Comprehensive
ANNUAL FINANCIAL REPORT
for the fiscal year ended June 30, 2008
Pictured on the front cover: Hazelwood Southeast Middle School, one of four middle schools opened by the Hazelwood School District in the 2007-2008 school year.
Growing schools for growing minds

From top to bottom, left to right: Camdenton High School, Graden Elementary School in Park Hill, Clever High School, Neosho High School, Kirbyville Elementary School, Stony Point Elementary School in Grain Valley, and Hallsville Primary School. These are just a few of the schools growing throughout Missouri.

Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2008

M. Steve Yoakum, Executive Director

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

(573) 634-5290 or (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 will 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.
Pictured at left is the old Kirbyville Elementary School.

Pictured at right is the main entrance of the new Kirbyville Elementary School.

**Growing schools for growing minds**

<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTRODUCTORY SECTION</strong></td>
</tr>
<tr>
<td><strong>FINANCIAL SECTION</strong></td>
</tr>
<tr>
<td><strong>INVESTMENT SECTION</strong></td>
</tr>
<tr>
<td><strong>ACTUARIAL SECTION</strong></td>
</tr>
<tr>
<td><strong>STATISTICAL SECTION</strong></td>
</tr>
</tbody>
</table>
TABLE OF CONTENTS

INTRODUCTORY SECTION
Board of Trustees ....................................................................................................................9
Transmittal Letter ....................................................................................................................10
Certificate of Achievement for Excellence in Financial Reporting ........................................13
Public Pension Coordinating Council (PPCC) Public Pension Standards Awards ................14
Administrative Organization .................................................................................................16
Professional Services ............................................................................................................17

FINANCIAL SECTION
Independent Auditors’ Report from Williams Keepers, LLC ................................................21
Management’s Discussion and Analysis ..............................................................................22
Basic Financial Statements
  Statements of Plan Net Assets ............................................................................................28
  Statements of Changes in Plan Net Assets .........................................................................29
  Notes to the Basic Financial Statements ..........................................................................30
Required Supplementary Information
  Schedules of Funding Progress .........................................................................................46
  Schedules of Employer Contributions ..............................................................................47
  Schedule of Funding Progress - Staff Retiree Health Plan ................................................48
  Schedule of Administrative Expenses ............................................................................49
  Schedule of Investment Expenses .................................................................................50
  Schedule of Professional/Consultant Fees .....................................................................51

INVESTMENT SECTION
Letter from Russell Investment Group .................................................................................55
Letter from the Chief Investment Officer ...........................................................................56
Investment Highlights ..........................................................................................................58
PSRS/PEERS Asset Allocation ..............................................................................................59
Total Fund Review ..............................................................................................................60
  U.S. Public Equity Review ...............................................................................................61
  Global Public Equity Review ..........................................................................................65
  Public Debt Review ........................................................................................................68
  Real Estate Review ..........................................................................................................71
  Private Equity Review ......................................................................................................74
  Absolute Return Pool Review .......................................................................................77
  Implementation Pool Review ..........................................................................................79
U.S. Public Equity Broker Commissions Report ..................................................................81
Global Public Equity Broker Commissions Report .............................................................82
Investment Summary ...........................................................................................................83
Investment Expenses ..........................................................................................................84

ACTUARIAL SECTION
Certification of Actuarial Results, Gabriel, Roeder, Smith & Company ...............................89
Calculations of Unfunded Actuarial Accrued Liability .........................................................91
Required Contribution Rates and Amortizations of Unfunded Liability .............................92
Analysis of Actuarial Gains and Losses .............................................................................93
PSRS Summary of Actuarial Assumptions and Methods .....................................................94
PEERS Summary of Actuarial Assumptions and Methods ..................................................96
Schedules of Active Member Valuation Data .......................................................................98
Solvency Tests ......................................................................................................................99
PSRS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls 100
PEERS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls 101
PSRS Summary Plan Description .......................................................................................102
PEERS Summary Plan Description .....................................................................................104
## TABLE OF CONTENTS (continued)

### STATISTICAL SECTION

- Statistical Summary .................................................................................................................. 109
- Summary of Benefits by Type .................................................................................................... 110
- Schedules of Changes in Plan Net Assets, Last 10 Fiscal Years .................................................. 111
- PSRS Summary of Changes in Membership During 2007-2008 ............................................. 112
- PEERS Summary of Changes in Membership During 2007-2008 .......................................... 113
- PSRS 2007-2008 New Service Retirees .................................................................................... 114
- PEERS 2007-2008 New Service Retirees .................................................................................. 115
- PSRS Schedule of Average Benefit Payments to New Retirees .................................................. 116
- PEERS Schedule of Average Benefit Payments to New Retirees ............................................. 117
- Comparisons of Actuarial Assets and Total Actuarial Liabilities ........................................... 118
- Growth in Membership ............................................................................................................ 119
- PSRS Schedule of Covered Employees for the 10 Years Ended June 30, 2008 ...................... 120
- PEERS Schedule of Covered Employees for the 10 Years Ended June 30, 2008 .................... 122
Growing schools for growing minds

Pictured above is the new 260,000 square foot Camdenton High School, completed in 2007.

The white brick building pictured above was finished in 1941 and served as a high school until 1967. This building now houses Special Services, Early Childhood, and several classes for Dogwood Elementary, grades K-2.

Pictured above is the Senior High building, completed and occupied in December 1967. The building was used as a high school until the 2007-2008 school year. It is currently the Camdenton Middle School.

Pictured at left, “Old Red” was finished in 1932. The class of 1933 was the first class to graduate in this building.
INTRODUCTORY SECTION

Tina Zubeck
Chair
Elected PEERS Member

Joncee Nodler
Vice-Chair
Appointed Member

Cheryl Boggess
Elected PSRS Member

James O’Donnell
Appointed Member

Peggy Preston
Elected PSRS Member

Wayne Wheeler
Appointed Retired
Member
December 1, 2008

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, 2008. 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, 2008.

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 who have elected to join the System.

Financial Information

The Systems’ financial statements are prepared in accordance with 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 22 through 27 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 -4.6% for the Public School Retirement System (PSRS) and the Public Education Employee Retirement System (PEERS). Our return was below our assumed rate of return of 8% due to the overall negative global economic environment; however, our return exceeded the policy benchmark return of -4.9%. Our decision to restructure the public debt portfolio in December 2007, from a core Lehman Aggregate Public Debt portfolio to a U.S. Treasuries and TIPS portfolio assisted in providing returns that exceeded our policy benchmark return and provided significant downside protection as the credit crisis evolved throughout the fiscal year.

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 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. The Systems continue to monitor and update strategy to increase expected returns. During 2008, the staff continued to work towards implementation of the long-term asset allocation adopted in fiscal year 2007.

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) 634-6268; Employer Services (573) 634-7911; Administration (573) 634-5375
www.psrs-peers.org
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, 2008, PSRS was 83.4% funded, while PEERS was 82.5% funded. This is a slight decrease from the June 30, 2007 funded ratios of 83.5% for PSRS and 83.2% 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 2008 return below 8% was recognized as of June 30, 2008.

During the 2008 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 2008 were 28.24% for PSRS and 12.98% for PEERS. The contribution rates collected were 25.0% for PSRS and 12.0% for PEERS.

Based upon the June 30, 2008 actuarial valuations, the annual required contribution rates for fiscal year 2009 were determined to be 28.45% for PSRS and 13.29% for PEERS. The Board of Trustees set the fiscal year 2009 contribution rates at 26% for PSRS and 12.5% for PEERS and the 2010 rates at 27% for PSRS and 13% 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. Due to the current decline in the investment market, we anticipate that rates will continue to rise for the foreseeable future.

**Legislative Changes During 2007-2008**

There was no legislation passed during the 2007-2008 legislative session that directly impacted PSRS or PEERS.

**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, 2007. 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 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 2008 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             Lori Woratzeck
Executive Director       Chief Financial Officer
Certificate of Achievement for Excellence in Financial Reporting

Presented to
The Public School
and the Public Education Employee Retirement Systems of Missouri

For its Comprehensive Annual Financial Report
for the Fiscal Year Ended
June 30, 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.

[Signatures]

President
Executive Director
Public Pension Standards Award

For Funding and Administration
2008

Presented to

Public School Retirement System of Missouri

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
Program Administrator
Public Pension Standards Award
For Funding and Administration
2008

Presented to

Public Education Employee Retirement System
of Missouri

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
Program Administrator
Administrative Organization

June 30, 2008

Board of Trustees

Internal Auditor
Janet Harris, CPA

Assistant Executive Director, Investments
Craig Husting, CFA

Assistant Executive Director, Operations
Robert Rust

Executive Director
M. Steve Yoakum

Executive Assistant
Mary Hiatte

Executive, Member Services
Jeff Russler

Chief Financial Officer
Lori Woratzeck, CPA

Chief Technology Officer
Thomas Smith
**ACTUARY**

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

**AUDITOR**

Williams Keepers, LLC
- Michael J. Oldelehr, CPA
- Amanda Gaither
- Jefferson City, Missouri

**TECHNOLOGY CONSULTANTS**

- Contingency Now
  - Dan Esser
  - Overland Park, KS
- 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
  - Dan Jordan
  - Springfield, Illinois
- Maximus, Inc.
  - Meir Schecter
  - Baltimore, MD
- Swartz Consulting
  - Melissa Swartz
  - Lenexa, Kansas
- TowerWall, Inc.
  - Michelle Drolet
  - Holliston, Massachusetts
- Towner Communication Systems
  - Mark Towner
  - Jefferson City, Missouri
- World Wide Technologies
  - Molly Jones
  - St. Louis, Missouri

**INSURANCE CONSULTANTS**

- Charlesworth & Associates
  - Bob Charlesworth
  - Overland Park, Kansas
- Wallstreet Insurance Group
  - Lee Wilbers
  - Jefferson City, Missouri

**OTHER CONSULTANTS**

- CCG
  - Susanne Medley
  - Hartsburg, MO
- Cortex
  - Dr. John Por
  - Toronto, ON
- Independent Fiduciary Services, Inc.
  - Barbra Byington, CFA
  - Washington, DC

**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, Custodial and Consulting fees can be found in the Schedule of Investment Expenses on Pages 84 and 85. Additional information on Investment Managers can also be found in the Investment Section of this report.