



Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2007

We believe in your future.

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2007

We believe in your future.



M. Steve Yoakum
Executive Director

Prepared by:
PSRS/PEERS Staff
3210 W. Truman Boulevard
Jefferson City, MO 65109

(573) 634-5290
(800) 392-6848

www.psrs-peers.org



Mission Statement

The Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (PSRS and PEERS) work in partnership with the member school districts of this state to provide eligible employees and their beneficiaries with a significant source of income based on the employee's length of service and compensation in order to enhance retirement, disability and death benefits received from other sources.

It is the fiduciary responsibility of those charged with administration of PSRS and PEERS to:

- effectively collect contributions,
- prudently invest the assets to obtain optimum returns,
- equitably provide benefits, and
- impartially and in accordance with applicable law administer the benefit programs.

The Board of Trustees and staff are committed to providing services to the members and beneficiaries professionally, promptly, courteously, and efficiently.

Mission Statement Principles

- We will conduct the business of the Retirement Systems in accordance with the mission statement.
- We will act as fiduciaries in the management of all funds for the exclusive benefit of our members.
- We will adhere to our investment policy to ensure the highest possible investment return consistent with the prudent investment of plan assets.
- We will have as our goal the replacement of 80% of a member's final average salary after a 30-year career through the combination of income from public pensions and, where applicable, the federal Social Security system.
- We shall have as our goal the retention of purchasing power of the initial retirement benefit through the retirement years.
- We will maintain an independent retirement system that retains the power of the trustees to set actuarial assumptions, appoint consultants, employ staff, establish a budget and conduct all business of the Retirement Systems.
- We will prepare and distribute an annual financial report that adheres to U.S. generally accepted accounting principles.
- We will provide prompt, courteous and accurate service to our members.
- We will provide clear and complete information to the members and the districts through the use of a summary plan document, newsletters, an annual member account statement and any other documents deemed necessary.
- We will adhere to the highest standards of ethical conduct.



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*We believe that working toward
your retirement security is our
primary responsibility.*

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Introductory Section

Board of Trustees

June 30, 2007



Phil Wright
Chair
Elected PSRS Member



Tina Zubeck
Vice Chair
Elected PEERS Member



Cheryl Boggess
Elected PSRS Member



Richard Franklin
Appointed Retired
PSRS Member



Joncee Nodler
Appointed Member



James O'Donnell
Appointed Member



Peggy Preston
Elected PSRS Member

Introductory Section



Public School & Education Employee
PSRS/PEERS
Retirement Systems of Missouri

December 28, 2007

TO: Board of Trustees and Members of the Retirement Systems:

I am pleased to present the *Comprehensive Annual Financial Report* of the Public School Retirement System of Missouri (PSRS) and Public Education Employee Retirement System of Missouri (PEERS) for the fiscal year ended June 30, 2007. The management and staff of the Systems are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. To the best of our knowledge, the information presented is a fair and accurate portrayal of the financial position and operations of PSRS and PEERS as of June 30, 2007.

Overview of the Retirement Systems

The Public School Retirement System of Missouri, a cost-sharing multiple employer retirement system, was established in 1946 by an act of the Missouri legislature to provide retirement, disability and death benefits to full-time, certificated employees in the public schools and four-year regional universities. It has been amended to include part-time certificated employees of public schools and no longer accepts new employees of the regional colleges and universities.

The Public Education Employee Retirement System of Missouri, also a cost-sharing multiple employer retirement system, was established in 1965 by an act of the Missouri legislature to provide retirement, disability and death benefits to non-certificated school employees in the public schools, community colleges and junior colleges that have elected to join the System.

Financial Information

The Systems' financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB). A system of internal controls is in place to help monitor and safeguard assets and promote efficient operations. An independent certified public accounting firm selected by the Board of Trustees performs a financial audit each year. In addition, the Systems employ an internal auditor who performs operational reviews to ensure that the internal controls are functioning effectively.

Please refer to the Management's Discussion and Analysis on pages 20 through 24 for an overview of additions to and deductions from the plans for the fiscal year.

Investment Activities

The overall investment return for the fiscal year was 16.6% for the Public School Retirement System (PSRS) and the Public Education Employee Retirement System (PEERS). The total investment return exceeded the policy benchmark return of 16.1% and resulted in approximately \$66 million of additional value to the Systems net of all fees and expenses. Our relatively conservative asset allocation provided returns that exceeded our assumed rate of return of 8%, but trailed our peers of large institutional pension systems that employed a more aggressive asset allocation. However, the PSRS/PEERS' investment returns were generated while taking less risk than a large majority of other public pension funds in the nation.

The Board of Trustees governs the investment process by adopting investment policies and objectives, which define the Systems' strategic investment initiatives, and by monitoring performance to measure the results. The PSRS/PEERS

Address: P.O. Box 268, 3210 West Truman Blvd., Jefferson City, MO 65102; **Telephone Number:** (573) 634-5290; **Toll Free:** (800) 392-6848
FAX Numbers: Membership (573) 634-7934; Investments (573) 634-6248; Employer Services (573) 634-7911; Administration (573) 634-5375

 www.psrs-peers.org

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Investment Policy, adopted by the Board and amended as needed, has specific guidelines for performance expectations, eligible holdings and portfolio characteristics. The key to determining investment strategy is asset allocation, a crucial decision made by the Board after consideration of expected returns for asset classes within the context of risk tolerance for the Systems. Internal staff, with the advice of outside consultants, is responsible for implementing and monitoring this strategy. To increase expected returns, the Systems made changes to the asset allocation strategy in October 2006 to focus on assets with higher expected returns and more active management. The staff worked towards implementation of the long-term asset allocation during fiscal year 2007.

Additional detailed information regarding the PSRS and PEERS investments can be found in the Investment Section of this report.

Funding Status

PSRS and PEERS are defined benefit retirement systems. This means that a formula made up of credit (years of service) times final average salary, times a multiplier (2.5% for PSRS and 1.61% for PEERS) determines each member's retirement benefit. The actuarial accrued liability is calculated for each System using the plan provisions in effect at the time of the calculation. Actuarial assumptions used in the calculation are recommended by the Systems' outside actuary and are based upon prior experience of the plans.

To determine the relative health of the Systems, the actuarial accrued liability is compared to the actuarial value of assets to arrive at a funded percentage. As of June 30, 2007, PSRS was 83.5% funded, while PEERS was 83.2% funded. This is a slight increase from the June 30, 2006 funded ratios of 82.6% for PSRS and 80.5% for PEERS.

The actuarial value of assets was determined using a "smoothing" method that requires all gains (earnings in excess of 8%) and losses (earnings below 8%) to be recognized over a five-year period. Because of this methodology, only one-fifth of the 2007 gains in excess of 8% have been recognized as of June 30, 2007.

During the 2007 fiscal year, the contribution rates collected by the systems were insufficient to fund the normal costs of the Systems plus amortize the unfunded actuarial accrued liability within a 30-year period. The annual required contribution rates for 2007 were 28.39% for PSRS and 13.22% for PEERS. The contribution rates collected were 24.0% for PSRS and 11.5% for PEERS.

Based upon the June 30, 2007 actuarial valuations, the annual required contribution rates for fiscal year 2008 were determined to be 28.24% for PSRS and 12.98% for PEERS. The Board of Trustees set the fiscal year 2008 contribution rates at 25% for PSRS and 12% for PEERS and the 2009 rates at 26% for PSRS and 12.5% for PEERS. The approved rates were set in accordance with the annual contribution rate increase limits set forth in state statute which require the PSRS rate to increase 1% per year and the PEERS rate to increase 0.5% per year until the rates collected are equal to the annual required contribution rates as determined by the actuary. We hope that favorable market conditions will enable the rates to stabilize in the near future.

Legislative Changes During 2006-2007

Senate Bill 406, enacted during the 2007 legislative session, included the following changes related to the Systems:

25-and-Out Provision Extended

The 25-and-Out provision was designed to provide members with the opportunity to retire before the age of 55 and receive a reduced benefit if he/she has accrued between 25 and 30 years of service and does not qualify for the Rule of 80. This statutory provision was set to expire on July 1, 2008, permanently removing this retirement option. The Legislature approved an extension of the 25-and-Out language until July 1, 2013. This extension applies to both PSRS and PEERS members.

2.55% Factor Extended

PSRS members with 31 or more years of creditable service receive an increased factor of 2.55% to determine their monthly benefit. The additional benefit is intended as a way to retain members with valuable experience and reward

Introductory Section

them for their commitment to education. The 2.55% factor was set to expire as of July 1, 2008, but was extended for an additional five years until July 1, 2013.

Limits on Final Average Salary Increases

A member's retirement benefit is determined as a percentage of the member's final average salary. Currently, a member's total compensation cannot increase from year to year by more than 20%, with specific exceptions, in any year used to determine the final average salary. A new statutory provision reduces the maximum percentage of increase during the final average salary period to 10%.

The 10% limit does not apply to "increases due to bona fide changes in position or employer, increases required by state statute or district-wide salary schedule adjustments for previously unrecognized education related services." This provision only applies to PSRS members.

This provision is effective August 28, 2007 and does not impact July or August 2007 retirees.

Awards

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSRS and PEERS for the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents meet or exceed program standards. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to GFOA for consideration again this year.

Public Pension Coordinating Council (PPCC), Public Pension Standards Award

The Systems also received the PPCC, Public Pension Standards Award in 2007 in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Professional Services

Certain professional services are provided to the Systems by retained consultants. The required opinion letters from two of those consultants, Gabriel, Roeder, Smith and Company, actuaries, and Williams Keepers LLC, independent certified public accountants, are contained elsewhere in this report.

Investment consulting services, as well as investment manager search assistance and investment performance analysis, have been provided by Russell Investment Group of Tacoma, WA.

Acknowledgements

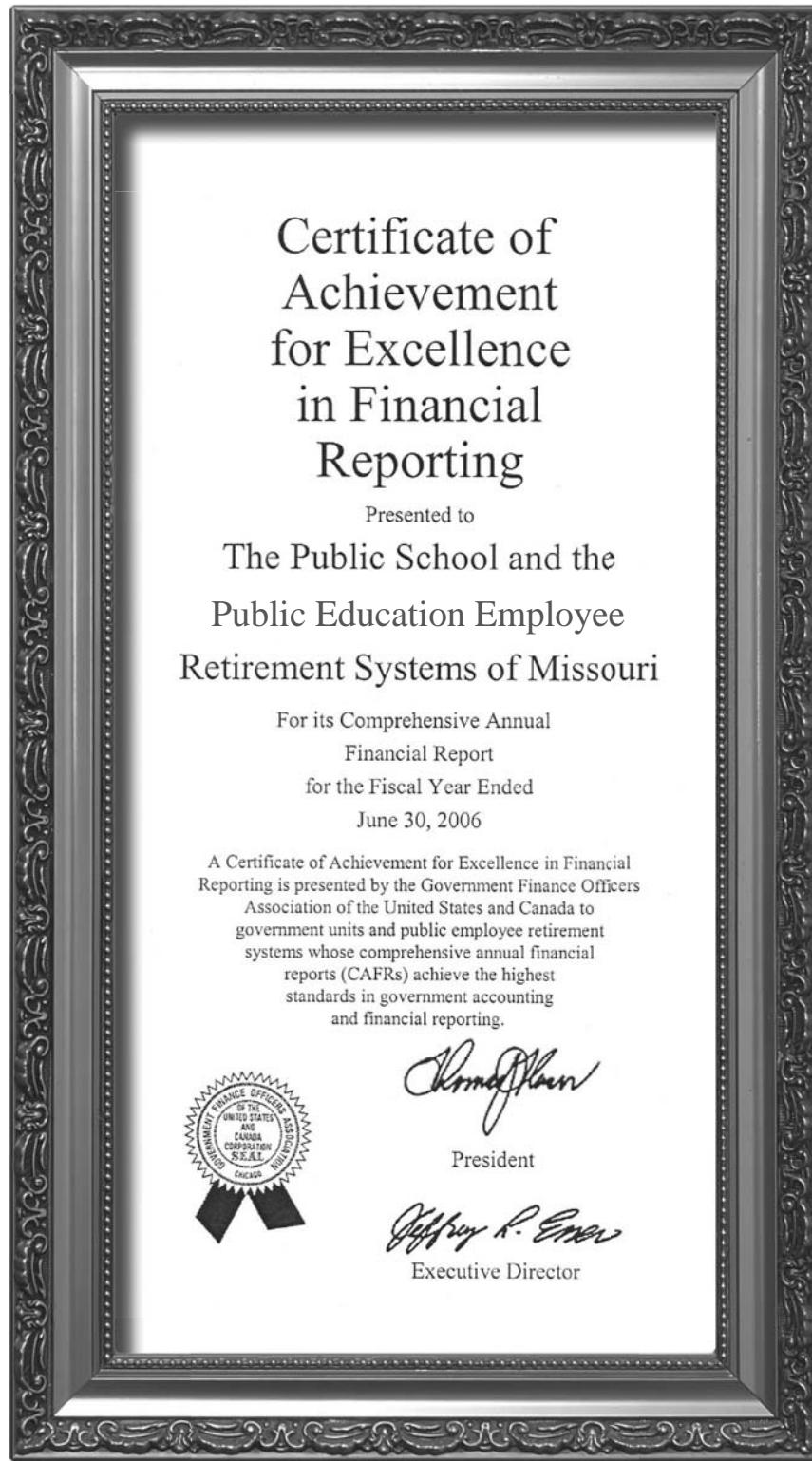
We would like to express our thanks and gratitude to the Board of Trustees, staff, and consultants who have worked diligently to produce this report and to ensure the successful operation of the Systems.

Respectfully submitted,


M. Steve Yoakum
Executive Director


Lori Woratzeck, CPA
Chief Financial Officer

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Public Pension Coordinating Council
Public Pension Standards
2007 Award

Presented to

Public School Retirement System of Missouri

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in black ink that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Introductory Section



Public Pension Coordinating Council Public Pension Standards **2007 Award**

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Public Education Employee Retirement System of Missouri

In recognition of meeting professional standards for
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National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

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Administrative Organization

June 30, 2007



M. Steve Yoakum
Executive Director



Janet Harris, CPA
Internal Auditor



Mary Hiatte
Executive Assistant



Craig Husting, CFA
Assistant Executive
Director, Investments



Jeff Russler
Director,
Employer Services



Rob Rust
Assistant Executive
Director, Operations



Tom Smith
Chief Technology
Officer



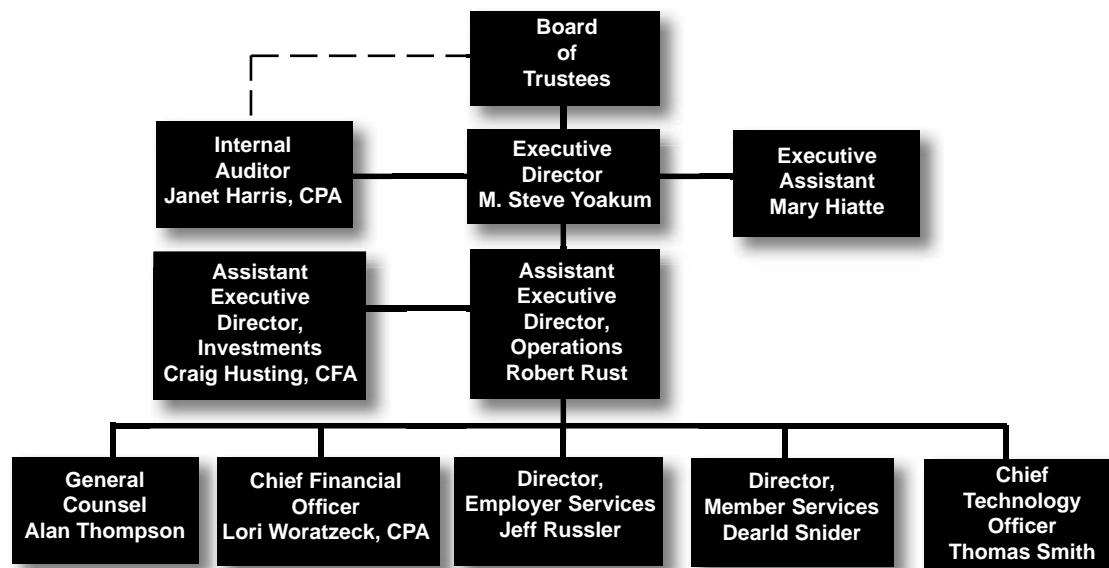
Dearld Snider
Director,
Member Services



Alan Thompson
General Counsel



Lori Woratzeck, CPA
Chief Financial
Officer



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Professional Services

June 30, 2007

Actuary

Gabriel, Roeder, Smith & Co.
Actuaries and Consultants
Norman S. Losk, F.S.A.
Larry Langer A.S.A.
Alex Rivera, F.S.A.
Chicago, Illinois

Auditor

Williams Keepers, LLC
Michael J. Oldelehr, CPA
Anita Brand, CPA
Jefferson City, Missouri

Computer Consultants

Conqwest, Inc.
Michelle Drole
Holliston, Massachusetts

Huber & Associates
James Huber
Jefferson City, Missouri

ICON Integration
Michael Thibault
Lenexa, Kansas

Information Technology Group
Patti Brown
Kansas City, Missouri

Integrated Solutions Group
Roger Rudkin
Columbia, Missouri

Levi, Ray and Shoup
Tom Chesser
Springfield, Illinois

Total Network Integration
Kirt Dunwoody
Jefferson City, Missouri

World Wide Technologies
Molly Jones
St. Louis, Missouri

Insurance Consultant

Charlesworth & Associates
Bob Charlesworth
Overland Park, Kansas

Wallstreet Insurance Group

Lee Wilbers
Jefferson City, Missouri

Legal Counsel

Pillsbury, Winthrop, Shaw, Pittman, LLP
Dulcie Brand
Los Angeles, California

Thompson Coburn Attorneys at Law

Allen Allred
St. Louis, Missouri

Legislative Consultant

James R. Moody & Associates
James "Jim" Moody
Jefferson City, Missouri

Medical Advisor

Andrew Matera, M.D.
Columbia, Missouri

Investment Management Consultants*

Albourne Partners
John Claisse
David Harmston
San Francisco, California

Pathway Capital Management
Doug LeBon
Curt Gerlach
Irvine, California

Russell Investment Group
Michael Hall
Shannon Walker
Tacoma, Washington

The Townsend Group
Terry Ahern
Linda Assante
Cleveland, Ohio

Master Trustee/Custodian*

State Street Bank and Trust Company
R. Scott Paton
Steve Davies
Boston, Massachusetts

Investment Advisors*

Algert Coldiron Investors, LLC
Kevin Coldiron
Peter Algert
San Francisco, California

AllianceBernstein Institutional Investment Management
Scott Wallace
Giulio Martini
Elizabeth Smith
New York, New York

Analytic Investors, Inc.
Harindra de Silva
Katie W. Koehler
Los Angeles, California

AQR Capital Management
Robert Krail
David Kabiller
Greenwich, Connecticut

Aronson & Johnson & Ortiz, LP
Ted Aronson
Martha Ortiz
Philadelphia, Pennsylvania

Arrowstreet Capital
Bruce Clarke
Peter Rathjens
Cambridge, Massachusetts

BlackRock Financial Management
Andy Phillips
Robert Capaldi
New York, New York

Bridgewater Associates
Raymond Dalio
Tom Bachner
Westport, Connecticut

CBRE Global Real Estate Securities, LLC
Steve Carroll
Jeremy Anagnos
Baltimore, Maryland

Chartwell Investment Partners
Edward Antoian
David Dalrymple
Timothy Riddle
Berwyn, Pennsylvania

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Duncan-Hurst Capital Management

Robert Marren
Beau Duncan
San Diego, California

Goldman Sachs Asset Management, L.P.

Robert Jones
Dennis Byrne
New York, New York

INVESCO Global Asset Management

Erik Granade
Lori Lefkowitz
Atlanta, Georgia

Jacobs Levy Equity Management

Bruce Jacobs
Jeffrey Braemer
Florham Park, New Jersey

JP Morgan Investment Management, Inc.

Ann Pfeiffer
Michael O'Brien
New York, New York

Julius Baer Investment Management

Riad Younes
Rebecca Kubick
New York, New York

Legg Mason Capital Management

Bill Miller
Tim McGurkin
Baltimore, Maryland

Legg Mason International Equities

Aquico Wen
Jim Kandunias
London, England

Lexington Partners Inc.

Brent R. Nicklas
Duncan A. Chapman
New York, New York

Martingale Asset Management

William Jacques
Samuel Nathans
Boston, Massachusetts

McKinley Capital Management

Robert Gilliam
Sheila Borer
Anchorage, Alaska

MFS Investment Management

David Mannheim
Steve Ng
Boston, Massachusetts

Morgan Stanley Real Estate Advisor, Inc.

Scott Brown
Joyce Frater
Atlanta, Georgia

New Amsterdam Partners

Michelle Clayman
David Lubell
New York, New York

Next Century Growth Investors

Tom Press
Kelly McNulty
Minneapolis, Minnesota

NISA Investment Advisors

Jess Yawitz
Robert Krebs
St. Louis, Missouri

Pacific Investment Management

Company (PIMCO)
William Gross
George Wood
Newport Beach, California

Pantheon Ventures Inc.

David Braman
Jay Pierrepont
San Francisco, California

Paul Capital Partners

Bryon T. Sheets
Brian W. Sullivan
New York, New York

Prudential Real Estate Investors

J. Allen Smith
Les Lockwood
Parsippany, New Jersey

Renaissance Technologies, LLC

James Simons
Jack Coan
New York, New York

RREEF America LLC

Kevin Howley
Laura Gaylord
Chicago, Illinois

Seix Investment Advisors

Christina Seix
Michael McEachern
Woodcliff Lake, New Jersey

Stark Investments

Brian Stark
Tim Gullickson
Milwaukee, Wisconsin

State Street Global Advisors

John Tucker
John Kirby
Mary Guy
Boston, Massachusetts

Systematic Financial Management

Kevin McCreesh
James Wallerius
Teaneck, New Jersey

Thomson, Horstmann & Bryant, Inc.

Richard Horstmann
Al Thomson
Saddle Brook, New Jersey

UBS Global Asset Management

John Leonard
Steven E. Wilde
Chicago, Illinois

Urdang Securities Management

Todd Briddell
Dean Frankel
Plymouth Meeting, Pennsylvania

Wellington Management Company

Joe Marvan
Alexander Grant
Boston, Massachusetts

Westwood Management Corporation

Susan Byrne
Patricia Fraze
Dallas, Texas

Zevenbergen Capital, Inc.

Nancy Zevenbergen
Lisa Foley
Seattle, Washington

**Information on investment management and consulting fees can be found in the Schedule of Investment Expenses on pages 77 and 78.*