Schedule of Portfolio Returns* After Fees

For the period ending December 31, 2008

Asset Class	1 Year Total Return	3 Year Total Return	5 Year Total Return	10 Year Total Return
Global Stocks	-37.5%	N/A	N/A	N/A
MSCI World Index	*-40.7*	*N/A*	*N/A*	*N/A*
U.S. Stocks	-45.4	-10.5%	-2.4%	-0.4%
Russell 3000 Index	*-37.3*	*-8.6*	*-2.0*	*-0.8*
Non–U.S. Stocks	-52.4	-11.0	0.3	2.9
SERS Custom International Stock Index [a/]	*-46.3*	*-7.5*	*3.2*	*2.7*
Absolute Return [b/]	-15.9	N/A	N/A	N/A
90 Day LIBOR	*3.0*	*N/A*	*N/A*	*N/A*
Fixed Income	-17.5	-1.9	1.3	3.8
SERS Custom Fixed Income Benchmark	*-10.9*	*0.3*	*2.1*	*3.8*
Cash	3.4	4.5	3.6	3.7
90 day U.S. T–bills	*2.1*	*4.0*	*3.3*	*3.5*
Real Estate [c/]	-10.8	8.8	14.0	11.8
Townsend Stylized Benchmark	*1.1*	*12.3*	*14.4*	*12.1*
Private Equity [c/]	-6.8	17.0	22.4	15.5
Cambridge Private Equity Benchmark	*-4.8*	*15.2*	*20.0*	*12.9*
Venture Capital [c/]	-0.2	8.5	6.2	5.3
Cambridge Venture Capital Benchmark	*-0.9*	*10.4*	*10.8*	*13.3*
Inflation Protection [d/]	-31.1	-5.3	4.6	N/A
SERS Inflation Protection Custom Benchmark	*-36.4*	*-9.5*	*1.6*	*N/A*
Total Fund	**-28.7%**	**-0.9%**	**5.1%**	**4.9%**
Total Fund Benchmark	***-25.1%***	***-0.7%***	***5.0%***	***4.1%***

**Returns for periods longer than one year are annualized.*

[a/] The Non–U.S. Stocks and the SERS Custom International Stock Index were hedged between May 1, 1996 ending January 31, 2007.

[b/] Absolute Return was initially funded in August 2007.

[c/] Results for the Real Estate, Private Equity, Venture Capital and Indices are lagged one quarter.

[d/] Inflation Protection was initially funded in November 2001.

Note: Performance was calculated using the Modified Dietz day weighted return methodology.

Domestic Equity

Holding	Fair Value
Time Warner Cable	$17,265,433
Simon PPTY Group Inc	12,353,628
Wabtec	12,080,025
Baker Michael Corp	10,775,690
Ansys Inc	9,759,882
Crown Holdings Inc	9,177,792
Aqua American Inc	8,382,868
Harleysville Group Inc	8,314,362
Airgas Inc	8,267,050
Teleflex Inc	7,989,447

International Equity

Holding	Fair Value
Nestle SA	$45,637,156
Novartis AG	24,662,867
Roche Holdings AG	23,657,808
Mitsubishi Estate Co	23,155,193
Telefonica SA	22,160,190
Bayer AG	20,671,337
Vodafone Group	16,024,118
E.ON AG	15,632,754
Reckitt Benckiser Group PLC	15,226,642
Keyence Corp	14,857,143

International Fixed Income

Holding	Fair Value
Russian Federation Bond, Variable Rate March 31, 2030	$40,098,075
Federative Republic of Brazil, 8.000% January 15, 2018	17,892,738
Standard Bank South Africa Ltd, 7.500% January 15, 2014	14,714,423
United Mexican States, 7.750% December 14, 2017	13,596,366
Government of Poland, 5.250% April 25, 2013	13,410,953
Republic of Venezuela, Variable Rate April 20, 2011	11,602,200
Republic of Indonesia, 7.750% January 17, 2038	10,215,843
Federative Republic of Brazil, 8.750% February 4, 2025	10,099,921
Videotron Group Ltd Senior Note, 6.875% January 15, 2014	9,662,430
Republic of Indonesia, 12.900% June 15, 2022	8,445,974

US Government and Government Related

Holding	Fair Value
U S Treasury Inflation Index Note, 1.875% July 15, 2013	$163,890,700
U S Treasury Inflation Index Note, 1.625% January 15, 2015	159,182,977
U S Treasury Inflation Index Note, 0.625% April 15, 2013	140,910,211
U S Treasury Inflation Index Note, 2.000% July 15, 2014	140,118,808
U S Treasury Inflation Index Note, 2.000% January 15, 2014	135,342,039
U S Treasury Inflation Index Note, 2.000% April 15, 2012	127,928,631
U S Treasury Inflation Index Note, 3.000% July 15, 2012	127,790,353
U S Treasury Inflation Index Note, 2.375% April 15, 2011	126,422,561
U S Treasury Inflation Index Note, 3.375% January 15, 2012	118,841,883
Federal National Mortgage Association, Discount February 2, 2009	13,269,114

Domestic Corporate Fixed Income

Holding	Fair Value
Range Residential Corp Senior Sub Note, 7.500% October 1, 2017	$27,720,200
Freeport McMoran Copper & Gold, 8.375% April 1, 2017	25,858,700
Texas Competitive Electric, 8.396% October 10, 2014	15,859,305
Davita Inc. Senior Sub Note, 7.250% March 15, 2015	13,285,750
NRG Energy Inc Senior Note, 7.375% February 1, 2016	11,485,500
Arch Western Financial LLC, Variable Rate July 1, 2013	10,390,410
Ford Motor Credit Co Note, 8.000% December 15, 2016	9,949,677
McMoran Exploration Co Senior Note, 11.875% November 15, 2014	9,132,094
Dresser Rand Group Inc, STEP November 1, 2014	9,115,260
Plains Exploration & Production Co Senior Note, 7.750% June 15, 2015	8,952,035

Note: A detailed list of SERS' investment holdings at December 31, 2008, may be viewed at www.sers.state.pa.us

Schedule of Trading Broker Commissions
Year Ended December 31, 2008

Broker fees on equity investment transactions for the year ended December 31, 2008 were $12.6 million. Below is a list of the brokers receiving fees in excess of $25,000 during the year.

Broker	Commissions	Broker	Commissions
UBS Securities	$859,560	Mitsubishi Finance International	$71,621
C S First Boston	798,695	Instinet	70,419
Salomon Smith Barney	771,136	Samsung Securities	61,678
Deutsche Bank	739,104	Oddo Securities	61,409
Merril Lynch	651,874	Investment Technology Group	59,980
Goldman Sachs	640,073	Fortis Securities	59,712
J P Morgan	617,526	Petercam	56,506
Morgan Stanley	357,371	ABG Securities	55,677
Lehman Brothers	337,977	Cantor Fitzgerald	55,020
Kleinwort Benson	333,083	Berenborg Gossler	52,038
Credit Lyonnais	280,288	Raymond James & Associates	50,271
Credit Agricole	251,142	NZB Neue Zuercher Bank	49,971
Carnegie	246,059	Mizuho Securities	47,460
Macquarie Bank	222,111	Kepler Equities	47,126
Nomura Bank International	196,813	Banco Santander	46,646
Bank of New York	191,315	Dexia Bank	43,460
ABN AMRO	187,413	Latinvest Securities	42,892
Cazenove	173,558	Banc of America Securities	41,400
Liquidnet	156,776	Jefferies & Company	40,987
Exane	130,146	Keefe, Bruyette & Woods	40,519
Citigroup Global Markets	127,511	CI Nordic Securities	39,295
Bear Stearns	123,432	Numis Securities	38,976
ING Bank	120,704	Svenska International	38,748
Bank am Bellevue	118,395	Bank of China	37,661
Dresdner Bank	112,519	Citation Group	35,315
Sturdivant & Company	111,707	Boenning & Scattergood	34,686
HSBC Securities	97,721	Societe Generale	34,578
Sanford C Bernstein & Company	94,625	Janney Montgomery Scott	33,829
CIBC World Markets	88,475	Stifel Nicolaus	33,401
Union Bank of Switzerland	86,968	Investec Bank	33,170
BNP Capital Markets	86,572	Rabobank Nederland	30,915
KBC Bank NV	85,368	CAIB Securites	27,655
SG Securities	81,339	Wachovia Securities	27,567
Pershing	78,977	Weeden & Company	27,493
Morgan Keegan	77,264	Baypoint Trading	27,009
Daiwa Bank	74,027	KAS Bank	26,313

SERS' assets are administered by the SERS Board. The Board adopted an investment policy that incorporates the provisions of the Retirement Code which govern the investment of SERS' assets. The policy provides investment objectives and guidelines.

The investment plan is reviewed and updated annually for strategic asset allocation purposes, as well as for diversification needs within each asset class.

Market Exposure as of December 31, 2008: SERS' assets had an unaudited market exposure of approximately $22,907.4 million.

SERS Asset Allocation

Assets	Market Exposure* (Unaudited) ($ Millions)	Market Exposure* (Unaudited) %	Long–Term Target Allocation
Global Stocks	$916.2	4.0%	5.0%
U.S. Stocks	3,565.1	15.6	21.0
Non-U.S. Stocks	3,134.3	13.7	21.0
Absolute Return	2,411.5	10.5	9.0
Fixed Income	3,278.5	14.3	15.0
Real Estate	2,445.3	10.7	8.0
Alternative Investments	4,918.2	21.5	14.0
Inflation Protection	1,474.9	6.4	7.0
Cash	763.4	3.3	0.0
Total	**$22,907.4**	**100.0%**	**100.0%**

** Numbers may not add due to rounding.*

Number of Investment Advisors: Many advisors manage multiple portfolios across and within asset classes. SERS had 197 unique external investment advisory firms managing portfolios. There are 32 advisors in the public markets domain, 160 in private markets and five in both public and private markets. Of these, 17 advisors manage 42 portfolios across asset classes.

- 2 Global Stock advisors
- 11 U.S. Stock advisors
- 12 Non-U.S. Stock advisors
- 2 Absolute Return advisors
- 14 Fixed Income advisors
- 2 Cash advisors
- 3 Inflation Protection advisors
- 28 Real Estate advisors
- 57 Venture Capital general partners managing limited partnerships
- 91 Private Equity general partners managing limited partnerships

Number of Investment Portfolios: SERS had 463 investment portfolios. Of these, 53 portfolios are public market investments and 410 cover private markets.

- 2 Global Stock portfolios
- 11 U.S. Stock portfolios
- 17 Non-U.S. Stock portfolios
- 2 Absolute Return portfolios
- 16 Fixed Income portfolios
- 2 Cash portfolios
- 3 Inflation Protection portfolios
- 62 Real Estate portfolios
- 120 Venture Capital limited partnership interests
- 228 Private Equity limited partnership interests

Global Stock is a component of the Stock asset class, one of six major asset classes which SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmarks. SERS contracts with external investment advisors to manage the portfolios.

Investment Objective: Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The Global Stock accounts are managed on a total return basis.

SERS' long-term investment objective for the Global Stock component of the Stock asset class is to achieve a total return, net of fees, that exceeds the total return of the MSCI World Index.

SERS' ***Annual Strategic Investment Plan*** targets an allocation of 5% of Fund assets to Global Stocks.

Market Exposure as of December 31, 2008: Global Stock had a $916.2 million market exposure, 4.0% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: SERS had contracts with two external investment advisors.

Number of Investment Portfolios: SERS had two Global Stock portfolios managed by two investment advisors. SERS uses NISA Investment Advisors to replicate equity indices for rebalancing.

Type of Investment Portfolios: As of December 31, 2008, SERS Global Stock allocation was invested in all capitalization strategies.

SERS Global Stock Investments

Global Stock Investment Advisor	Investment Style	Market Exposure* as of 12/31/08 ($ Millions)
1. Walter Scott & Partners Limited	Growth	$310.0
2. Marathon–London Global Fund	Contrarian sector relative value	606.2
Total Global Stock		**$916.2**

**Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.*

U.S. Stock is a component of the Stock asset class which is one of six major asset classes which SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmark. SERS contracts with external investment advisors to manage portfolios.

Investment Objective: Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The U.S. Stock asset class is managed on a total return basis.

SERS' long-term investment objective in the U.S. Stock component of the Stock asset class is to achieve a total return, net of fees, that exceeds the total return of the Russell 3000 Index.

Stock investments shall include, but not be limited to, publicly traded securities which provide SERS with an equity interest (e.g, common stock, preferred stock, convertible preferred stock and convertible bonds), as well as derivative instruments that provide stock-like returns.

SERS' ***Annual Strategic Investment Plan*** targets a long–term allocation of 21.0% of assets to U.S. Stock comprised of 16.8% of the Fund to large cap and 4.2% of the Fund to mid/small cap, approximating the composition of the Russell 3000 benchmark.

The large cap segment of the portfolio is benchmarked to the S&P 500 Index, and uses an enhanced indexed strategy, and a transportable alpha strategy utilizing funds–of–hedge funds. Exposure to the mid/small cap segment of the U.S. market is achieved with traditional active strategies benchmarked to the Russell Midcap Index, the Russell 2500 Index, and the Russell Microcap Growth Index, as well as synthetic index replication through the use of futures and swaps.

Market Exposure as of December 31, 2008: U.S. Stock had a $3,565.1 million market value, 15.6% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: SERS had contracts with 11 external investment advisors.

Number of Investment Portfolios: SERS had 11 U.S. Stock portfolios managed by the 11 investment advisors.

Type of Investment Portfolios: As of December 31, 2008, 12.8% of SERS Fund was in large cap U.S. Stock strategies, and 2.8% of SERS Fund was in mid/small cap U.S. Stock strategies. SERS uses NISA Investment Advisors to replicate U.S. Stock indices for the portable alpha and rebalancing strategies.

SERS U.S. Stock Investments

U.S. Stock Investment Advisor	Investment Style	Market Exposure* As of 12/31/08 ($ Millions)
Large cap		
S&P 500 Index swaps and portable alpha strategies		
1. NISA Investment Advisors S&P 500 Index swaps and futures	Rebalancing and equitization	$(363.1)
2. Blackstone Alternative Asset Management	Fund-of-Hedge Funds	1,691.1
3. Pacific Alternative Asset Management Company	Fund-of-Hedge Funds	1,469.7
4. Robeco Sage Capital	Fund-of-Hedge Funds	19.0
Traditional large cap		
5. Barclays Global Investors Alpha Tilts Fund	Enhanced S&P 500 Index	112.9
Mid/small cap		
6. Iridian Asset Management	Midcap private business value	120.6
7. AXA Rosenberg Investment Management	Risk–controlled Russell 2500	98.6
8. Emerald Advisers	Pennsylvania companies	219.9
9. Mellon Capital Management Corporation	Pennsylvania companies	159.1
10. NorthPointe Capital	Microcap growth	14.5
11. Turner Investment Partners	Quantitative microcap growth	22.8
Total U.S. Stock		**$3,565.1**

**Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.*

Non-U.S. Stock is a component of the Stock asset class, one of six major asset classes that SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies stock investments while maintaining a reasonable risk posture relative to the benchmarks. SERS contracts with external investment advisors to manage portfolios.

Investment Objective: Stock investments are employed by the Fund primarily because their expected return premiums versus inflation will, if realized, help preserve and enhance the real value of the Fund over long periods of time. The Non-U.S. Stock asset class is managed on a total return basis.

SERS' long-term investment objective for the Non-U.S. Stock component of the Stock asset class is to achieve a total return, net of fees, that exceeds the total return of the MSCI All Country World Index ex U.S. Investable Market Index.

SERS' ***Annual Strategic Investment Plan*** targets a long–term allocation of 21.0% of assets to Non-U.S. Stock comprised of 13.6% of the Fund to large cap stocks in developed markets, 3.4% of the Fund to mid/small cap stocks in developed markets, and 4.0% of the Fund to stocks in emerging markets.

Market Exposure as of December 31, 2008: Non-U.S. Stock had a $3,134.3 million market exposure which was 13.7% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: SERS had contracts with 12 external investment advisors.

Number of Investment Portfolios: SERS had 17 accounts managed by the 12 investment advisors.

Type of Investment Portfolios: As of December 31, 2008, assets were diversified among direct accounts, synthetic equitization, and a transportable alpha strategy utilizing funds–of–hedge funds: 9.2% of total Fund assets were allocated to large cap stocks in non–U.S. developed markets; 2.5% of total Fund assets were allocated to mid/small cap stocks in non–U.S. developed markets; and 2.0% of total Fund assets were allocated to dedicated emerging markets strategies. SERS uses NISA Investment Advisors to replicate the MSCI EAFE Index and the MSCI Emerging Markets Fund Index for the portable alpha, rebalancing, and equitization strategies.

SERS Non-U.S. Stock Investments

Non-U.S. Stock Investment Advisor	Investment Style	Market Exposure* as of 12/31/08 ($ Millions)
Large cap		
MSCI EAFE Index Exposure		
1. NISA Investment Advisors MSCI EAFE Index swaps	Rebalancing and equitization	$(374.1)
2. Arden	Fund-of-Hedge Funds	643.2
3. Rock Creek	Fund-of-Hedge Funds	648.2
Traditional large cap		
4. Artisan Partners	Global ex U.S. growth	364.5
5. Templeton Investment Counsel	Global ex U.S. value	410.7
6. Morgan Stanley Investment Management Limited	Developed ex U.S. value	417.7
Mid/small cap		
7. BlackRock Investment Management International Limited	Growth	182.9
8. Pictet Asset Management Limited	Value with growth	184.9
9. Harris Associates	Intrinsic value	195.2
Emerging markets		
10. Rexiter Capital Management Limited	Core	101.5
11. Bernstein Investment Research and Management	Value	94.6
Pictet Asset Management Limited	Value	88.8
Templeton Asset Management Ltd.		
TIFI Emerging Markets Series	Value	61.2
Templeton Strategic Emerging Markets Fund II	Private placements w/public companies	34.7
Templeton Strategic Emerging Markets Fund III	Private placements w/public companies	0.7
12. Oaktree Capital Management	Long/short Hedge Fund	76.6
NISA Investment Advisors MSCI Emerging Markets Index swaps	Rebalancing and equitization	3.0
Total Non–U.S. Stocks		**$3,134.3**

**Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.*

SERS uses Absolute Return Strategies as part of its program to diversify the investments of the Fund. This mandate is expected to enhance the Fund's overall risk-adjusted profile, thereby increasing the Fund's long-term efficiency, as measured by the Fund's expected return per unit of risk. SERS contracts with external fund-of-hedge funds investment advisors to manage these portfolios.

Investment Objective: Absolute Return Strategies are intended to produce low-volatility, uncorrelated diversified return streams in the portfolio to help preserve and enhance the real value of the Fund over long periods of time. Stand alone Absolute Return Strategies are managed on a total return basis.

SERS' long-term investment objective for the stand alone Absolute Return Strategies is to achieve a total return, net-of-fees, that exceeds LIBOR plus 300 basis points.

SERS' ***Annual Strategic Investment Plan*** targets an allocation of 9.0% of Fund assets to stand alone Absolute Return Strategies.

Market Exposure as of December 31, 2008: Stand alone Absolute Return Strategies had a $2,411.5 million market value, approximately 10.5% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: SERS had contracts with two external investment advisors.

Number of Investment Portfolios: SERS had two stand alone Absolute Return Strategies portfolios managed by the two fund-of-hedge funds investment advisors.

Type of Investment Portfolios: As of December 31, 2008, SERS' Absolute Return Strategies were globally diversified across all major asset classes, including exposure to six major strategies and twenty sub-strategies.

SERS Absolute Return Strategies Investments

	Investment Advisor	Strategy	Market Exposure* as of 12/31/08 ($ Millions)
1.	Mesirow	Fund-of-Hedge-Funds	$1,369.5
2.	Morgan Stanley Alternative Investment Partners	Fund-of-Hedge-Funds	1,042.0
	Total Absolute Return Strategies		**$2,411.5**

**Includes stocks and cash which the manager had available for investment. Numbers may not add due to rounding.*

Fixed Income is one of six major asset classes that SERS uses to diversify the investments of the Fund. The SERS' investment plan diversifies Fixed Income investments and strategies. SERS contracts with external investment advisors to manage portfolios.

Investment Objective: The Fixed Income asset class is employed by the Fund because of its ability to generate current income from interest payments, increase the value of the Fund through the reinvestment of those interest payments, serve as a hedge against disinflation and/or deflation, and to help diversify the overall Fund. The Fixed Income asset class is managed on a total return basis.

In the Fixed Income asset class, SERS' long–term investment objective is to achieve a total return, net of fees, that exceeds the total return of the SERS Custom Fixed Income Index which is comprised of the Barclay's Aggregate, the Custom Intermediate TIPS, the Citigroup High Yield Market and J.P. Morgan Emerging Market Bond indices.

SERS' ***Annual Strategic Investment Plan*** targeted a long–term allocation of 15.0% of assets of the total Fund to the Fixed Income asset class. Of this amount, 40.0% is targeted to the core strategies and 60.0% to specialty strategies (high–yield and emerging market debt).

Market Exposure as of December 31, 2008: Fixed Income had a $3,278.5 million market value, 14.3% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: SERS had contracts with 14 external investment advisors.

Number of Investment Portfolios: SERS had a total of 16 portfolios within the Fixed Income asset class managed by the 14 investment advisors.

Type of Investment Portfolios: The Fixed Income asset class is divided into core and specialty segments.

Core: Core portfolios invest in relatively liquid, high quality, fixed income securities with intermediate term durations that meet return, disinflation/deflation, high quality liquidity and diversification needs of the Fund. SERS had three actively managed core bond portfolios; one Custom Intermediate Duration Treasury Inflation Protected Securities (TIPS) portfolio, one Barclay's Capital Aggregate portfolio, and one Barclay's Capital Credit portfolio. The three actively managed core portfolios totaled $1,043.3 million. In addition, SERS had one passively managed Barclay's Capital Aggregate bond portfolio of $88.3 million. The combination of core portfolios represented 34.5% of the asset class. SERS uses NISA Investment Advisors to replicate fixed income indices for the rebalancing and equitization strategies.

Specialty: The specialty strategy portfolios (high–yield, emerging market debt, subordinated debt, mezzanine debt, and bank loan structured credit) focus on debt instruments offering higher return premiums and different risk characteristics than core fixed income securities. SERS has four corporate high yield portfolios with a market value of $852.2 million, one high yield commercial mortgage–backed securities portfolio with a market value of $186.5 million, one structured credit portfolio with a market value of $25.9 million, and six emerging market debt portfolios with a market value of $1,082.3 million. The specialty portfolios represent 65.5% of the asset class.

SERS Fixed Income Investments

	Fixed Income Investment Advisor	Investment Style	Market Exposure* as of 12/31/08 ($ Millions)
Core			
1.	Standish Mellon	Barclay's Capital Aggregate Index	$88.3
2.	Morgan Stanley	Active Domestic	254.4
3.	Taplin, Canida & Habacht	Active Domestic	100.3
4.	NISA Investment Advisors	Active Intermediate Duration TIPS	688.6
Specialty			
5.	Berwind (Eureka) - PA Capital Fund	PA Capital Fund	4.0
6.	Pyramis Global Advisors (Fidelity)	Commercial Mortgage-backed Securities	186.5
7.	Oaktree Capital Management	Mezzanine Fund	1.1
8.	Stone Harbor (Salomon)	Global High Yield	468.1
	Stone Harbor (Salomon)	Emerging Market Debt	299.3
9.	Ashmore AEMDF	Emerging Market Debt ($U.S.)	215.7
	Ashmore LCD	Emerging Market Debt - local	151.7
10.	W.R. Huff	High Yield	379.0
11.	SEI Structured Credit Fund	High Yield Bank Loans - Equity Tranche	25.9
12.	Gramercy Advisors	Emerging Market Debt - Absolute Return	70.4
13.	Greylock Capital Management	Emerging Market Debt - Absolute Return	54.4
14.	PIMCO	Emerging Market Debt	290.8
	Total Fixed Income Investments		**$3,278.5**

**Includes securities and cash that the manager had available for investment. Numbers may not add due to rounding.*

Cash is one of six major asset classes that SERS uses for investments of the Fund. The SERS' investment plan calls for minimizing cash balances while meeting cash flow requirements. The Fund has adopted a rebalancing strategy that enhances the Fund's liquidity profile by providing a ready pool of cash equitized with synthetic investments, including futures and swaps, which provide measured equity and fixed income market exposure. So, while cash balances may have increased, generally there would not be an effective increase of the Fund's allocation to Cash as an asset class. The equitization allows the Fund to preserve its historical asset allocation of zero percent to Cash; while still earning market returns as though those funds were invested in equity or fixed income market indices. The rebalancing strategy does not use leverage.

Investment Objective: Cash investments are employed by the Fund to provide for SERS' liquidity needs and to accumulate funds for future investment. The Cash asset class is to be managed on a total return basis, with the exception that temporary investments such as overnight repurchase agreements ("repo"), commercial paper, and banker's acceptance may alternatively be evaluated on a yield–to–maturity basis given their extremely short maturities.

Cash balances and forecasts are evaluated on a daily basis, and compared to SERS equity and fixed income market exposures. When necessary, cash is used as collateral for swaps and futures to maintain the desired market exposures.

In the Cash asset class, SERS' long-term investment objectives are to achieve a total return, net of fees, that exceeds the total return on 90 day U.S. Treasury Bills. SERS' ***Annual Strategic Investment Plan*** targets an allocation of 0% of dedicated assets to the Cash asset class, while maintaining $300 - $900 million in short-term investments equitized with equity and fixed income derivatives. The cash liquidity is used to support the Fund's benefit payments, swap payments for its portable alpha program and operational expenses of the Fund.

Market Exposure as of December 31, 2008: The effective cash exposure was approximately $763.4 million or 3.3% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: The cash and rebalancing strategies use two advisors. The Pennsylvania State Treasury Department manages the uninvested cash in the liquidity accounts; and NISA Investment Advisors manages the cash and synthetic overlays for the rebalancing strategy.

Number of Investment Portfolios: SERS' Cash portfolio is managed primarily by the Treasurer. Certain short term cash investments and the synthetic overlays for the fixed income and equity markets are managed by NISA Investment Advisors.

Type of Investment Portfolios: SERS Cash asset class currently employs a money market short–term investment strategy. The portfolio also contains the uninvested cash balances held by other SERS investment advisors in other asset classes. Cash held in the rebalancing account is invested in high-quality, highly liquid, short-term investments.

In the aggregate, the State Treasury managed approximately $812 million on behalf of SERS and SERS' external investment advisors as of December 31, 2008.

Real Estate is one of six major asset classes that SERS uses to diversify the investments of the Fund. SERS' investment plan diversifies Real Estate investments and balances real estate management styles. In accordance with the Investment Plan, SERS contracts with external investment advisors to manage portfolios.

Investment Objective: Real Estate investments are generally long–term, illiquid investments that, due to their high correlation with inflation, provide an inflation hedge and, due to their low correlation with stocks and bonds, provide diversification within the total portfolio. It is expected that the long–term total return (income and appreciation) for real estate will fall between that of stocks and bonds. The Real Estate asset class is managed on a total return basis.

In the Real Estate asset class, SERS' long–term investment objective is to achieve a total net return that exceeds the total return of the NCREIF Index for rolling five year periods. SERS' ***Annual Strategic Investment Plan*** targets a long–term allocation of 8% of assets to the Real Estate asset class.

Investments are made through commingled fund investments, limited partnerships, REITs and separate account portfolios where SERS contracts with external investment advisors to own properties directly or with other co–investors. SERS' Real Estate portfolio provides for diversification by:

- Transaction structure
- Property type
- Geographic location
- Development phase

Fair Value as of December 31, 2008: Real Estate had an estimated $2,445.3 million market value, approximately 10.7% of the total Fund's market value.

Number of Investment Advisors: SERS had contracts with 28 external investment advisors to manage real estate portfolios as of December 31, 2008.

Number of Investment Portfolios: SERS had investments in 62 real estate portfolios managed by the 28 investment advisors.

Type of Investment Portfolios: As of December 31, 2008, the composition of the real estate portfolio was:

- 33% pooled funds, 67% separate accounts
- 24% office, 5% industrial, 8% retail, 22% residential, 13% hotel/motel, 7% timber, 21% other (including senior and student housing, land and various niche property investments)
- 11% Pennsylvania, 30% East excluding PA, 28% West, 14% South, 6% Midwest, 11% International
- 21% of the market value of the separate accounts was invested in 18 investments located in Pennsylvania

SERS Real Estate Investments

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value* as of 12/31/08 ($ Millions)
1.	AG Asia Realty Fund	2007	Diversified	Limited Partnership	$20.2
2.	Apollo Real Estate Fund III	1998	Diversified	Limited Partnership	10.6
3.	Berwind Investment Partnership V	1999	Diversified	Limited Partnership	11.0
	Berwind Investment Partnership VI	2002	Diversified	Limited Partnership	11.7
	Berwind Investment Partnership VII	2005	Diversified	Limited Partnership	18.0
	Berwind Investment Partnership VIII	2007	Diversified	Limited Partnership	7.9
4.	Blackstone Real Estate Partners III	1999	Diversified	Limited Partnership	1.2
	Blackstone Real Estate Partners IV	2003	Diversified	Limited Partnership	16.8
	Blackstone Real Estate Partners V	2006	Diversified	Limited Partnership	38.9
	Blackstone Real Estate Partners VI	2007	Diversified	Limited Partnership	21.8
5.	Clerestory Small Cap Fund I	2007	Diversified	Limited Partnership	(1.2)*
6.	Cliffwood Select Equity Fund	2000	REITs	Limited Partnership	36.6
7.	Colony Investors VIII	2007	Diversified	Limited Partnership	3.7
8.	Fidelity Real Estate Opportunistic Income Fund	2007	Debt	Limited Partnership	19.4
9.	Fillmore East Fund	2005	Debt	Limited Partnership	27.1
	Fillmore West Fund	2008	Debt	Limited Partnership	20.3
10.	Forest I.M.A.	1992	Timber	Separate Account	221.4
11.	Grosvenor I.M.A.	1994	Diversified	Separate Account	343.0
	Grosvenor Residential Investment Partners I	2007	Residential	Limited Partnership	2.1
12.	Heitman America Real Estate Trust	2007	Diversified	Limited Partnership	52.9
	Heitman I.M.A.	1988	Diversified	Separate Account	60.0
13.	ING Clarion Real Estate Securities	1996	REITs	Separate Account	246.6
14.	LaSalle I.M.A.	1994	Diversified	Separate Account	264.7
15.	Lowe I.M.A.	1994	Diversified	Separate Account	452.6
16.	Lubert Adler Fund II	1998	Diversified	Limited Partnership	2.2*
	Lubert Adler Fund III	2000	Diversified	Limited Partnership	6.6
	Lubert Adler Fund IV	2004	Diversified	Limited Partnership	17.1*
	Lubert Adler Fund V	2006	Diversified	Limited Partnership	26.0*
	Lubert Adler Fund VI	2008	Diversified	Limited Partnership	5.0*
17.	Miller Global III	1999	Diversified	Limited Partnership	0.0
18.	OCM Real Estate Opp Fund A	1996	Diversified	Limited Partnership	1.7
	OCM Real Estate Opp Fund II	1998	Diversified	Limited Partnership	1.7
	OCM Real Estate Opp Fund III	2003	Diversified	Limited Partnership	14.7
	TCW Special Credits Trust VI	1994	Diversified	Limited Partnership	0.3
19.	Oxford GSA Strategy	2006	Diversified	Limited Partnership	17.5
20.	Prudential Latin America Residential Fund III	2007	Residential	Limited Partnership	13.9
	Prudential Latin America Retail Fund I	2006	Retail	Limited Partnership	26.4
	Prudential Senior Housing Fund II	2001	Senior housing	Limited Partnership	19.8
	Prudential Senior Housing Fund III	2006	Senior housing	Limited Partnership	30.3
21.	Rockpoint Finance Fund I	2006	Diversified	Limited Partnership	0.8
	Rockpoint Real Estate Fund I	2004	Diversified	Limited Partnership	3.7
	Rockpoint Real Estate Fund II	2005	Diversified	Limited Partnership	17.1
	Rockpoint Real Estate Fund III	2007	Diversified	Limited Partnership	0.0

SERS Real Estate Investments (continued)

	Real Estate Investment Advisor	Vintage Year	Property Type	Investment Structure	Fair Value* as of 12/31/08 ($ Millions)
22.	Scout Fund I: Hawkeye Partners	2006	Diversified	Limited Partnership	$(2.9)
23.	Sentinel Real Estate Fund	1986	Residential	Open-Ended Fund	64.8
24.	Starwood Fund IV	1997	Diversified	Limited Partnership	1.8
	Starwood Fund V	1999	Diversified	Limited Partnership	1.5
	Starwood Fund VI	2001	Diversified	Limited Partnership	25.4
	Starwood Fund VII	2005	Diversified	Limited Partnership	25.6
	Starwood Fund VIII	2007	Diversified	Limited Partnership	(1.0)*
25.	UBS - PMSA	1988	Diversified	Open-Ended Fund	74.1
	UBS - RESA	1988	Diversified	Open-Ended Fund	84.0
	UBS Multi-Family Trust	1999	Residential	Limited Partnership	0.4
26.	Urdang Real Estate Securities	2002	REITs	Separate Account	39.3
27.	Westbrook Fund II	1997	Diversified	Limited Partnership	1.7
	Westbrook Fund III	1998	Diversified	Limited Partnership	3.3
	Westbrook Fund IV	2000	Diversified	Limited Partnership	0.7
	Westbrook Fund V	2004	Diversified	Limited Partnership	2.0
	Westbrook Fund VI	2005	Diversified	Limited Partnership	15.4
	Westbrook Fund VII	2006	Diversified	Limited Partnership	2.0
28.	Goldman Sachs: Whitehall V & VI	1994	Diversified	Limited Partnership	0.2
	Whitehall VII & VIII	1996	Diversified	Limited Partnership	0.9
	Total				**$2,451.3**
	Aggregate estimated fair value reduction for advisors whose year end statements were not received.				(6.0)
	Total Real Estate Investments				**$2,445.3**

** Fair values for these advisors have not been received as of year end. The values are third quarter fair values adjusted by fourth quarter cash flows.*

Alternative Investments is comprised of Venture Capital and Private Equity investments, both of which take the form of limited partnerships, and is one of six major asset classes that SERS uses to diversify the investments of the fund.

Venture Capital and Private Equity Defined

Venture Capital is the financing of young, rapidly growing companies, typically at three stages of development. (1) Seed and Early Stage: Seed is the form of venture capital that supports companies in their conceptual phase, i.e., a product and market are identified, and a corporation may have been formed. Early Stage financing supports companies pursuing a business plan but not yet generating meaningful revenues. The product has been developed and may have been shipped to customers for testing. Management positions have been filled and an operating team is in place. (2) Late Stage financing supports companies that have proven revenues, and are in the process of rolling out operations and building sales to achieve profitability. (3) Growth or Expansion financing supports profitable or nearly profitable businesses that, lacking access to significant debt financing, need capital for growth and expansion. Companies at either the later stage or growth or expansion stage may be nearing a strategic sale to another company or an initial public offering.

Private Equity primarily refers to investments in the equity and subordinated debt of established companies. Private equity approaches undertaken by SERS' limited partnerships include: (1) Leveraged buyouts and management buyouts in which companies are acquired through the use of borrowed funds, or a combination of borrowed funds and contributed equity capital.
The acquired company's assets serve as collateral for the borrowed funds, which are repaid from the company's cash flows. (2) Distressed debt investing involves: (a) deleveraging of debt–laden, but successful companies, by infusing capital to permit debt reduction in exchange for an equity stake in the company, or (b) acquiring debt of a troubled, sometimes bankrupt company, at steep discounts to face value, followed by assistance to return the company to profitability to permit selling of the debt securities at levels above the discounted purchase price. (3) Secondary interests in established private equity funds – these interests are purchased from other investors who seek liquidity or desire to realign or rebalance their investment portfolios, often for non–financial reasons. Such partnership interests can be purchased at significant discounts to net asset value and often occur when the acquired partnerships begin to realize profits.

Investment Objective: SERS' long-term investment objective for Alternative Investments is to achieve a risk–adjusted total return, net of fees, in excess of the return generated by the S&P 500 Index. SERS' ***Annual Strategic Investment Plan*** targets a long–term allocation range with a midpoint of 14%.

Fair Value as of December 31, 2008: Alternative Investments had an estimated $4,918.2 million market value, approximately 21.5% of the total Fund's December 31, 2008 market value. Sub–asset class market values and fund percentages were as follows:

SERS Alternative Investments

	Unfunded Commitments ($ Millions)	Estimated Fair Value ($ Millions)	Percent of Total Fund
Venture Capital	$784.4	$1,318.3	5.8%
Private Equity	2,558.3	3,599.9	15.7
Total Alternative Investments	**$3,342.7**	**$4,918.2**	**21.5%**

Number of Limited Partnerships: As of December 31, 2008, SERS had commitments to 348 active Alternative Investments limited partnerships, 120 to Venture Capital partnerships and 228 to Private Equity partnerships.

Portfolio: SERS' Alternative Investment Program's scope has expanded over the years to include top investment funds nationally and internationally. The Program holds indirect investment interests in over 4,500 companies. The Venture Capital Program includes investments working to commercialize novel solutions to current and future challenges in information technology, communications, and medicine. In addition to direct fund investments, the Venture Capital Program includes investments in several fund–of–funds. A fund–of–funds is a limited partnership that, in turn, invests in other limited partnerships. Five of these fund–of–funds commitments have the strategic goal of enabling SERS to gain indirect exposure to many top–tier venture capital funds that SERS would otherwise have difficulty accessing directly. Another two of these commitments are to funds investing in minority–focused venture capital funds.

The Private Equity Program invests in buyout, distressed, international, and secondary oriented partnerships. Buyout transactions are privately negotiated or result from investment bank sponsored auctions, and are usually completed with present management in place; hostile acquisitions are generally avoided. Distressed investment managers employ differentiated strategies, i.e., they employ control or non–control approaches, and accordingly, have differing degrees of active influence over the companies in which they invest. European funds are attempting to capitalize on trends favoring the restructuring of large companies, generational succession in businesses established after World War II, cross–border business opportunities within the region since the formation of the European Economic Union and currency harmonization. Asian investments focus on the expanded opportunities in the region created by changing attitudes in many Asian countries regarding foreign investment, favorable demographic trends, globalization opportunities, and economic growth. The Program typically gains initial exposure to emerging markets and other target regions through the use of funds–of–funds. The portfolio's exposure to energy markets is also expanding. Additionally, SERS utilizes one manager to oversee stock distributions and another manager for co–investment opportunities.

Alternative Investment Portfolio Exposure: The Alternative Investment Program is well diversified by stage of investment, industry focus, and geography. As of September 30, 2008, based on market value, the program's exposure was as follows:

By Sub Sector:

U.S. Private Equity	43.5%
U.S. Venture Capital	23.1%
Non-U.S.	16.8%
Distressed/Opportunistic	8.8%
Pennsylvania Related	5.4%
Other	2.4%

By Style:

LBO	42.0%
Expansion Stage	17.9%
Early Stage	10.3%
Start–Up	8.3%
Acquisition/Platform	6.4%
Senior Debt LBO	4.1%
Other	11.0%

By Geography:

U.S. Northeast	14.8%
U.S. West Coast	14.4%
U.S. Southwest/Rockies	12.4%
U.S. Midwest/Plains	9.4%
U.S. Southeast	8.3%
U.S. Mid-Atlantic	8.3%
U.S. Pacific Northwest	1.7%
United Kingdom	5.7%
Germany	3.1%
Denmark	2.8%
France	2.2%
Netherlands	1.7%
Rest of World	15.2%

By Industry:

Consumer/Retail & Services	22.0%
Healthcare	19.4%
Information Technology	14.3%
Manufacturing	7.2%
Software	7.2%
Financial Services	7.0%
Media/Communications	6.8%
Energy	5.4%
Electronics	3.6%
Other	7.1%

SERS Venture Capital Committed, Drawn and Distributed

The capital committed column represents total dollars allocated from SERS to each limited partnership. Capital drawn is the portion of SERS' capital commitments drawn by the General Partner to be invested with underlying portfolio companies. The distributions column shows the value of capital and profits returned to SERS.

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1.	ABS Capital Partners VI	Late Stage	*	$40,000,000	$0	$0
2.	Adams Capital Management II	Early Stage	10/1/1999	30,000,000	30,000,000	0
	Adams Capital Management III	Early Stage	11/21/2000	30,000,000	30,000,000	4,761,905
3.	Advanced Technology Ventures VI	Multi-Stage	3/9/2000	10,000,000	10,000,000	240,896
	Advanced Technology Ventures VII	Multi-Stage	7/11/2001	27,000,000	25,109,700	6,580,846
4.	Alloy Annex I	Seed/Early Stage	10/31/2003	5,000,000	4,000,000	0
	Alloy Ventures 2000	Early Stage	5/19/2000	20,000,000	20,000,000	2,074,620
	Alloy Ventures 2002	Early Stage	7/22/2002	25,000,000	20,750,000	5,604,706
	Alloy Ventures 2005	Seed/Early Stage	8/11/2005	25,000,000	15,000,000	0
5.	APAX Excelsior VI	Late Stage	7/3/2000	35,000,000	34,175,159	39,234,762
	P/A Fund I	Late Stage	6/30/1993	30,000,000	30,000,000	66,195,539
	P/A Fund III	Late Stage	3/31/1997	100,000,000	100,000,000	158,077,955
6.	APEX Investment Fund IV	Early Stage	9/17/1999	25,000,000	25,743,967	2,014,209
	APEX Investment Fund V	Early Stage	4/19/2002	20,000,000	19,600,000	1,707,066
7.	Artiman Ventures II	Seed/Early Stage	10/27/2006	25,000,000	7,375,000	0
8.	Atlas Venture Fund IV	Early Stage	3/31/1999	26,000,000	23,846,003	6,135,410
	Atlas Venture Fund V	Early Stage	2/7/2000	37,200,000	36,970,720	12,826,952
	Atlas Venture Fund VI	Early Stage	8/1/2001	24,800,000	24,149,663	4,386,035
9.	Austin Ventures IX	Early Stage	1/9/2006	15,000,000	8,428,570	881,830
	Austin Ventures VIII	Early Stage	7/26/2001	20,932,140	21,343,340	6,755,154
10.	Battery Ventures VIII	Diversified	8/13/2007	25,000,000	8,166,667	0
	Battery Ventures VIII Side Car Fund	Diversified	8/29/2008	9,000,000	666,000	0
11.	Birchmere Ventures III	Early Stage	5/5/2005	10,000,000	6,518,524	2,429,462
12.	Care Capital Investments III	Middle/Late Stage	2/8/2006	25,000,000	5,850,266	0
13.	Charles River Partnership XI	Early Stage	2/15/2001	11,032,259	10,143,572	12,859,261
14.	Clearstone Venture Partners III-A	Early/Late Stage	12/22/2004	25,000,000	18,500,000	0
15.	Cross Atlantic Technology Fund	Early Stage	2/14/2000	20,000,000	19,949,041	16,915,605
	Cross Atlantic Technology Fund II	Early Stage	1/28/2002	32,900,000	32,900,000	16,442,911
	Novo Vita	Early Stage	12/26/2000	11,616,498	11,616,498	1,792,200
16.	Devon Park Bioventures	Early/Late Stage	12/15/2006	10,842,697	2,883,537	701,849
17.	Draper Fisher Jurvetson Fund VI	Early Stage	8/13/1999	8,000,000	8,000,000	2,886,971
	Draper Fisher Jurvetson Fund VII	Early Stage	9/22/2000	20,000,000	19,350,000	3,178,088
18.	Draper Triangle Ventures	Early Stage	12/20/1999	20,000,000	22,234,659	5,429,038
	Draper Triangle Ventures II	Early Stage	10/13/2004	12,000,000	6,232,499	0
19.	Edison Venture Fund III	Late Stage	3/31/1994	25,000,000	25,000,000	47,025,202
20.	Fairview Capital	Fund of Funds	9/30/1994	10,000,000	10,000,000	4,543,128
	Fairview II	Fund of Funds	3/31/1998	10,000,000	9,800,000	2,861,159

SERS Venture Capital Committed, Drawn and Distributed (continued)

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
21.	Frazier Healthcare III	Early Stage	3/31/1999	$30,000,000	$29,475,000	$10,089,880
	Frazier Healthcare IV	Early Stage	9/27/2001	30,000,000	27,240,000	9,875,674
	Frazier Healthcare V	Early/Late Stage	5/10/2005	30,000,000	18,990,000	2,742,043
22.	Grotech PA III	Late Stage	6/29/1990	3,000,000	3,014,865	2,910,452
	Grotech Partners V	Late Stage	9/30/1998	25,000,000	25,000,000	24,521,934
23.	Guggenheim Technology Ventures I	Early/Late Stage	*	10,000,000	0	0
24.	Halpern Denny Fund II	Late Stage	3/31/1998	25,000,000	25,116,871	5,234,363
	Halpern Denny Fund III	Late Stage	4/26/2000	25,000,000	23,806,740	16,760,652
25.	HarbourVest Partners VI	Fund of Funds	5/7/1999	200,000,000	184,586,055	83,060,974
	HarbourVest Partners VII	Fund of Funds	3/24/2003	75,000,000	51,000,000	2,577,151
	HarbourVest Partners VIII	Fund of Funds	10/5/2006	100,000,000	29,000,000	0
26.	Healthcare Ventures III	Early Stage	9/30/1992	15,000,000	15,000,000	30,778,200
	Healthcare Ventures V	Early Stage	12/31/1997	25,000,000	25,000,000	52,285,824
	Healthcare Ventures VI	Early Stage	6/19/2000	35,000,000	35,000,000	3,462,611
	Healthcare Ventures VII	Early Stage	10/29/2002	35,000,000	28,350,000	1,167,015
	Healthcare Ventures VIII	Early Stage	8/22/2005	30,000,000	10,275,000	2,568,786
27.	Highland Capital Partners VI	Early Stage	10/25/2001	25,000,000	24,437,500	18,788,669
	Highland Capital Partners VII	Early Stage	10/13/2006	35,000,000	14,612,500	1,390,491
	Highland Consumer Fund I	Diversified	5/4/2007	25,000,000	9,263,199	0
28.	I.P. - Fund II	Early Stage	12/17/2001	8,600,000	8,498,074	1,006,296
	I.P. - Fund III	Seed/Early Stage	11/19/2004	10,500,000	7,875,000	490,360
	I.P. - Fund IV	Seed/Early Stage	9/21/2007	14,000,000	2,800,000	0
29.	Insight Venture Partners VI	Buyouts	8/21/2007	30,000,000	8,430,000	0
30.	InterWest Partners IX	Early Stage	10/19/2005	20,000,000	12,000,000	1,106,563
	InterWest Partners VIII	Early Stage	8/25/2000	25,000,000	22,500,000	5,323,829
	InterWest Partners X	Early Stage	*	30,000,000	0	0
31.	J.H. Whitney Equity Fund III	Late Stage	3/31/1998	20,000,000	20,171,316	50,600,435
	J.H. Whitney IV	Late Stage	2/1/2000	20,000,000	16,712,208	5,350,037
32.	JMI Equity Fund V	Early/Late Stage	6/7/2005	24,000,000	20,381,205	12,977,009
	JMI Equity Fund VI	Early/Late Stage	6/27/2007	40,000,000	14,760,000	0
33.	JP Morgan Venture Capital Investors	Fund of Funds	7/8/1999	100,000,000	98,481,568	22,861,587
	JP Morgan Venture Capital Investors II	Fund of Funds	9/8/2000	100,000,000	89,010,611	21,736,307
	JP Morgan Venture Capital Investors III	Fund of Funds	6/20/2006	100,000,000	28,627,732	3,580
34.	Keystone V	Late Stage	3/31/1998	25,000,000	25,117,132	2,082,064
35.	Kline Hawkes Pacific	Early Stage	8/30/2000	15,000,000	15,100,498	5,089,301
36.	Knightsbridge Venture Capital VI	Fund of Funds	12/7/2004	20,000,000	10,150,000	0
37.	Lightspeed Venture Partners VII	Early Stage	2/27/2006	18,000,000	11,347,490	917,875
	Lightspeed Venture Partners VIII	Early Stage	6/27/2008	15,000,000	1,050,000	0
38.	Meritech Capital Partners II	Late Stage	1/2/2001	26,475,166	23,915,898	16,203,258
	Meritech Capital Partners III	Late Stage	4/5/2006	35,000,000	20,650,000	966,232

SERS Venture Capital Committed, Drawn and Distributed (continued)

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
39.	Mid-Atlantic III	Early Stage	6/30/1997	$20,008,308	$20,000,000	$5,025,301
	Mid-Atlantic Venture Fund IV	Early Stage	5/4/2000	30,000,000	30,000,000	217,297
	NEPA Venture-II	Early Stage	12/31/1992	7,500,000	7,500,000	34,879,769
40.	Morgenthaler Partners VII	Early Stage	7/26/2001	35,000,000	31,500,000	11,337,692
	Morgenthaler Partners VIII	Diversified	10/3/2005	35,000,000	17,500,000	1,313,619
	Morgenthaler Partners VIII	Early Stage	*	20,000,000	0	0
41.	New Enterprise Associates 11	Early/Late Stage	3/1/2004	25,000,000	21,750,000	8,052,762
	New Enterprise Associates 12	Early/Late Stage	6/26/2006	35,000,000	17,504,833	1,711,074
	New Enterprise Associates IX	Early Stage	11/15/1999	20,000,000	19,600,000	3,333,252
	New Enterprise Associates VI	Early Stage	3/31/1994	25,000,000	25,000,000	198,305,408
	New Enterprise Associates VII	Early Stage	12/31/1996	30,000,000	30,000,000	97,217,571
	New Enterprise Associates X	Early/Late Stage	12/11/2000	35,000,000	33,803,000	18,403,223
42.	NewSpring Ventures II	Late Stage	12/5/2006	10,000,000	3,200,000	0
43.	Novitas Capital III	Early Stage	4/17/2003	10,000,000	6,475,000	941,822
44.	Oak Investment Partners XI	Late Stage	7/21/2004	35,000,000	35,000,000	7,401,464
	Oak Investment Partners XII	Early/Late Stage	7/10/2006	40,000,000	21,479,289	1,562,915
45.	Polaris Venture Partners	Early Stage	6/30/1996	15,000,000	14,595,000	46,501,899
	Polaris Venture Partners II	Early Stage	9/30/1998	25,000,000	24,750,000	24,859,455
	Polaris Venture Partners III	Early Stage	1/21/2000	50,000,000	49,000,000	14,911,870
	Polaris Venture Partners IV	Early Stage	9/30/2002	50,000,000	48,750,000	10,327,495
	Polaris Venture Partners V	Diversified	8/8/2006	50,000,000	18,500,000	0
46.	Quaker Bio Ventures	Early Stage	2/20/2003	20,000,000	18,000,000	3,526,430
	Quaker BioVentures II	Middle/Late Stage	4/3/2007	25,000,000	4,000,000	0
47.	Sofinnova Venture Partners VII	Early Stage	1/18/2007	20,000,000	6,000,000	0
48.	Sprout VII	Early Stage	3/31/1995	18,000,000	18,000,000	41,939,060
49.	Summit Accelerator Fund	Early Stage	11/15/1999	8,000,000	7,609,500	7,166,347
	Summit IV	Late Stage	9/30/1995	25,000,000	24,250,000	182,700,129
	Summit Partners Venture Capital Fund II	Diversified	9/22/2006	15,000,000	5,850,000	0
	Summit V	Late Stage	3/31/1998	37,500,000	36,187,500	48,131,661
50.	T.Rowe Price Stock Distribution	Stock Distribution	1/3/2005	0	277,403,334	252,506,086
51.	TA/Advent VIII	Late Stage	6/30/1997	30,000,000	29,541,093	64,136,257
52.	Three Arch Capital	Early Stage	12/20/2000	20,000,000	18,650,000	3,145,142
	Three Arch Partners IV	Early/Late Stage	6/4/2004	20,000,000	11,450,000	1,941,653
53.	TL Ventures III	Early Stage	3/31/1997	15,000,000	15,062,614	20,677,658
	TL Ventures IV	Early Stage	5/13/1999	35,000,000	35,000,000	22,807,479
	TL Ventures V	Early Stage	10/18/2000	40,000,000	34,848,219	7,269,006
54.	US Venture Partners VII	Early Stage	2/18/2000	13,750,000	13,750,000	1,875,020
	US Venture Partners VIII	Early Stage	6/1/2001	26,250,000	25,860,000	7,152,911
55.	Weathergage Venture Capital	Fund of Funds	6/26/2007	25,000,000	4,187,500	0

SERS Venture Capital Committed, Drawn and Distributed (continued)

	Active Venture Capital Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
56.	Weston Presidio III	Late Stage	12/31/1998	$35,000,000	$31,412,086	$22,536,318
	Weston Presidio IV	Late Stage	6/21/2000	35,000,000	33,547,500	16,595,504
	Weston Presidio V	Late Stage	12/8/2005	50,000,000	28,600,000	0
57.	Worldview Technology Partners IV	Early Stage	1/31/2001	18,130,023	16,951,175	3,366,893
	Total Active Venture Capital			**$3,465,037,091**	**$2,913,117,490**	**$2,043,249,653**

**Not Funded as of 9/30/08*

Commitments as of 12/31/08
Cash flows as of 9/30/08

Inactive Venture Capital Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
Total Inactive Venture Capital	**$199,700,000**	**$189,553,180**	**$399,087,046**

SERS Private Equity Investments Committed, Drawn and Distributed

The capital committed column represents total dollars allocated from SERS to each limited partnership. Capital drawn is the portion of SERS' capital commitments drawn by the General Partner to be invested with underlying portfolio companies. The distributions column shows the value of capital and profits returned to SERS.

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
1.	Abingworth Bioventures IV	Multi-Stage	9/1/2003	$20,000,000	$16,000,000	$1,946,463
	Abingworth Bioventures V	Multi-Stage	1/23/2007	33,775,000	9,255,131	541
2.	ABRY Advanced Securities Fund	Senior Debt	8/1/2008	25,000,000	2,326,978	0
	ABRY Broadcast Partners III	Buyouts	3/31/1997	25,000,000	27,309,131	26,294,581
	ABRY Broadcast Partners IV	Buyouts	3/30/2001	35,000,000	28,265,722	29,304,481
	ABRY Mezzanine Partners	Mezzanine	3/15/2002	30,000,000	32,918,060	33,363,320
	ABRY Partners V	Buyouts	7/29/2005	45,000,000	38,449,869	202,738
	ABRY Partners VI	Mid Market Buyouts	3/26/2008	50,000,000	3,853,656	0
	ABRY Senior Equity II	Secondaries	7/27/2006	30,000,000	17,174,262	943,231
3.	ABS Capital Partners III	Buyouts	3/31/1999	35,000,000	29,428,915	17,192,889
	ABS Capital Partners IV	Buyouts	10/13/2000	35,000,000	31,023,276	41,337,580
	ABS Capital Partners V	Buyouts	11/14/2005	20,000,000	14,858,044	1,304,092
4.	Accel Europe	Early Stage	7/2/2001	15,000,000	10,975,000	0
5.	Advent International GPE VI-A	Mid Market Buyouts	7/7/2008	35,000,000	3,675,000	0
	Advent Latin American Fund IV	Buyouts	8/2/2007	30,000,000	12,600,000	0
6.	AG Capital Recovery Partners II	Distressed Debt	10/1/2001	17,600,000	17,695,470	26,989,866
	AG Capital Recovery Partners IV	Distressed Debt	2/4/2003	50,000,000	35,415,216	54,247,171
	AG Capital Recovery Partners V	Distressed Debt	4/17/2006	20,000,000	18,700,000	0
7.	Alpha Private Equity Fund 4	Mid Market Buyouts	5/15/2002	26,580,000	35,443,050	59,209,466
	Alpha Private Equity Fund 5	Mid Market Buyouts	4/1/2006	72,233,400	42,434,289	8,015,060
8.	APAX Europe IV	Buyouts	3/31/1999	35,000,000	29,909,800	37,636,346
	APAX Europe V	Buyouts	4/27/2001	70,000,000	69,542,777	125,087,449
	APAX Europe VI	Buyouts	5/19/2005	76,349,190	63,327,970	25,394,049
	APAX Europe VII	Buyouts	6/27/2007	132,900,000	57,902,950	0
	APAX Germany II	Middle/Late Stage	6/30/1997	8,737,262	8,455,477	16,916,389
	APAX UK Ventures VI	Middle/Late Stage	12/31/1997	6,558,000	6,918,899	12,742,745
9.	Apollo Investment Fund IV	Buyouts	9/30/1998	75,000,000	74,059,843	96,675,923
	Apollo Investment Fund V	Buyouts	8/23/2001	50,000,000	47,875,704	92,484,700
	Apollo Investment Fund VI	Buyouts	7/19/2006	40,000,000	31,276,628	672,450
10.	Asia Alternatives Capital Partners	Fund of Funds	6/26/2007	50,000,000	10,324,323	423,650
	Asia Alternatives Capital Partners II	Fund of Funds	3/7/2008	50,000,000	1,155,726	0
11.	Asia Pacific Growth Fund III	Global Situations	9/28/1999	15,000,000	15,297,100	6,744,686
12.	Audax Private Equity Fund	Mid Market Buyouts	5/25/2000	35,000,000	36,373,372	47,999,365
	Audax Private Equity Fund II	Mid Market Buyouts	6/17/2005	25,000,000	24,531,564	4,764,227
	Audax Private Equity Fund III	Mid Market Buyouts	11/7/2007	37,000,000	13,357,255	190,528

SERS Private Equity Investments Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
13.	Avenue Asia Special Situations Fund IV	Distressed Debt	6/30/2006	$50,000,000	$18,219,617	$8,850
	Avenue Europe Special Situations Fund I	Distressed Debt	7/30/2008	38,822,500	15,971,883	0
	Avenue Special Situations Fund III	Distressed Debt	8/25/2003	50,000,000	40,080,214	61,046,216
	Avenue Special Situations Fund IV	Distressed Debt	3/27/2006	50,000,000	37,051,014	0
	Avenue Special Situations Fund V	Distressed Debt	6/4/2007	70,000,000	39,833,454	233,973
14.	AXA Secondary Fund III	Secondaries	11/19/2004	26,000,000	18,622,367	22,504,262
	AXA Secondary Fund III-2	Secondaries	11/24/2004	14,000,000	10,275,974	11,715,290
	AXA Secondary Fund IV	Secondaries	2/26/2007	80,000,000	17,346,215	432,702
15.	B III Capital Partners	Distressed Debt	9/30/1997	35,000,000	34,503,390	50,124,040
16.	Bain Capital Asia Fund	Distressed Debt	10/18/2007	12,000,000	3,000,000	0
	Bain Capital Europe III	Buyouts	7/10/2008	76,555,500	1,765,125	0
	Bain Capital Fund IX	Buyouts	4/10/2006	75,000,000	72,750,000	4,937,278
	Bain Capital Fund VII	Buyouts	7/6/2000	25,000,000	24,562,500	40,277,545
	Bain Capital Fund VIII-E	Buyouts	12/15/2004	13,405,000	12,415,468	2,967,960
	Bain Capital Fund X	Buyouts	1/15/2008	90,000,000	21,600,000	0
	Bain Capital IX Coinvestment Fund	Buyouts	4/20/2006	15,000,000	14,550,000	0
	Bain Capital X Coinvestment Fund	Buyouts	7/28/2008	10,000,000	700,000	0
17.	Baring India Private Equity Fund III Limited	Mid Market Buyouts	*	5,000,000	0	0
	Baring Vostok Private Equity Fund IV	Buyouts	3/10/2008	30,000,000	3,803,971	0
18.	BC European Capital VII	Buyouts	7/28/2000	37,740,202	37,754,746	59,068,229
	BC European Capital VII Top Up	Buyouts	7/2/2001	12,278,596	12,278,596	16,619,528
	BC European Capital VIII	Buyouts	12/13/2005	97,635,000	42,193,517	0
19.	Berkshire Fund VI	Mid Market Buyouts	7/11/2002	20,000,000	17,723,663	13,718,191
	Berkshire Fund VII	Mid Market Buyouts	11/15/2006	32,000,000	6,613,735	608,559
20.	Blackstone Capital II	Buyouts	9/30/1994	40,000,000	42,842,270	93,290,357
	Blackstone Capital III	Buyouts	12/31/1997	75,000,000	74,427,370	115,013,533
	Blackstone Capital IV	Buyouts	2/26/2003	75,000,000	73,898,977	98,044,535
	Blackstone Capital Partners V	Buyouts	5/30/2006	150,000,000	115,127,811	6,684,825
	Blackstone Communications Partners I	Buyouts	8/29/2000	25,000,000	26,377,062	23,426,321
21.	Brait IV	Mid Market Buyouts	12/11/2006	25,000,000	13,831,321	1,128,946
22.	Brynwood Partners V	Mid Market Buyouts	7/31/2005	10,000,000	9,922,689	757,118
	Brynwood Partners VI	Mid Market Buyouts	*	10,000,000	0	0
23.	Centerbridge Capital Partners I	Distressed Debt	2/27/2007	50,000,000	24,432,031	61,886
24.	Cerberus Institutional Partners	Distressed Debt	3/5/1999	35,000,000	35,000,000	76,576,855
	Cerberus Institutional Partners Series Four	Distressed Debt	11/27/2006	75,000,000	41,625,000	0
	Cerberus Institutional Partners Series Three	Distressed Debt	11/13/2003	22,321,354	22,321,354	10,506,186
	Cerberus Institutional Partners Series Two	Distressed Debt	10/9/2001	35,000,000	30,100,793	68,626,640
25.	Charterhouse Capital Partners IX	Buyouts	*	79,290,000	0	0
	Charterhouse Capital Partners VII	Buyouts	1/17/2003	52,120,000	51,624,663	86,164,523
	Charterhouse Capital Partners VIII	Buyouts	4/19/2006	74,400,000	61,491,129	0
26.	Charterhouse Equity Partners II	Buyouts	3/31/1994	40,000,000	43,908,228	100,919,498
	Charterhouse Equity Partners III	Buyouts	12/31/1997	50,000,000	55,395,586	72,280,199
27.	Chequers Capital XV	Buyouts	7/5/2006	31,434,000	12,337,238	0

SERS Private Equity Investments Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
28.	CID Greater China Venture Capital Fund II	Early Stage	8/10/2007	$20,000,000	$12,000,000	$0
29.	Clayton Dubilier & Rice V	Buyouts	6/30/1995	50,000,000	49,756,029	49,826,483
	Clayton Dubilier & Rice VI	Buyouts	12/31/1998	50,000,000	36,211,768	55,410,949
30.	Clessidra Capital Partners II	Buyouts	*	31,716,000	0	0
31.	Code Hennessy & Simmons	Mid Market Buyouts	9/28/1989	9,650,000	9,650,000	29,205,907
	Code Hennessy & Simmons II	Mid Market Buyouts	6/30/1994	20,000,000	20,000,000	69,692,351
	Code Hennessy & Simmons III	Mid Market Buyouts	9/30/1997	40,000,000	38,724,000	55,175,239
	Code Hennessy & Simmons IV	Mid Market Buyouts	9/16/1999	100,000,000	100,000,000	132,813,640
	Code Hennessy & Simmons V	Mid Market Buyouts	11/10/2005	50,000,000	41,045,311	1,878,892
32.	Cognetas Fund II	Buyouts	11/2/2005	49,468,400	34,071,704	2,566,249
33.	CVI Global Value Fund	Distressed Debt	2/23/2007	60,000,000	49,651,667	825,601
34.	DLJ Merchant Banking Fund II	Buyouts	3/31/1997	75,000,000	82,833,683	98,557,046
	DLJ Merchant Banking Fund III	Buyouts	8/14/2001	85,000,000	85,304,443	105,273,520
35.	Dover Street VII	Secondaries	7/2/2008	30,000,000	4,520,287	0
36.	Elevation Partners	Private Equity	11/10/2005	35,000,000	18,575,308	4,790,796
37.	Energy Spectrum Partners IV	Mid Market Buyouts	12/15/2004	50,000,000	47,219,716	23,489,557
	Energy Spectrum Partners V	Mid Market Buyouts	7/9/2007	30,000,000	4,701,524	1,748
38.	Eureka II	Small Buyouts	1/30/2006	20,000,000	6,784,768	291,601
39.	Excelsior Capital Asia Partners III	Growth Equity	8/17/2006	25,000,000	13,252,457	40,602
40.	First Reserve Fund X	Buyouts	10/28/2004	30,000,000	29,745,853	33,477,594
	First Reserve Fund XI	Buyouts	12/14/2006	60,000,000	44,221,700	0
	First Reserve Fund XII	Buyouts	*	50,000,000	0	0
41.	Francisco Partners	Mid Market Buyouts	7/27/2000	50,000,000	43,651,611	26,701,954
	Francisco Partners II	Mid Market Buyouts	7/10/2006	30,000,000	18,075,000	6,055,957
42.	Frontenac VII	Buyouts	9/30/1997	40,000,000	40,000,000	55,124,052
43.	Great Hill Equity Partners	Mid Market Buyouts	4/12/1999	30,000,000	30,000,000	29,994,856
	Great Hill Equity Partners II	Mid Market Buyouts	3/28/2001	35,000,000	35,063,336	44,268,235
	Great Hill Equity Partners III	Mid Market Buyouts	3/7/2006	35,000,000	27,825,000	0
	Great Hill Equity Partners IV	Mid Market Buyouts	9/8/2008	25,000,000	1,750,000	0
44.	Gryphon Partners II	Mid Market Buyouts	11/3/1999	35,000,000	32,853,950	28,560,247
	Gryphon Partners III	Mid Market Buyouts	9/8/2004	30,000,000	22,218,062	9,818,516
45.	GTC&R V	Buyouts	3/31/1997	11,400,000	11,400,000	20,399,031
	GTC&R VI	Buyouts	9/30/1998	50,000,000	50,854,013	42,566,570
	GTC&R VII	Buyouts	3/15/2000	55,000,000	48,871,546	106,661,165
	GTCR IX	Early Stage	12/1/2006	50,000,000	14,739,114	3,161,153
	GTCR VIII	Buyouts	7/7/2003	75,000,000	69,393,599	75,485,810
46.	H.I.G. Bayside Debt & LBO Fund II	Distressed Debt	6/17/2008	30,000,000	350,000	0
47.	Hancock IPEP II (Harbourvest II)	Fund of Funds	6/30/1997	25,000,000	24,357,775	32,480,166
	Harbourvest IPEP IV	Fund of Funds	4/9/2001	40,000,000	33,200,000	29,285,130
	HarbourVest IPEP III	Fund of Funds	6/30/1998	40,000,000	38,400,000	40,920,683
	HIPEP V-Asia Pacific & Rest of World Partnership Fund	Buyouts	5/9/2006	30,000,000	13,995,316	0

SERS Private Equity Investments Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
48.	Hellman & Friedman Capital Partners VI	Buyouts	6/5/2007	$125,000,000	$76,295,619	$441,861
	Hellman Friedman IV	Buyouts	2/14/2000	75,000,000	66,540,777	170,375,597
	Hellman Friedman V	Buyouts	12/20/2004	80,000,000	69,367,076	63,159,825
49.	InterMedia Partners VII	Diversified	1/5/2007	15,000,000	9,984,759	142,200
50.	Invemed Catalyst Fund	Mid Market Buyouts	10/19/1999	16,754,888	13,515,153	8,170,561
51.	J.H. Whitney V	Late Stage	3/29/2001	20,000,000	21,858,315	35,638,328
	J.H. Whitney VI	Buyouts	1/5/2006	50,000,000	32,680,578	8,221,368
52.	J.W. Childs Equity Partners III	Mid Market Buyouts	8/20/2002	40,000,000	38,299,293	28,352,594
53.	JP Morgan US Corp Finance Investors II	Fund of Funds	1/14/2003	50,000,000	46,658,983	17,812,391
54.	Kelso Investment Associates V	Buyouts	12/31/1993	40,000,000	54,411,479	153,586,319
	Kelso VI	Buyouts	9/30/1998	75,000,000	68,484,560	84,793,059
	Kelso VII	Buyouts	10/18/2004	40,000,000	40,255,876	17,558,138
	Kelso VIII	Buyouts	11/29/2007	150,000,000	5,341,445	31,411
55.	Landmark Equity IV	Secondaries	3/31/1995	14,923,291	12,880,353	18,587,584
	Landmark Equity Partners V	Secondaries	12/31/1995	19,624,113	19,434,947	23,310,603
56.	Leeds Equity Partners IV	Mid Market Buyouts	11/12/2004	20,000,000	19,803,942	2,153,155
57.	Lexington Capital Partners II	Secondaries	6/30/1998	40,000,000	39,538,000	46,423,375
	Lexington Capital Partners III	Secondaries	1/26/1999	35,000,000	34,169,949	37,150,612
	Lexington Capital Partners V	Secondaries	1/17/2002	75,000,000	71,139,456	77,994,517
	Lexington Capital Partners VI	Secondaries	10/21/2005	50,000,000	30,420,376	6,318,574
58.	Lime Rock Partners III	Late Stage	3/7/2005	15,000,000	13,532,763	2,886,836
	Lime Rock Partners IV	Late Stage	11/16/2006	25,000,000	14,882,821	0
	Lime Rock Partners V	Late Stage	*	42,500,000	0	0
	Lime Rock Resources	Diversified	12/28/2005	20,000,000	14,700,823	0
59.	LLR Equity Partners	Mid Market Buyouts	2/4/2000	25,000,000	24,341,235	46,013,054
	LLR Equity Partners II	Mid Market Buyouts	1/29/2004	25,000,000	21,237,377	4,513,889
	LLR Equity Partners III	Mid Market Buyouts	7/24/2008	30,000,000	3,900,000	0
60.	Madison Dearborn Capital Partners	Buyouts	3/31/1993	15,000,000	14,538,849	48,868,414
	Madison Dearborn Capital Partners II	Buyouts	3/31/1997	40,000,000	40,152,017	90,756,231
	Madison Dearborn Capital Partners III	Buyouts	4/6/1999	75,000,000	76,195,099	104,737,723
	Madison Dearborn Capital Partners IV	Buyouts	4/2/2001	90,000,000	84,317,989	62,669,597
	Madison Dearborn Capital Partners V	Buyouts	12/14/2006	75,000,000	59,728,819	1,392,333
	Madison Dearborn Capital Partners VI	Buyouts	5/27/2008	50,000,000	5,470,019	0
61.	Matlin Patterson Global Opportunities Partners	Distressed Debt	5/31/2001	35,000,000	32,524,138	51,996,544
	Matlin Patterson Global Opportunities Partners II	Distressed Debt	6/30/2004	30,000,000	35,346,530	14,814,728
62.	Media/Communication III	Buyouts	6/30/1997	25,000,000	23,750,000	35,813,715
	Media/Communications IV	Buyouts	3/31/1999	25,000,000	23,125,000	5,010,893
	Media/Communications Ventures Fund V	Buyouts	9/27/2000	35,000,000	34,199,705	14,935,375
63.	Meridian Venture Partners II	Buyouts	2/11/2005	10,000,000	10,000,000	823,344
64.	New York Life Capital Partners III	Co-investments	6/30/2006	50,000,000	45,046,510	1,060,031
	New York Life Capital Partners IV	Co-investments	4/4/2008	100,000,000	12,647,436	4,922
65.	Newbridge Asia III	Buyouts	2/15/2001	15,000,000	15,312,650	11,600,753
	Newbridge Asia IV	Buyouts	9/27/2005	40,000,000	36,398,860	4,177,550

SERS Private Equity Investments Committed, Drawn and Distributed (continued)

	Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
66.	Nordic Capital V	Buyouts	5/7/2004	$40,000,000	$45,443,963	$20,356,863
	Nordic Capital VI	Buyouts	7/25/2006	54,441,000	60,595,702	1,128,843
	Nordic Capital VII	Buyouts	5/2/2008	100,237,900	20,770,231	0
67.	Oakhill Capital Partners	Buyouts	5/17/1999	50,000,000	53,195,494	64,752,818
68.	Oaktree Capital Management	Diversified	5/28/2004	40,000,000	40,577,048	25,501,092
	OCM Opportunities Fund	Distressed Debt	1/31/1996	24,000,000	24,000,000	38,936,140
	OCM Opportunities Fund II	Distressed Debt	3/31/1998	40,000,000	40,000,000	59,655,678
	OCM Opportunities Fund III	Distressed Debt	1/20/2000	60,000,000	60,007,890	87,331,393
	OCM Opportunities Fund IV	Distressed Debt	9/26/2001	70,000,000	68,250,000	113,321,731
	OCM Opportunities Fund V	Distressed Debt	8/12/2004	40,000,000	40,003,507	50,904,530
	OCM Opportunities Fund VI	Distressed Debt	9/28/2005	40,000,000	40,000,000	0
	OCM Opportunities Fund VII	Distressed Debt	5/16/2007	40,000,000	40,000,000	233,643
	OCM Opportunities Fund VII	Distressed Debt	6/3/2008	40,000,000	12,000,000	0
	OCM Principal Opportunities	Distressed Debt	12/31/1996	25,000,000	25,000,000	31,466,952
	OCM Principal Opportunities Fund IV	Distressed Debt	1/24/2007	20,000,000	17,000,000	38,751
	OCM Principal Opportunities II	Distressed Debt	4/24/2001	25,000,000	25,000,000	34,191,420
	OCM/GFI Power Opportunities Fund II	Buyouts	5/9/2005	25,000,000	(3,273,704)	29,205
69.	Palamon European Equity	Buyouts	7/23/1999	31,499,291	36,567,159	27,103,196
	Palamon European Equity II	Diversified	10/25/2005	40,114,200	18,520,286	0
70.	Parthenon Investors II	Mid Market Buyouts	8/9/2001	20,000,000	21,426,797	13,902,439
71.	Patriot Capital Partners	Mid Market Buyouts	6/12/2008	25,000,000	2,500,000	0
72.	Permira European Fund	Buyouts	9/30/1997	33,789,023	32,159,947	84,005,717
	Permira European Fund II	Buyouts	6/7/2000	47,979,751	45,672,612	78,101,935
	Permira European Fund III	Buyouts	1/12/2004	112,640,170	109,303,420	124,950,460
	Permira IV	Buyouts	12/14/2006	126,870,000	66,040,570	0
	Permira UK Venture Fund III	Middle/Late Stage	3/31/1991	9,063,438	8,946,988	26,106,191
	Permira UK Venture Fund IV	Middle/Late Stage	12/31/1995	15,000,000	15,993,572	22,721,533
73.	Pitango Venture Capital Fund IV	Diversified	7/19/2004	20,000,000	14,201,534	883,720
	Pitango Venture Capital Fund V	Seed/Early Stage	8/22/2007	30,000,000	6,750,000	0
74.	PNC Equity Partners II	Mid Market Buyouts	8/30/2007	15,000,000	4,153,083	2,090
75.	Providence Equity Partners IV	Mid Market Buyouts	11/27/2000	25,000,000	28,520,619	34,285,940
	Providence Equity Partners V	Mid Market Buyouts	4/4/2005	45,000,000	41,171,579	545,004
	Providence Equity Partners VI	Buyouts	3/16/2007	50,000,000	22,804,720	185,427
76.	S.B. Energy Partners I	Buyouts	7/27/2007	25,000,000	3,910,198	0
77.	Sankaty Credit Opportunities III	Distressed Debt	3/8/2007	50,000,000	50,000,000	563,636
	Sankaty Credit Opportunities IV	Distressed Debt	7/15/2008	40,000,000	12,000,000	0
78.	SCP Private Equity Partners II	Buyouts	6/15/2000	25,000,000	24,168,582	6,150,003
79.	Segulah IV	Mid Market Buyouts	9/25/2008	15,688,890	1,752,505	0
80.	ShoreView Capital Partners	Buyouts	6/16/2003	38,000,000	28,782,400	32,181,383
	ShoreView Capital Partners II	Buyouts	3/27/2008	40,000,000	4,629,380	35,903
81.	Siguler Guff BRIC Opportunities Fund	Fund of Funds	5/8/2006	10,000,000	6,558,299	688,923
	Siguler Guff BRIC Opportunities Fund II	Fund of Funds	4/9/2008	25,000,000	4,025,575	0

SERS Private Equity Investments Committed, Drawn and Distributed (continued)

Active Private Equity Funds Limited Partnership	Financing Stage Focus	SERS Initial Funding	Capital Committed	Capital Drawn	Distributions
82. Sterling Capital Partners I	Buyouts	10/31/2002	$15,000,000	$14,285,444	$12,164,045
Sterling Capital Partners II	Buyouts	8/18/2005	30,000,000	24,439,113	4,476,101
Sterling Capital Partners III	Buyouts	8/13/2007	32,000,000	9,332,112	0
83. Summit Partners Private Equity Fund VII	Buyouts	2/9/2006	97,134,500	44,196,199	2,163,938
Summit Ventures VI	Late Stage	3/23/2001	62,000,000	63,343,733	46,756,005
84. TA/Advent IX	Late Stage	9/20/2000	45,000,000	43,650,000	54,052,404
TA/Advent X	Middle/Late Stage	4/25/2006	70,000,000	52,150,000	7,350,000
85. Thomas H. Lee Equity Fund IV	Buyouts	6/30/1998	70,000,000	63,995,339	53,112,077
Thomas H. Lee Equity Fund V	Buyouts	7/3/2001	100,000,000	102,679,394	89,117,921
Thomas H. Lee Equity Fund VI	Mid Market Buyouts	11/14/2006	50,000,000	25,611,626	342,587
86. TPG Asia V	Buyouts	2/19/2008	25,000,000	4,188,626	7,383
TPG Partners II	Buyouts	6/30/1997	75,000,000	76,270,348	128,160,661
TPG Partners III	Buyouts	1/13/2000	75,000,000	68,893,654	135,485,935
TPG Partners IV	Buyouts	12/29/2003	30,000,000	31,245,619	17,612,330
TPG Partners V	Buyouts	6/27/2006	100,000,000	81,137,641	626,298
TPG Partners VI	Buyouts	5/22/2008	45,000,000	2,631,397	9,351
87. UMS Partners Fund I	Distressed Debt	2/15/2005	5,000,000	5,000,000	3,004,822
88. Versa Capital Partners	Distressed Debt	10/16/2005	20,000,000	17,011,753	6,675,393
Versa Capital Partners II	Distressed Debt	7/31/2008	15,000,000	150,000	0
89. Vestar Capital Partners III	Buyouts	6/30/1997	25,000,000	23,634,582	22,799,747
Vestar Capital Partners IV	Mid Market Buyouts	1/25/2000	100,000,000	95,235,146	99,038,151
Vestar Capital Partners V	Mid Market Buyouts	1/25/2006	50,000,000	37,110,526	2,826,194
90. W Capital Partners II	Secondaries	8/8/2007	40,000,000	9,637,824	69,323
91. Yucaipa American Alliance Fund II	Buyouts	*	25,000,000	0	0
Total Active Private Equity			**$9,738,229,859**	**$6,969,047,576**	**$5,989,040,560**

**Not Funded as of 9/30/08*

Commitments as of 12/31/08
Cash flows as of 9/30/08

Inactive Private Equity Funds

Limited Partnership	Capital Committed	Capital Drawn	Distributions
Total Inactive Private Equity	**$208,830,323**	**$198,562,933**	**$319,150,344**

Inflation Protection is one of six major asset classes that SERS uses for investments of the Fund. The objective of this asset class is to reduce the deleterious effects of inflation by investing in strategies that specifically respond to expected and unexpected inflation. In accordance with the investment plan, SERS contracts with external investment advisors to manage portfolios.

Investment Objective: Inflation Protection investments are employed by the Fund to provide diversification within the total portfolio and to act as a hedge against inflation. The asset class is composed of a combination of passively- and actively-managed commodities; TIPS; and a diversified inflation protection portfolio that includes commodities, inflation–sensitive stocks, and bonds. The strategies that make up the asset class were chosen for their inflation protection properties; commodities historically have the highest correlation to inflation, and TIPS are adjusted periodically for actual changes in inflation. The Inflation Protection strategies also provide diversification and low correlation to other assets in the portfolio, and are expected to outperform stocks and bonds during periods of rising inflation, but may underperform when inflation is stable or falling.

SERS' long-term investment objective in the inflation protection asset class is to achieve a total return, net of fees, that exceeds the total return of the SERS Inflation Protection Custom Benchmark.

SERS' ***Annual Strategic Investment Plan*** targets a long–term allocation of 7.0% of assets to Inflation Protection. The passive commodity and TIPS portfolio has a long-term target of 2.0% of Fund assets, the active multi–manager commodity portfolio has a long–term target of 2.5% of Fund assets, and the active diversified inflation protection portfolio has a long-term target of 2.5% of Fund assets.

Market Exposure as of December 31, 2008: Inflation protection strategies had a $1,474.9 million market exposure, 6.4% of the total Fund's $22,907.4 million market value.

Number of Investment Advisors: SERS had contracts with three external investment advisors.

Number of Investment Portfolios: SERS had three Inflation Protection portfolios managed by the three investment advisors.

Types of Investment Portfolios: As of December 31, 2008, 38.2% of SERS' Inflation Protection allocation was invested in intermediate–duration TIPS that generate higher incremental return above typical cash instruments. These securities are typically used as collateral for commodity swaps. There was no commodity swap exposure as of year–end. Another 27.4% of the Inflation Protection allocation was in the actively–managed diversified inflation protection portfolio which invests in commodities, inflation–sensitive global equity and TIPS. The remaining 34.4% was in the multi–manager commodity product, which employs five underlying commodities managers across the various commodity sectors (energy, precious metals, industrial metals and agriculture).

SERS Inflation Protection Investments

	Inflation Protection Investment Advisor	Investment Style	Market Exposure* As of 12/31/08 ($ Millions)
1.	NISA Investment Advisors	Indexed commodities and TIPS	$563.7
2.	Wellington Management Company	Diversified inflation protection portfolio	404.4
3.	Blackstone Alternative Asset Management	Commodity fund of funds	506.9
	Total Inflation Protection		**$1,474.9**

** Includes securities and cash that the manager had available for investment. Numbers may not add due to rouding.*

Actuarial Section

Hay Group. Inc.
Suite 600
4301 North Fairfax Drive
Arlington, VA 22203
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HayGroup®

April 29, 2009

Mr. Leonard M. Knepp
Executive Director
State Employees' Retirement System
30 North Third Street
Suite 150
Harrisburg, PA 17101-1716

Dear Mr. Knepp:

The purpose of this letter is to certify the actuarial adequacy of the contributions being made by the Commonwealth of Pennsylvania and other participating agencies to the Pennsylvania State Employees' Retirement System (SERS), and to discuss the approach currently being taken toward meeting the financing objectives of the plan. The results provided herein are based upon the December 31, 2008 annual actuarial valuation.

The funding objective of the plan is set forth in the SERS code. The annual employer contribution is equal to the sum of the following for the fiscal year beginning July 1, 2009:

(1) The employer share of the normal cost.
(2) The amortization of the December 31, 2001 liability for Act 2001-9 benefits over a 30-year period beginning July 1, 2002 and ending on June 30, 2032.
(3) The amortization of the remaining unfunded liabilities as of December 31, 2001 over a ten-year period beginning July 1, 2002 and ending on June 30, 2012.
(4) The amortization of all unfunded liabilities due to supplemental annuities (COLAs) after 2001, or other legislated benefit improvements after June 30, 2003, over ten-year periods beginning with the July first following the effective date of the change.
(5) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2001 over 30-year periods beginning with the July first following the actuarial valuation determining such changes.

The amortization payments are level amounts over the applicable amortization periods. The employer cost is determined as a percent of payroll. The total employer cost is the average contribution amount that needs to be received from the employer groups participating in the system. Some employer groups contribute a higher percent of pay, and some employer groups contribute a lower percent of pay depending on the benefits payable to their employees.

All costs and liabilities have been determined in conformance with generally accepted actuarial principles and procedures in accordance with the principles of practice prescribed by the American Academy of Actuaries. The calculations were performed on the basis of actuarial assumptions and methods, which are internally consistent, and reasonable (taking into account past experience under SERS and reasonable expectations) and which in combination represent the best estimate of anticipated experience under the plan.

The actuarial valuation is based on financial and participant data, which is prepared by SERS

Mr. Leonard M. Knepp
April 29, 2009
Page 2

reasonableness prior to their use in the actuarial valuation.

The actuarial valuation uses assumptions regarding future rates of investment return and rates of retirement, withdrawal, death, and disability among SERS members and their beneficiaries. With the exception of the investment return assumption, the current set of assumptions used in the December 31, 2008 actuarial valuation was adopted by the Board and was based on actual experience of SERS during the years 2001 through 2005. At its April 29, 2009 meeting, the Board lowered the investment return assumption from 8.5% to 8.0%. The actuarial value of assets is developed by recognizing the difference between the expected actuarial value of assets and the market value of assets over a five-year period.

Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* establishes a range of actuarial cost and amortization methods for the Unfunded Actuarial Accrued Liability. The scheduled payments since July 1, 2005 have been below the minimum amount required to meet the GASB #25 minimum. This is a result of financing changes implemented by Act 2003-40 in December 2003. After June 30, 2012, provided that employer contributions are made in accordance with current law, we expect SERS contributions to exceed the GASB #25 minimum.

The "Schedule of Funding Progress" and "Schedule of Employer Contributions" included in the Financial Section are provided as part of the accounting disclosure statements in accordance with GASB #25. These two schedules were derived from the December 31, 2008 actuarial valuation.

With the exception of the "Schedule of Retirees and Beneficiaries Added to and Removed from Rolls" and the "Summary of Plan Provisions", the schedules appearing in the Actuarial Section were derived from the December 31, 2008 actuarial valuation.

Based upon the valuation results, it is our opinion that the Pennsylvania State Employees' Retirement System is in sound condition in accordance with generally accepted actuarial principles and procedures. The employer contribution has been below the GASB #25 minimum since July 1, 2005 and will likely remain below the minimum through June 30, 2012. Thereafter, provided that employer contributions are made in accordance with current law, we expect SERS contributions to exceed the GASB #25 minimum.

Respectfully submitted,
Hay Group

By ______________________	By ______________________
Brent M. Mowery, F.S.A.	Adam J. Reese, F.S.A.
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- The investment rate of return is 8.0% per year based on an underlying rate of inflation of 3.0% per year. The investment rate of return assumed last year (for the December 31, 2007 actuarial valuation) was 8.5% per year.

- The Plan uses a five–year smoothed market approach to value plan assets for actuarial purposes.

- Actuarial methods are specified by statute. Actuarial assumptions are recommended by the plan's actuary and approved by the SERS Board.

- For current and future non-disabled retirees, beneficiaries, and survivors, the plan uses the RP-2000 Healthy Annuitant Mortality Table projected to 2008. For current and future disabled retirees, the plan uses the RP-2000 Disabled Retiree Annuitant Mortality Table projected to 2008. For all pre-retirement active employees, the mortality is based on actual SERS experience.

- The rates for probability of retirement and the probabilities of withdrawal from active service, including death, before age and service retirements are presented in the Schedule of Active Member Valuation Data.

- The projected average salary increase is 7.1% with a range of 4.9% to 20.2%. This increase includes an underlying assumption of 3.0% for inflation. The annual rate of salary increase for promotions and longevity for members is presented in the Schedule of Active Member Valuation Data.

- The Plan uses a variation of the entry-age normal actuarial cost method to determine the liabilities and costs related to the System's benefits. The method is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. This variation should produce approximately the same results as the typical method over the long run. The Plan uses amortization periods of 10 years and 30 years as follows.
  (1) The amortization of the December 31, 2001 liability for Act 2001-9 benefits over a 30-year period beginning July 1, 2002 and ending on June 30, 2032.
  (2) The amortization of the remaining unfunded liabilities as of December 31, 2001 over a ten-year period beginning July 1, 2002 and ending on June 30, 2012.
  (3) The amortization of all unfunded liabilities due to supplemental annuities (COLAs) after 2001, or other legislated benefit improvements after June 30, 2003, over ten-year periods beginning July 1, following the effective date of the change.
  (4) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2001 over 30-year periods beginning July 1, following the actuarial valuation determining such changes.

- The Plan does not use an assumption for cost-of-living adjustments in the determination of actuarial valuations.

- The Plan periodically prepares a study using actual experience in order to develop assumptions to be used in its actuarial valuations. The latest study was completed March 15, 2006, for the period January 1, 2001, through December 31, 2005.

- The most recent valuation was based on members of the Plan as of December 31, 2008. All census data was supplied by the Plan and was subject to reasonable consistency checks. Asset data was also supplied by the Plan.

- The actuarial computations were prepared by, or made under the supervision, of a Member of the American Academy of Actuaries (MAAA).

Table A[a]
Withdrawal From Active Employment Before Age & Service Retirement
Annual Rate of Active Members Separating Within the Next Year

Sample Age	Male: Withdrawal Years of Service 0	5	9	14+	Male: Death	Male: Disability	Female: Withdrawal Years of Service 0	5	9	14+	Female: Death	Female: Disability
20	11.85%	-	-	-	0.02%	-	11.19%	-	-	-	0.02%	-
25	11.60	1.97%	1.97%	-	0.02	0.03%	10.24	2.68%	2.12%	-	0.02	0.07%
30	11.11	1.97	1.48	1.54%	0.03	0.09	10.24	2.68	1.88	2.03%	0.02	0.17
35	10.86	1.83	1.00	1.05	0.05	0.16	10.24	2.21	1.41	1.55	0.03	0.29
40	10.86	1.28	1.00	1.05	0.06	0.25	10.01	2.21	0.85	0.61	0.05	0.38
45	10.49	1.28	0.49	0.56	0.12	0.44	9.77	1.98	0.85	0.61	0.07	0.60
50	10.24	1.14	0.49	0.56	0.21	0.61	9.77	1.98	0.47	0.61	0.12	0.91
55	10.24	1.48	1.48	1.54	0.33	0.80	9.77	1.65	1.41	1.55	0.18	1.15
60	-	-	-	-	0.48	-	-	-	-	-	0.30	-

Table B[a]
Annual Rate of Retirement

Sample Age	Full Benefits: Male	Full Benefits: Female
45-59	30.0%	30.0%
60-61	25.0	25.0
62	33.0	33.0
63-64	22.0	22.0
65	33.0	33.0
66 - 79	22.0	22.0
80	100.0	100.0

Table C
Annual Rate of Salary Increase

Completed Years of Service	Increase
1	16.9%
2	8.3
3	5.9
4	4.6
5	4.2
6-10	3.2
11-15	2.8
16-20	2.4
21-25	1.8
26+	1.6

Table D
Reduced Benefits

Sample Age	5 - 14 Years of Service: Male	5 - 14 Years of Service: Female	15 or More Years of Service: Male	15 or More Years of Service: Female
20	-	-	-	-
25	3.0%	3.9%	-	-
30	2.5	3.5	-	-
35	1.9	2.8	2.6%	2.7%
40	1.7	1.7	2.6	2.7
45	1.1	1.6	2.6	2.7
50	1.0	1.3	2.6	2.7
55	2.3	2.3	3.9	3.9

[a] *The assumptions presented in Table A and Table B on this page were based on a review of SERS's experience from 2001 through 2005. The rates are the probabilities that an event wll occur in the year after the valuation. For instance, the male retirement rate of 33% at age 62 means that 330 of every 1,000 male employees age 62 and eligible for full benefits are expected to retire before they reach age 63.*

Active Members by Age and Years of Service - Male

	Years of Service								
Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus	Total	Average Salary
< 20	30	-	-	-	-	-	-	30	$23,531
20 - 24	1,207	11	-	-	-	-	-	1,218	30,116
25 - 29	3,528	588	4	-	-	-	-	4,120	37,943
30 - 34	2,796	1,802	466	5	-	-	-	5,069	43,053
35 - 39	2,378	1,988	2,079	990	25	-	-	7,460	50,727
40 - 44	2,000	1,666	1,799	2,659	1,053	21	-	9,198	55,186
45 - 49	1,872	1,509	1,288	1,854	2,235	936	45	9,739	54,811
50 - 54	1,773	1,509	1,196	1,468	1,719	1,610	853	10,128	54,684
55 - 59	1,509	1,345	1,102	1,343	1,335	1,265	1,742	9,641	56,835
60 - 64	928	865	760	709	597	419	793	5,071	57,090
65+	356	337	290	230	126	101	287	1,727	62,390
Total	**18,377**	**11,620**	**8,984**	**9,258**	**7,090**	**4,352**	**3,720**	**63,401**	**$52,536**

Average Age: 46.23
Average Service: 12.21

Active Members by Age and Years of Service - Female

	Years of Service								
Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 Plus	Total	Average Salary
< 20	41	-	-	-	-	-	-	41	$22,858
20 - 24	1,164	18	-	-	-	-	-	1,182	27,434
25 - 29	2,620	591	21	-	-	-	-	3,232	33,779
30 - 34	2,095	1,308	357	32	-	-	-	3,792	38,479
35 - 39	1,938	1,354	919	547	46	-	-	4,804	41,066
40 - 44	1,893	1,187	858	1,043	692	60	-	5,733	43,454
45 - 49	2,020	1,415	956	1,123	1,160	1,012	101	7,787	45,569
50 - 54	1,798	1,399	1,044	1,257	1,093	1,285	1,200	9,076	47,829
55 - 59	1,266	1,100	865	1,100	1,138	940	1,352	7,761	48,978
60 - 64	532	570	494	482	433	307	362	3,180	47,648
65+	114	179	183	127	97	67	110	877	47,209
Total	**15,481**	**9,121**	**5,697**	**5,711**	**4,659**	**3,671**	**3,125**	**47,465**	**$44,176**

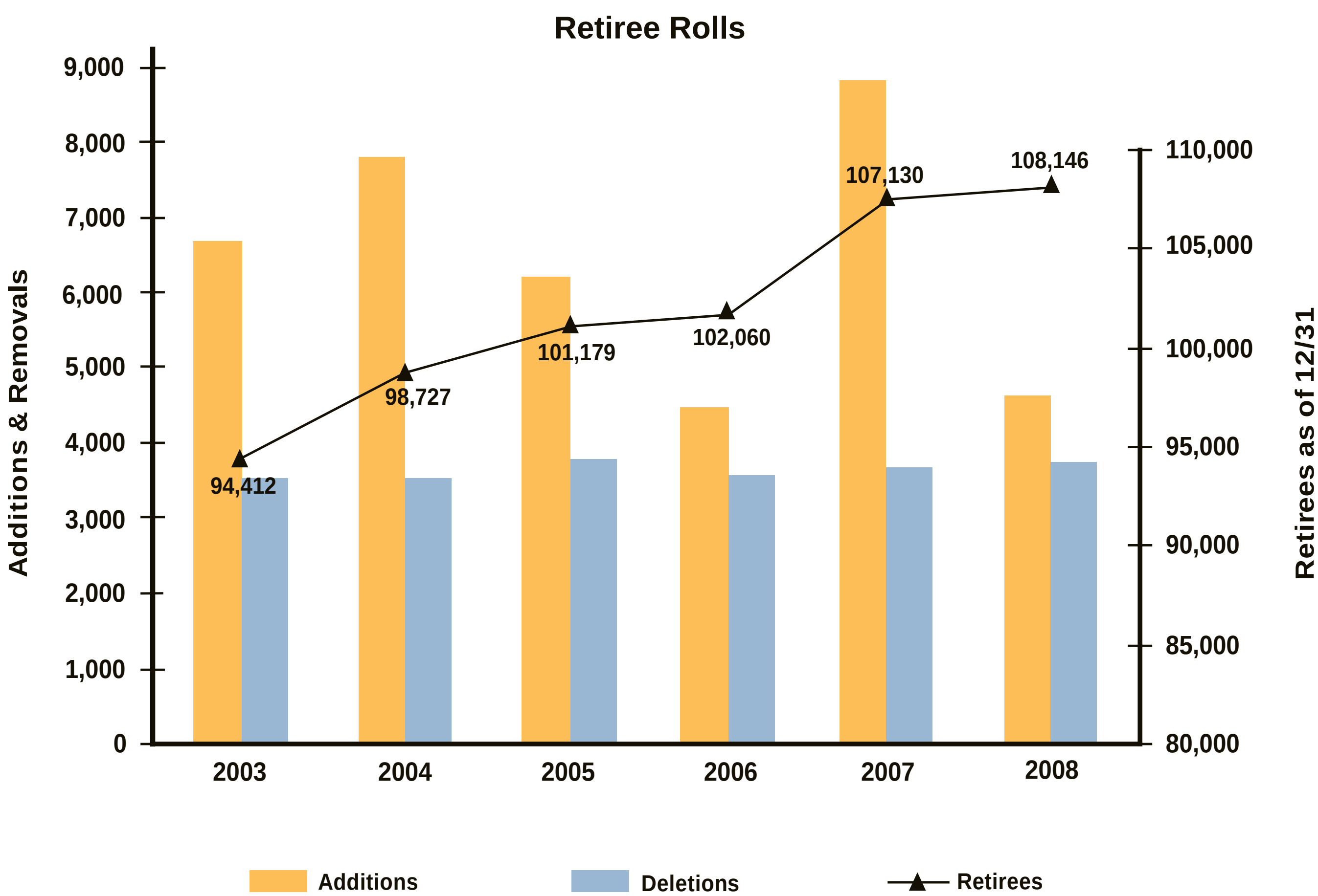
Average Age: 46.18
Average Service: 11.79

Aggregate Active Member Valuation Data

Valuation Date	Number Employers	Number Active Members	Annual Payroll	Annual Average Pay	% Increase/(Decrease) in Average Pay
31-Dec-08	108	110,866	$5,428,000,000	$48,957	1.3%
31-Dec-07	108	109,610	5,299,000,000	48,345	4.8
31-Dec-06	108	110,972	5,118,000,000	46,118	2.9
31-Dec-05	108	109,981	4,929,000,000	44,815	(1.2)
31-Dec-04	108	108,405	4,920,000,000	45,382	1.9
31-Dec-03	106	109,018	4,853,000,000	44,519	2.0

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
Six Years Ended December 31, 2008

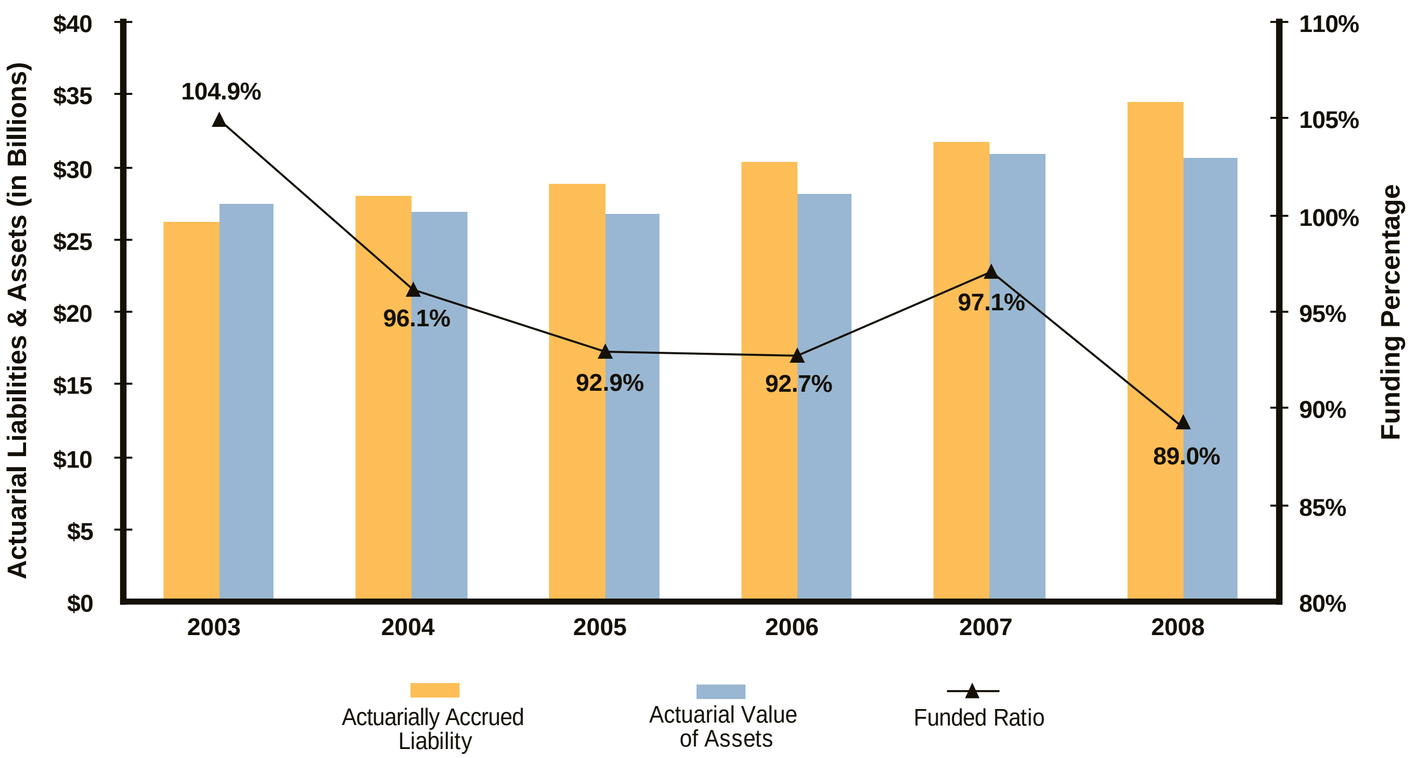
	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percentage Change	
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
2008	4,841	$105,374,596	3,825	$45,068,366	108,146	$1,907,133,859	0.95%	3.22%
2007	8,761	234,585,550	3,691	42,238,843	107,130	1,847,681,816	4.97	11.58
2006	4,514	96,324,336	3,633	40,351,097	102,060	1,655,881,296	0.87	3.44
2005	6,298	149,935,613	3,846	40,984,887	101,179	1,600,772,520	2.48	7.22
2004	7,905	198,252,778	3,590	37,279,580	98,727	1,492,913,832	4.57	12.04
2003	6,769	161,875,423	3,585	36,430,746	94,412	1,332,443,772	3.49	14.28



Solvency Test
Six Years Ended December 31, 2008
(Dollar Amounts in Thousands)

	Aggregate Accrued Liabilities For					Portion of Accrued Liabilities Covered by Reported Assets			
	(1)	(2)	(3)						
Valuation Date	Active Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed Portion)	Total Actuarial Accrued Liability (AAL)	Actuarial Valuation of Assets	(1)	(2)	(3)	Funded Ratio
31-Dec-08	$4,068,036	$17,305,971	$13,063,389	**$34,437,396**	$30,635,621	100.0%	100.0%	70.9%	89.0%
31-Dec-07	3,849,293	16,255,843	11,648,835	**31,753,971**	30,839,877	100.0	100.0	92.2	97.1
31-Dec-06	3,916,841	14,474,525	11,973,631	**30,364,997**	28,148,834	100.0	100.0	81.5	92.7
31-Dec-05	3,696,477	14,000,196	11,155,043	**28,851,716**	26,793,782	100.0	100.0	81.6	92.9
31-Dec-04	3,593,576	12,779,570	11,625,880	**27,999,026**	26,900,027	100.0	100.0	90.5	96.1
31-Dec-03	3,588,664	11,296,520	11,294,577	**26,179,761**	27,465,615	100.0	100.0	100.0	104.9

Fund Solvency



Gains & Losses in Accrued Liabilities
Resulting from Differences Between Assumed Experience and Actual Experience
(Dollar Amounts in Thousands)

Type of Activity	2008	2007	2006	2005
Gain(Loss) from Investment Earnings	$(1,094,334)	$2,158,662	$568,176	$(815,133)
Changes in Demographics of New Entrants	(62,587)	113,435	(92,597)	4,931
Pay Increases Different than Assumptions	144,913	43,448	(213,715)	23,806
Retirements Different than Expected and Other Demographic Changes	365,487	(468,497)	-	-
Other	-	-	73,112	42,858
Gain(Loss) During Year from Financial Experience	(646,521)	1,847,048	334,976	(743,538)
Non Recurring Items:				
Changes in Actuarial Assumptions and Methods	(1,634,988)[a]	-	6,546	248,873[b]
Composite Gain(Loss)	**$(2,281,509)**	**$1,847,048**	**$341,522**	**$(494,665)**

[a] *Adoption of an 8.0% annual investment return assumption effective December 31, 2008 (versus 8.5% assumed in prior years) resulted in this increase in accrued liability.*

[b] *Adoption of the assumptions from the 2005 experience study reduced the liability and employer contribution. The change in the salary increase assumptions from an age-based to service-based schedule reduced the unfunded liability by $874 million. Other experience study changes increased the unfunded liability by $536 million so the net effect of the experience study was to reduce the unfunded liability by $338 million. Changes resulting from the actuarial audit increased the unfunded liability by $89 million.*

Benefit and Contribution Provisions as of December 31, 2008

The State Employees' Retirement System makes provision for retirement, disability, and death benefits for all State employees and certain other eligible groups. The major provisions may be summarized as follows:

Eligible Employees

Class A

All regular State employees, employees of certain Commissions and Authorities, employees of state-owned educational institutions, and the Pennsylvania State University (unless such employees have joined the Public School Employees' Retirement System (PSERS), TIAA-CREF, or Alternative Retirement Program (ARP)) hired before July 1, 2001, who did not elect into the Class AA membership as of December 31, 2001. This excludes Judges and Magisterial District Judges who have elected Class E-1 or Class E-2.

Class AA

All regular State employees who are hired after July 1, 2001, and former Class A State employees hired before July 1, 2001, who elected into Class AA as of December 31, 2001. This includes employees of certain Commissions and Authorities, employees of state-owned educational institutions, and the Pennsylvania State University (unless such employees have joined PSERS, TIAA-CREF, or ARP), but excludes State Police Troopers, Judges, Magisterial District Judges, and Legislators with Class D-3 or D-4.

Class C

Liquor Law enforcement officers, other officers, and certain employees of the State Police who have been members and employees continuously since prior to March 1, 1974.

Class D-3

Members of the General Assembly who have been members and employees continuously since prior to March 1, 1974.

Class D-4

Legislators who are elected after July 1, 2001, and legislators hired before July 1, 2001, who elected into this class, excluding Class D-3 members.

Class E-1

Judges

Class E-2

Magisterial District Justices

Age and Service Requirements for Superannuation (Full Formula Benefits)

Class AA/A

Age 60 with three years of service; except for members of the General Assembly, enforcement officers, correction officers, psychiatric security aids, and officers of the Delaware River Port Authority for whom the requirement is age 50 with three years of service. Members of Class AA/A with 35 years of credited service are entitled to full formula benefits regardless of age. State Police Officers can retire on full benefits after age 50 or with 20 years of service. Capitol Police and Park Rangers can retire on full benefits at age 50 with 20 years of Capitol Police or Park Ranger service.

Class C

Age 50, with three years of service.

Class D-3

Age 50, with three years of service.

Class D-4

Age 50, with three years of service.

Class E-1

Age 60, with three years of service; or 35 or more years of credited service, regardless of age.

Class E-2

Age 60, with three years of service; or 35 or more years of credited service, regardless of age.

Formula for Superannuation Annuity

The standard single-life annuity for most members is 2% of the high three-year average salary of the member multiplied by years and fractions of credited service multiplied by the Multiplier of the Class of membership.

The annuity paid to a member shall not exceed the member's highest salary during any period of 12 consecutive months of creditable service.

The multiplier for each of the major classes are as follows:

Multiplier for Major Classes

Class	Multiplier	
A	1.00	For State Police with years of service between 20 and 25, the minimum annuity is 50% of highest annual salary. With more than 25 years of service the benefit is a minimum of 75% of highest annual salary.
AA	1.25	
C	1.00	For State Police with years of service between 20 and 25, the minimum annuity is 50% of highest annual salary. With more than 25 years of service the benefit is a minimum of 75% of highest annual salary.
D-3	3.75	
D-4	1.50	
E-1	2.00	For each of the first ten years of judicial service dropping to 1.5 for each subsequent year of judicial service.
E-2	1.50	For each year of judicial service.

NOTE: There are conditions under which long-service members or members retiring at advanced ages may receive somewhat larger benefits than those described above. Futher, benefit limitations exist for members of SERS.

Statistical Section

The Statistical Section of the Commonwealth of Pennsylvania State Employees' Retirement System's Comprehensive Annual Financial Report presents detailed information related to the financial statements, as well as highlights of actuarial valuations. The schedules within the Statistical Section are classified into the following four categories: Financial Trends, Revenue Capacity, Demographic and Economic Information, and Operating Information.

Financial Trends

The **Schedule of Trend Data** provides key financial, actuarial, and demographic data for ten years ending December 31, 2008. This data includes items such as employer and member contribution rates, contributions received by the System and benefits paid, fair value and actuarial value of assets, and the number of annuitants, beneficiaries, and active participants.

The **Schedule of Additions to Plan Net Assets** presents the member and employer contributions, as well as the net investment income/loss for the ten years ending December 31, 2008. The System's investment returns have the most significant impact on plan net assets.

The **Schedule of Deductions from Plan Net Assets** presents the benefits, refunds of contributions, and administrative expenses for the ten years ending December 31, 2008. Of these three categories, the System's benefit payments have the most significant impact on the total deductions from plan net assets.

The **Schedule of Benefit and Refund Deductions from Net Assets by Type** presents the amount of benefit payments and refunds by type for the ten years ended December 31, 2008. Most benefit types are either superannuated or early which is determined by the number of years of service and/or age at retirement.

The **Schedule of Total Changes in Plan Net Assets** combines the additions to and deductions from plan net assets from the Schedule of Additions to Plan Net Assets and Schedule of Deductions from Plan Net Assets to arrive at net increase/decrease of changes in plan net assets for the ten years ended December 31, 2008.

Revenue Capacity

The **Schedule of Investment Income/Loss** presents the details of the total net investment gain/loss for the ten years ended December 31, 2008. The System has two outside sources of revenue and one own-source (internal) of revenue. Employer contributions and member contributions, which information is provided for in the Schedule of Additions to Plan Net Assets, are the two outside sources of revenue, and investment income is the System's own-source revenue. Since investment income/loss has the greatest impact to the System, this schedule provides more detail on the major components of the investment income/loss, which is also disclosed in total on the Schedule of Additions to Plan Net Assets.

Demographic and Economic Information

The **Schedule of Active Member Statistics** provides the total number of active members, as well as the average age, average service, and average salary by gender.

Operating Information

The **Schedule of Retired Members by Type of Benefit** presents, for given benefit ranges, the total number of retirees, total monthly benefits and total number of retirees by retirement type as of December 31, 2008.

The **Schedule of Retired Members by Option** presents, for given benefit ranges, the total number of retirees, total monthly benefits and total number of retirees by retirement option as of December 31, 2008.

The **Schedule of Average Monthly Benefit Payments** presents, in five-year increments of credited service, the average monthly benefit, average final average salary and number of retired members for the ten years ended December 31, 2008.

The **Schedule of Average Annual Benefit Payments** presents, in five-year age increments and by gender, average annual benefit for each major retirement type as of December 31, 2008.

The **Schedule of SERS Agency Participation** provides the number of covered employees and the corresponding percentage of participation for the 20 largest employers for the ten years ended December 31, 2008, as well as a listing of additional employers participating with SERS as of December 31, 2008.

Sources: Unless otherwise noted, the information of these schedules is derived from the Financial Section and Actuarial Section of the Comprehensive Annual Financial Report for the relevant year.

Schedule of Trend Data[a]
Ten Years Ended December 31, 2008

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Contribution Rates:										
Employer[b]	4.04%[e]	4.04%[e]	4.02%[d]	3.02%[d]	2.03%[d]	1.07%	0.00%	0.00%	1.39%	5.00%
Member	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	5.00%	5.00%	5.00%
Contributions:										
Employer	$235,288	$243,936	$196,420	$148,375	$106,703	$68,604	$50,831	$76,710	$168,002	$270,718
Member	$336,833	$333,818	$317,790	$305,624	$309,923	$308,014	$304,233	$240,528	$231,666	$224,928
Average Annual Compensation	$48,957	$48,345	$46,118	$44,815	$45,382	$44,519	$43,631	$42,172	$41,110	$39,698
Market Value of Assets	$22,795,813	$35,516,198	$32,052,830	$28,751,871	$26,641,399	$24,535,949	$20,879,559	$24,706,063	$27,880,467	$28,093,181
Actuarial Value of Assets	$30,635,621	$30,839,877	$28,148,834	$26,793,782	$26,900,027	$27,465,615	$27,497,464	$27,505,494	$26,094,306	$23,624,267
Accrued Actuarial Liability	$34,437,396	$31,753,971	$30,364,997	$28,851,716	$27,999,026	$26,179,761	$25,650,389	$23,658,757	$19,702,278	$19,091,840
Funded Ratio	89.0%	97.1%	92.7%	92.9%	96.1%	104.9%	107.2%	116.3%	132.4%	123.7%
Total Benefits and Refunds	$2,204,579	$2,336,368	$1,919,426	$1,943,643	$1,859,255	$1,632,281	$1,430,417	$1,245,129	$1,176,785	$1,229,348
Average Pension[c]	$21,965	$21,326	$20,025	$19,372	$18,414	$17,192	$15,445	$13,656	$12,935	$12,520
Annuitants and Beneficiaries	108,146	107,130	102,060	101,179	98,727	94,412	91,228	89,217	88,392	88,043
Active Participants	110,866	109,610	110,972	109,981	108,405	109,018	111,059	109,716	109,469	108,035

[a] *All dollar amounts are in thousands, except Average Pension and Average Annual Compensation.*
[b] *Employer rate represents total contributions as a percent of covered payroll as of 12/31.*
[c] *Average pension amount represents average annual pension only for members who have reached superannuation through age or service credits.*
[d] *Act 40 of 2003 established a minimum employer contribution rate of 2%, 3%, and 4% effective July 1, 2004, 2005 and 2006 respectively.*
[e] *Act 2007-8 established a permanent minimum employer contribution rate floor of 4%.*

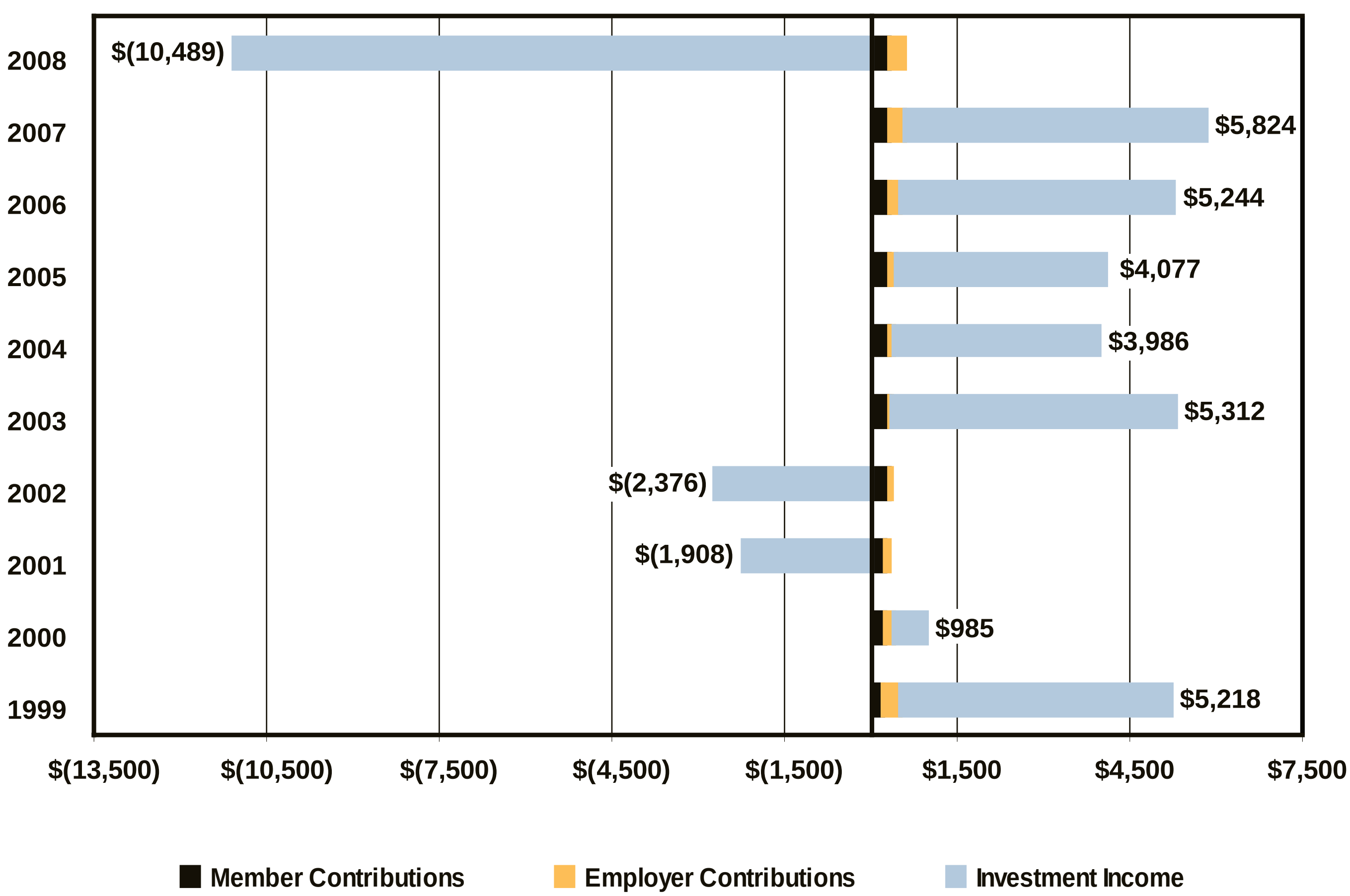
Source: State Employees' Retirement System

Schedule of Additions to Plan Net Assets
Ten Years Ended December 31, 2008
(Dollar Amounts in Thousands)

		Employer Contributions			
Year Ending	Member Contributions	Dollar Amount	% of Annual Covered Payroll	Net Investment Gain/(Loss)	Total
2008	$336,833	$235,288	4.3%	$(11,061,207)	**$(10,489,086)**
2007	333,818	243,936	4.6	5,246,730	**5,824,484**
2006	317,790	196,420	3.8	4,730,043	**5,244,253**
2005	305,624	148,375	3.0	3,622,820	**4,076,819**
2004	309,923	106,703	2.2	3,569,323	**3,985,949**
2003	308,014	68,604	1.4	4,935,699	**5,312,317**
2002	304,233[a.]	50,831	1.0	(2,731,295)	**(2,376,231)**
2001	240,528	76,710	1.7	(2,225,627)	**(1,908,389)**
2000	231,666	168,002	3.7	585,712	**985,380**
1999	224,928	270,718	6.3	4,722,671	**5,218,317**

[a.] *Effective January 1, 2002, most members' contributions increased to 6.25% from 5.00% of salary as a result of Act 9 of 2001.*

Additions to Plan Net Assets
(Dollar Amounts in Millions)



Source: State Employees' Retirement System

Schedule of Deductions from Plan Net Assets
Ten Years Ended December 31, 2008
(Dollar Amounts in Thousands)

Year	Benefits	Refund of Contributions	Administrative	Total
2008	$2,195,206	$9,373	$26,720	**$2,231,299**
2007	2,328,185[e.]	8,183	24,748	**2,361,116**
2006	1,911,330	8,096	23,868	**1,943,294**
2005	1,936,428	7,215	22,704	**1,966,347**
2004	1,853,117	6,138	21,244	**1,880,499**
2003	1,627,166[a.]	5,115	23,646	**1,655,927**
2002	1,426,257[b.]	4,160	19,856	**1,450,273**
2001	1,237,953[c.]	7,176[d.]	20,887	**1,266,016**
2000	1,166,897	9,888	21,309	**1,198,094**
1999	1,218,133	11,215	19,146	**1,248,494**

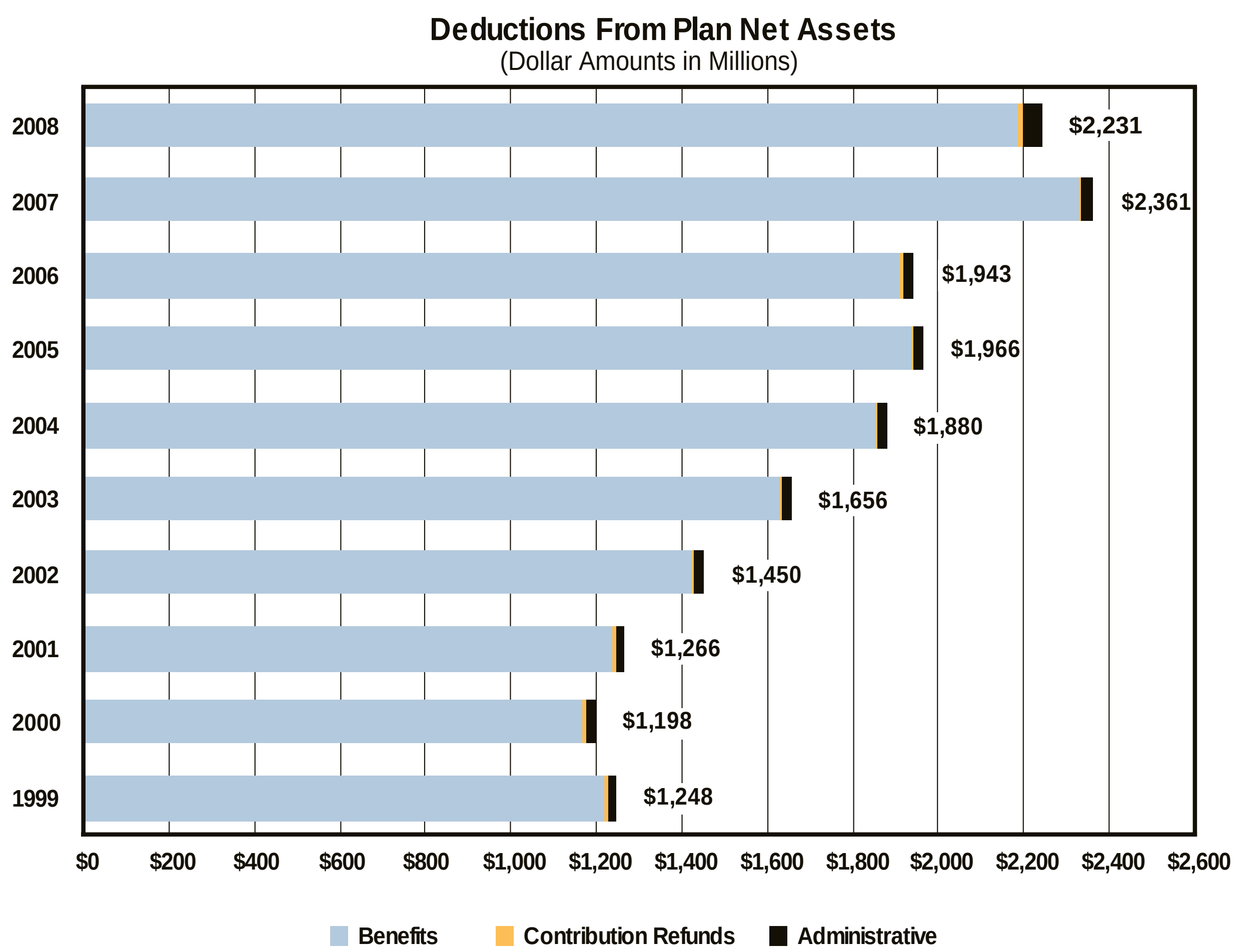
[a.] *Phase two of Cost of Living Adjustment (COLA) for members who retired between July 2, 1990, and July 1, 2002, became effective July 2, 2003.*

[b.] *Phase one of two-phase COLA for members who retired before July 2, 1990, became effective July 1, 2002.*

[c.] *For most members who retired after July 1, 2001, the benefit multiplier increased by 25% as a result of Act 9 of 2001.*

[d.] *Act 9 of 2001 also lowered the amount of years required to vest benefits from 10 years to 5 years.*

[e.] *22% increase from prior year is due to large number of employees retiring as a result of changes in health care benefits.*



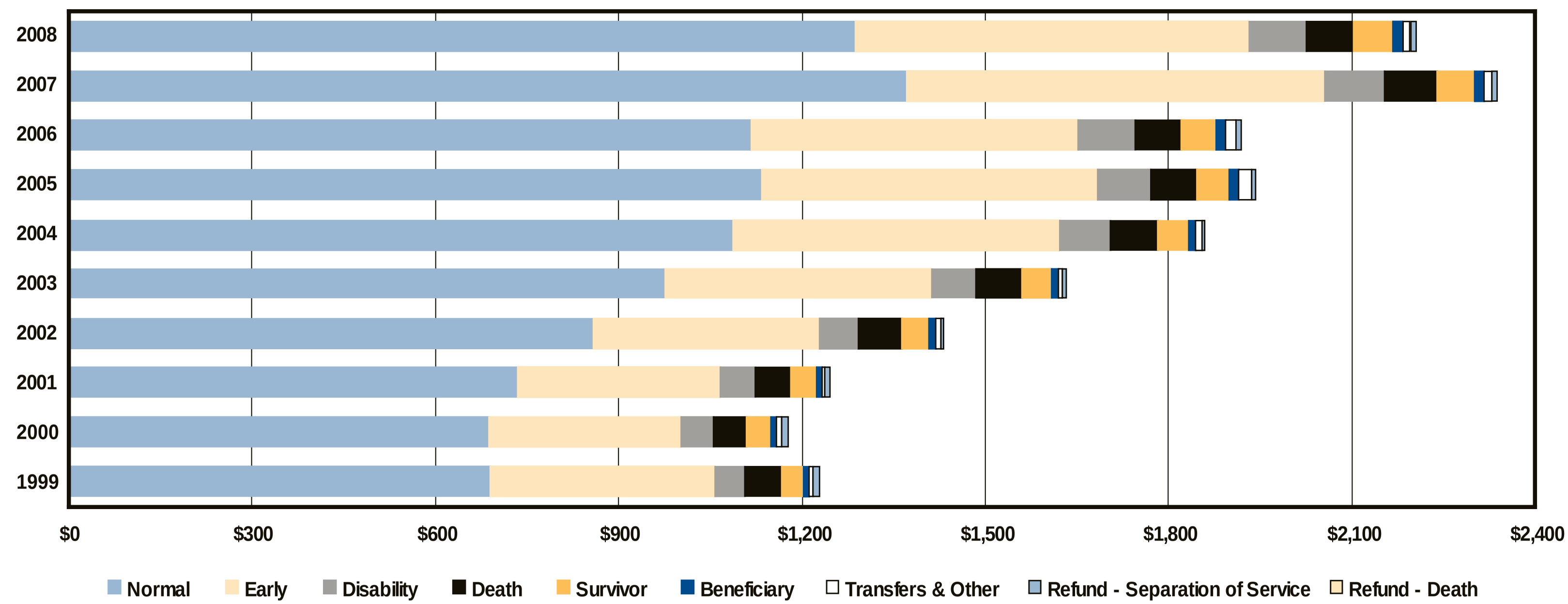
Source: State Employees' Retirement System

Schedule of Benefit and Refund Deductions from Plan Net Assets by Type
Ten Years Ended December 31, 2008
(Dollar Amounts in Thousands)

	Retirement								Refunds		
Year	Normal	Early	Disability	Death	Survivor	Beneficiary	Transfers & Other	Total Benefit Deductions	Separation of Service	Death	Total Refunds
2008	$1,300,312	$618,027	$102,250	$81,728	$67,623	$14,209	$11,057	**$2,195,206**	$9,222	$151	**$9,373**
2007	1,372,909	683,467	98,605	83,687	62,726	13,949	12,842	**2,328,185**[a]	8,007	176	**8,183**
2006	1,117,801	535,156	93,358	73,885	58,038	14,988	18,104	**1,911,330**	7,971	125	**8,096**
2005	1,133,694	550,437	88,250	74,312	53,873	14,650	21,212	**1,936,428**	7,086	129	**7,215**
2004	1,088,129	534,674	82,515	76,216	51,946	10,818	8,819	**1,853,117**	6,013	125	**6,138**
2003	976,102	436,325	72,880	75,368	48,687	9,876	7,928	**1,627,166**	4,994	121	**5,115**
2002	859,078	368,778	64,789	70,703	45,439	8,902	8,568	**1,426,257**	4,024	136	**4,160**
2001	735,919	331,445	57,254	57,744	42,689	8,115	4,787	**1,237,953**	6,753	423	**7,176**
2000	688,410	314,014	54,112	53,785	40,037	7,948	8,591	**1,166,897**	9,548	340	**9,888**
1999	690,840	366,515	50,496	58,675	36,830	7,283	7,494	**1,218,133**	10,788	427	**11,215**

[a] *Most members who retired after July 1, 2007, must contribute to medical insurance premiums as a result of the AFSCME agreement dated July 1, 2007.*

Benefit and Refund Deductions From Plan Net Assets by Type
(Dollar Amounts in Millions)



Source: State Employees' Retirement System

Schedule of Total Changes in Plan Net Assets
Ten Years Ended December 31, 2008
(Dollar Amounts in Thousands)

	Additions to Plan Net Assets				Deductions from Plan Net Assets				
Year Ending	Member Contributions	Employer Contributions	Net Investment Income	Total Additions	Benefits	Refund of Contributions	Administrative	Total Deductions	Net Increase/ (Decrease)
2008	$336,833	$235,288	$(11,061,207)	**$(10,489,086)**	$2,195,206	$9,373	$26,720	**$2,231,299**	**$(12,720,385)**
2007	333,818	243,936	5,246,730	**5,824,484**	2,328,185	8,183	24,748	**2,361,116**	**3,463,368**
2006	317,790	196,420	4,730,043	**5,244,253**	1,911,330	8,096	23,868	**1,943,294**	**3,300,959**
2005	305,624	148,375	3,622,820	**4,076,819**	1,936,428	7,215	22,704	**1,966,347**	**2,110,472**
2004	309,923	106,703	3,569,323	**3,985,949**	1,853,117	6,138	21,244	**1,880,499**	**2,105,450**
2003	308,014	68,604	4,935,699	**5,312,317**	1,627,166	5,115	23,646	**1,655,927**	**3,656,390**
2002	304,233	50,831	(2,731,295)	**(2,376,231)**	1,426,257	4,160	19,856	**1,450,273**	**(3,826,504)**
2001	240,528	76,710	(2,225,627)	**(1,908,389)**	1,237,953	7,176	20,887	**1,266,016**	**(3,174,405)**
2000	231,667	168,002	585,712	**985,381**	1,166,897	9,888	21,309	**1,198,094**	**(212,713)**
1999	224,928	270,718	4,722,671	**5,218,317**	1,218,133	11,215	19,146	**1,248,494**	**3,969,823**

Source: State Employees' Retirement System

Schedule of Investment Income
Ten Years ended December 31, 2008
(Dollar Amounts in Thousands)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Investment gain/(loss):										
Net appreciation/(depreciation) in fair value of investments	$(9,979,685)	$4,164,231	$3,723,160	$2,811,470	$2,807,290	$3,423,081	$(1,915,634)	$(1,790,575)	$774,998	$2,676,745
Collective trust fund appreciation/(depreciation) and income	(1,377,568)	798,941	641,718	420,888	391,248	1,165,463	(1,310,044)	(1,014,578)	(825,600)	1,453,724
Interest	342,163	347,507	350,783	368,610	280,221	237,786	303,421	388,626	412,933	371,062
Dividends	154,779	149,488	152,690	128,480	124,099	113,634	112,015	106,253	113,293	127,330
Real estate	109,523	112,148	145,871	112,057	148,133	168,427	193,719	182,423	203,308	164,893
Miscellaneous	5,969	6,149	3,519	3,537	6,722	7,138	30,035	41,111	37,377	35,981
	(10,744,819)	5,578,464	5,017,741	3,845,042	3,757,713	5,115,529	(2,586,488)	(2,086,740)	716,309	4,829,735
Investment expenses	(310,454)	(344,707)	(298,204)	(234,760)	(196,859)	(187,139)	(153,211)	(148,778)	(140,526)	(115,538)
Net gain/(loss) from investing activities	(11,055,273)	5,233,757	4,719,537	3,610,282	3,560,854	4,928,390	(2,739,699)	(2,235,518)	575,783	4,714,197
From securities lending activities:										
Securities lending income	41,319	155,067	170,675	116,477	40,854	16,163	26,696	54,813	87,874	54,530
Securities lending expenses	(47,253)	(142,094)	(160,169)	(103,939)	(32,385)	(8,854)	(18,292)	(44,922)	(77,945)	(46,056)
Net income from securities lending activities	(5,934)	12,973	10,506	12,538	8,469	7,309	8,404	9,891	9,929	8,474
Total net investment gain/(loss)	**$(11,061,207)**	**$5,246,730**	**$4,730,043**	**$3,622,820**	**$3,569,323**	**$4,935,699**	**$(2,731,295)**	**$(2,225,627)**	**$585,712**	**$4,722,671**

Source: State Employees' Retirement System

Schedule of Active Member Statistics
Ten Years Ended December 31, 2008

	Male			Female			Total
	Average Age	Average Service	Average Salary	Average Age	Average Service	Average Salary	Number of Active Members
2008	46.23	12.21	$52,536	46.18	11.79	$44,176	110,866
2007	46.11	12.22	51,663	45.95	11.76	43,888	109,610
2006	46.39	12.80	49,455	46.20	12.49	41,616	110,972
2005	46.12	12.71	48,129	45.91	12.46	40,331	109,981
2004	46.14	13.03	48,801	46.01	12.88	40,716	108,405
2003	46.25	13.42	47,717	46.12	13.39	40,120	109,018
2002	46.16	13.55	46,857	45.98	13.48	39,198	111,059
2001	46.08	13.68	45,386	45.88	13.65	37,737	109,716
2000	45.86	13.53	44,316	45.70	13.65	36,630	109,469
1999	45.55	13.38	42,799	45.41	13.54	35,374	108,035

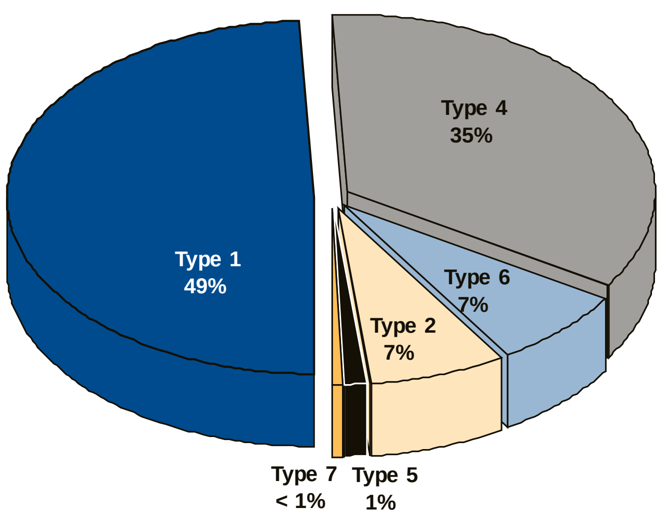
Source: State Employees' Retirement System

Schedule of Retired Members by Type of Benefit
As of December 31, 2008

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Type of Retirement 1	2	4	5	6	7
$1 to 500	$7,144,392	**28,532**	7,410	708	15,673	546	3,918	277
> 500 to 1,000	17,286,871	**23,458**	11,990	3,759	5,089	281	2,119	220
> 1,000 to 1,500	19,828,317	**16,086**	9,005	1,583	4,348	129	908	113
> 1,500 to 2,000	19,819,441	**11,394**	6,067	781	4,055	49	394	48
> 2,000 to 2,500	18,963,047	**8,476**	4,710	385	3,088	32	245	16
> 2,500 to 3,000	16,312,368	**5,958**	3,592	208	2,024	23	108	3
> 3,000	59,573,385	**14,242**	10,047	178	3,792	43	176	6
Totals	**$158,927,821**	**108,146**	**52,821**	**7,602**	**38,069**	**1,103**	**7,868**	**683**

Type of Retirement
1 - Superannuation
2 - Disabled
4 - Early
5 - Beneficiary
6 - Survivor
7 - Alternate Payee

Retired Members by Type of Benefit



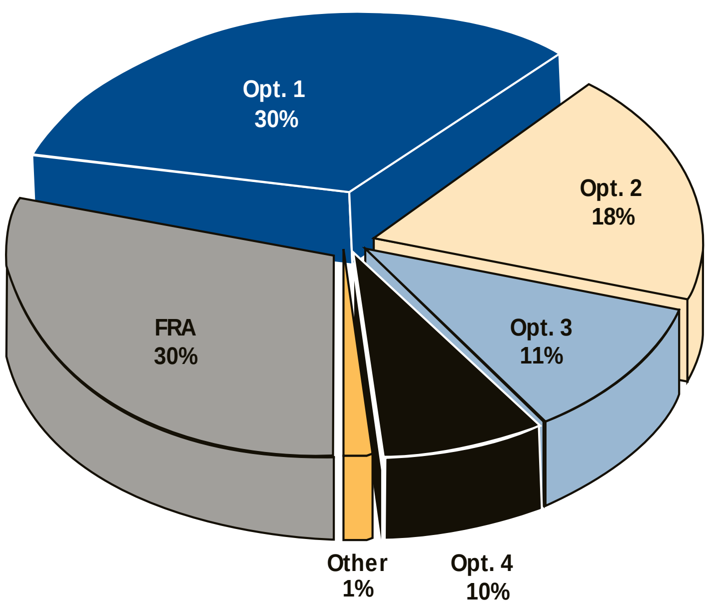
Source: State Employees' Retirement System

Schedule of Retired Members by Option
As of December 31, 2008

Amount of Monthly Benefit	Total Monthly Benefits	Total Number of Retirees	Option Selected: FRA	1	2	3	4	Other
$1 to 500	$7,144,392	**28,532**	6,821	11,280	6,419	2,322	1,110	580
> 500 to 1,000	17,286,871	**23,458**	7,912	6,921	4,391	2,310	1,600	324
> 1,000 to 1,500	19,828,317	**16,086**	4,675	4,694	3,068	1,779	1,715	155
> 1,500 to 2,000	19,819,441	**11,394**	3,381	3,151	1,907	1,459	1,430	66
> 2,000 to 2,500	18,963,047	**8,476**	2,457	2,188	1,375	1,154	1,264	38
> 2,500 to 3,000	16,312,368	**5,958**	1,790	1,449	910	840	939	30
> 3,000	59,573,385	**14,242**	4,810	3,059	1,647	2,104	2,572	50
Totals	**$158,927,821**	**108,146**	**31,846**	**32,742**	**19,717**	**11,968**	**10,630**	**1,243**

Options
FRA - Full Retirement Allowance
Opt. 1 - Annuity for Life with beneficiary receiving remainder of Present Value when member dies
Opt. 2 - Annuity for Life with beneficiary receiving same annuity when member dies
Opt. 3 - Annuity for Life with beneficiary receiving one half the members annuity amount when member dies
Opt. 4 - Member designs a different plan approved by SERS not covered under the above option
Other - Death Benefit and Domestic Relation Order

Retired Members by Option



Source: State Employees' Retirement System

Schedule of Average Monthly Benefit Payments[a]
Ten Years Ended December 31, 2008

	Years Credited Service						
Retirement Effective Dates	< 5	5-9	10-14	15-19	20-24	25-29	30+
Period 1/1/2008 to 12/31/2008							
Average monthly benefit	$198	$340	$729	$1,266	$1,903	$2,968	$3,782
Average final average salary	$30,280	$39,066	$45,753	$48,823	$55,471	$65,893	$65,569
Number of retired members	64	646	484	788	586	705	938
Period 1/1/2007 to 12/31/2007							
Average monthly benefit	$219	$322	$674	$1,214	$1,883	$2,538	$3,464
Average final average salary	$31,359	$37,629	$42,759	$45,817	$53,241	$58,974	$60,726
Number of retired members	53	637	476	1,057	759	1,258	3,384
Period 1/1/2006 to 12/31/2006							
Average monthly benefit	$174	$316	$690	$1,171	$1,878	$2,487	$3,489
Average final average salary	$27,898	$35,283	$42,358	$45,225	$53,513	$58,031	$60,582
Number of retired members	51	584	491	667	471	627	1,205
Period 1/1/2005 to 12/31/2005							
Average monthly benefit	$197	$335	$695	$1,161	$1,844	$2,409	$3,464
Average final average salary	$31,822	$34,767	$40,577	$45,052	$51,985	$55,391	$60,758
Number of retired members	57	579	544	785	588	885	2,034
Period 1/1/2004 to 12/31/2004							
Average monthly benefit	$170	$355	$674	$1,171	$1,820	$2,255	$3,230
Average final average salary	$26,332	$34,645	$39,343	$44,095	$49,960	$53,306	$56,940
Number of retired members	53	550	558	878	686	1,130	3,100
Period 1/1/2003 to 12/31/2003							
Average monthly benefit	$201	$370	$661	$1,126	$1,721	$2,201	$3,179
Average final average salary	$30,920	$34,935	$37,342	$41,727	$47,340	$51,372	$55,947
Number of retired members	33	514	538	851	701	984	2,633
Period 1/1/2002 to 12/31/2002							
Average monthly benefit	$201	$355	$631	$1,073	$1,683	$2,150	$3,264
Average final average salary	$25,626	$33,588	$37,370	$41,421	$45,974	$49,743	$56,880
Number of retired members	29	492	525	627	615	799	1,826
Period 1/1/2001 to 12/31/2001							
Average monthly benefit	$166	$413	$542	$967	$1,445	$1,874	$2,959
Average final average salary	$27,851	$32,700	$35,821	$967	$43,815	$47,066	$55,470
Number of retired members	25	399	476	594	536	805	1,332
Period 1/1/2000 to 12/31/2000							
Average monthly benefit	$160	$469	$448	$771	$1,205	$1,645	$2,487
Average final average salary	$28,373	$31,567	$35,508	$39,153	$41,765	$45,709	$53,923
Number of retired members	33	252	639	594	458	712	678
Period 1/1/1999 to 12/31/1999							
Average monthly benefit	$149	$453	$425	$798	$1,132	$1,567	$2,235
Average final average salary	$27,246	$29,670	$34,691	$38,970	$40,447	$43,931	$49,742
Number of retired members	55	268	618	613	517	776	2,140

[a] *Includes Normal Retirement, Early Retirement and Disability Benefits for new retirees in the years listed.*

Source: State Employees' Retirement System

Schedule of Average Annual Benefit Payments
As of December 31, 2008

	Superannuation		Early Retirement		Disability		Beneficiary and Survivor	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
Under 25	-	-	-	-	-	-	$9,337	$6,592
25-29	-	-	$717	$541	-	-	9,392	14,710
30-34	-	-	974	924	$10,540	$10,920	17,823	10,535
35-39	-	-	2,047	1,698	12,353	10,875	14,920	10,596
40-44	-	-	4,596	2,376	14,292	10,609	8,073	10,381
45-49	-	-	13,245	4,702	15,593	13,747	8,042	8,606
50-54	$35,418	$30,328	15,935	9,696	16,823	14,768	6,579	9,865
55-59	35,554	35,921	18,835	14,354	16,649	15,664	8,572	10,889
60-64	34,515	27,651	23,004	15,990	14,750	13,928	8,195	12,483
65-69	29,988	21,236	18,221	12,446	11,178	10,211	10,173	13,077
70-74	24,400	16,545	14,259	9,591	9,227	8,955	7,906	10,836
75-79	20,817	12,590	14,280	9,312	9,763	7,635	8,570	9,542
80-84	17,333	10,571	13,171	7,858	9,329	7,112	7,372	8,126
85-89	14,614	8,934	12,716	7,955	9,420	6,444	5,784	6,608
90 and over	12,300	7,882	11,046	9,146	9,193	6,599	5,168	5,717
Total Average	**$25,655**	**$16,983**	**$17,557**	**$11,596**	**$13,970**	**$12,587**	**$8,306**	**$9,178**

	Superannuation	Early Retirement	Disability	Beneficiary and Survivor
Average Pension	$21,965	$14,699	$13,251	$9,094
Average Age: Male & Female	72.8	61.8	60.8	75.0

Source: State Employees' Retirement System

Schedule of SERS Agency Participation - Twenty Largest Employers
Ten Years Ended December 31, 2008

\# - Number of Active Employees
% - Percentage of Total Active Members

	2008		2007		2006		2005		2004		2003		2002		2001		2000		1999	
Employer Name	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Dept of Public Welfare	18,618	16.79	18,761	17.12	19,355	17.44	19,781	17.99	20,175	18.61	20,417	18.73	21,242	19.13	21,507	19.60	21,766	19.88	22,290	20.63
Dept of Corrections	16,075	14.50	15,523	14.16	15,151	13.65	15,126	13.75	14,463	13.34	14,267	13.09	14,839	13.36	14,416	13.14	14,123	12.90	13,284	12.30
Dept of Transportation	12,494	11.27	12,264	11.19	12,484	11.25	12,388	11.26	12,428	11.46	12,603	11.56	12,768	11.50	12,623	11.51	12,748	11.65	12,590	11.65
Pennsylvania State University	6,468	5.83	6,210	5.67	6,265	5.65	6,210	5.65	6,085	5.61	6,102	5.60	6,071	5.47	6,099	5.56	6,117	5.59	6,174	5.71
Pennsylvania State Police	6,222	5.61	6,266	5.72	6,172	5.56	6,127	5.57	5,885	5.43	5,803	5.32	5,807	5.23	5,650	5.15	5,632	5.14	5,597	5.18
State System of Higher Education	5,521	4.98	5,316	4.85	5,344	4.82	5,240	4.76	5,248	4.84	5,432	4.98	5,565	5.01	5,697	5.19	5,897	5.39	5,989	5.54
Dept of Labor and Industry	5,178	4.67	5,234	4.78	5,692	5.13	5,608	5.10	5,648	5.21	5,823	5.34	5,938	5.35	5,416	4.94	5,467	4.99	5,624	5.21
Liquor Control Board	4,097	3.70	3,969	3.62	4,102	3.70	3,994	3.63	3,840	3.54	3,686	3.38	3,672	3.31	3,523	3.21	3,576	3.27	3,463	3.21
Dept of Environmental Protection	2,802	2.53	2,767	2.52	2,921	2.63	2,836	2.58	2,854	2.63	2,916	2.67	2,973	2.68	3,016	2.75	3,004	2.74	2,922	2.70
Dept of Military and Veterans Affairs	2,568	2.32	2,545	2.32	2,540	2.29	2,492	2.27	2,402	2.22	2,291	2.10	2,220	2.00	2,127	1.94	2,057	1.88	1,919	1.78
Dept of Revenue	2,366	2.13	2,289	2.09	2,319	2.09	2,322	2.11	2,238	2.06	2,312	2.12	2,462	2.22	2,493	2.27	2,431	2.22	2,326	2.15
Executive Offices	2,257	2.04	2,201	2.01	2,247	2.02	2,246	2.04	2,237	2.06	2,351	2.16	2,349	2.12	2,374	2.16	2,335	2.13	2,233	2.07
PA Turnpike Commission	2,254	2.03	2,232	2.04	2,276	2.05	2,227	2.02	2,282	2.11	2,354	2.16	2,330	2.10	2,404	2.19	2,406	2.20	2,228	2.06
PA Higher Education Assistance Agency	2,135	1.93	2,494	2.28	2,524	2.27	2,378	2.16	1,968	1.82	1,957	1.80	1,908	1.72	1,811	1.65	1,544	1.41	1,482	1.37
Dept of Conservation & Natural Resources	2,111	1.90	2,080	1.90	2,093	1.89	1,971	1.79	1,927	1.78	2,009	1.84	2,079	1.87	2,045	1.86	2,019	1.84	1,748	1.62
Administrative Office of PA Courts	2,015	1.82	1,988	1.81	1,989	1.79	1,953	1.78	1,957	1.81	1,884	1.73	1,883	1.70	1,834	1.67	1,836	1.68	1,621	1.50
House of Representatives	1,736	1.57	1,758	1.60	1,701	1.53	1,706	1.55	1,662	1.53	1,619	1.49	1,568	1.41	1,544	1.41	1,496	1.37	1,493	1.38
Dept of Health	1,473	1.33	1,433	1.31	1,479	1.33	1,435	1.30	1,386	1.28	1,393	1.28	1,378	1.24	1,330	1.21	1,271	1.16	1,213	1.12
Dept of General Services	1,270	1.15	1,267	1.16	1,340	1.21	1,306	1.19	1,230	1.13	1,281	1.18	1,357	1.22	1,350	1.23	1,333	1.22	1,270	1.18
Board of Probation and Parole	1,098	0.99	1,009	0.92	974	0.88	1,010	0.92	998	0.92	986	0.90	989	0.89	944	0.86	940	0.86	913	0.85
Active Employees for Twenty Largest Employers	**98,758**	**89.08**	**97,606**	**89.05**	**98,968**	**89.18**	**98,356**	**89.43**	**96,913**	**89.40**	**97,486**	**89.42**	**99,398**	**89.50**	**98,203**	**89.51**	**97,998**	**89.52**	**96,379**	**89.21**
Total Number of Active Employees	110,866		109,610		110,972		109,981		108,405		109,018		111,059		109,716		109,469		108,035	

Source: State Employees' Retirement System

Bloomsburg University Community Activities
Bucks County Community College
Bucks County Health Department
Bucks County Intermediate Unit
California University Student Association
Capitol Preservation Committee
Center for Rural Pennsylvania
Central Susquehanna Intermediate Unit
Chester County Health Department
Civil Service Commission
Clarion University Student Association
Community College of Allegheny County
Community College of Philadelphia
Delaware County Community College
Delaware River Joint Toll Bridge
Delaware River Port Authority
Delaware Valley Regional Planning Commission
Department of Aging
Department of Agriculture
Department of Banking
Department of Community & Economic Development
Department of Education
Department of State
Department of the Auditor General
East Stroudsburg University Student Association
Edinboro University Services Inc.
Environmental Hearing Board
Erie County Health Department
Fish and Boat Commission
Game Commission
Governor's Office
Harrisburg Area Community College
Historical and Museum Commission
House Appropriations Committee(D)
House Appropriations Committee(R)
Independent Regulatory Review Commission
Indiana University Student Co-op
Insurance Department
Intergovernmental Cooperation Authority
Joint Legislative Conservation Committee
Joint State Government Commission
Kutztown University Student Services
Lancaster-Lebanon Intermediate Unit
Legislative Budget & Finance Committee
Legislative Data Processing Center
Legislative Reference Bureau
Lehigh Carbon Community College
Lieutenant Governor's Office
Local Government Commission
Lock Haven University Student Co-op
Luzerne County Community College
Luzerne Intermediate Unit
Mansfield University Community Services
Milk Marketing Board
Millersville Student Services
Montgomery County Community College
Northampton Community College
Office of Attorney General
Office of Liquidations
Pennsylvania College of Technology
Pennsylvania Convention Center Authority
Pennsylvania Emergency Management Agency
Pennsylvania Gaming Control Board
Pennsylvania Health Care Cost Containment Council
Pennsylvania Highlands Community College
Pennsylvania Housing Finance Agency
Pennsylvania Infrastructure Investment Authority
Pennsylvania Municipal Retirement System
Pennsylvania Port Authority
Pennsylvania Public Television Network Commission
Port Authority Transit Corporation
Public School Employees' Retirement System
Public Utility Commission
Reading Area Community College
Securities Commission
Senate of Pennsylvania
Shippensburg Student Association
Slippery Rock Student Government
State Employees' Retirement System
State Ethics Commission
State Public School Building Authority
State Tax Equalization Board
Susquehanna River Basin Commission
Thaddeus Stevens College of Technology
Treasury Department
U.S. Property & Fiscal Office for Pennsylvania
West Chester University Student Services
Westmoreland County Community College

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