M. Steve Yoakum, Executive Director

Prepared by:
PSRS/PEERS Staff
PO Box 268
3210 W. Truman Blvd.
Jefferson City, MO 65102-0268
(573) 634-5290 or (800) 392-6848

www.psrs-peers.org

Source of retirement security for Missouri public school employees since 1946.
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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BOARD OF TRUSTEES

Dr. Aaron Zalis, Chair
Elected PSRS Member

Wayne Wheeler, Vice Chair
Appointed Retired Member

Donald Cupps, J.D.
Appointed Member

Yvonne Heath
Elected PSRS Member

Jason Hoffman
Elected PEERS Member

Scott Hunt
Appointed Member

Susan McClintic
Elected PSRS Member
To the Board of Trustees and Members of the Retirement Systems:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) 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, 2010. 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, 2010.

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 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. As in all internal control environments, there are known, inherent limitations. The Systems’ internal controls have been designed to reduce, though not eliminate, such inherent risks. 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 25 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 13.0% for the Public School Retirement System (PSRS) and 12.7% for the Public Education Employee Retirement System (PEERS). The investment returns exceeded both the total plan policy benchmark of 11.3% and the actuarial assumption of 8.0%. Thus, the PSRS/PEERS internal investment staff and external investment managers added value above the policy benchmark of over $325 million for the year, net of all fees and expenses. In comparison to other public funds, the PSRS and PEERS investment returns for fiscal year 2010 were above the median. The Systems generated the investment returns while taking less risk than 70% of the universe of public funds.

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...
TRANSMITTAL LETTER

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 monitor and update the strategy annually to maximize risk-adjusted returns. During 2010, the staff continued to work towards implementation of several longer-term asset classes such as hedged assets and private assets.

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

Funding Status and Valuation Results

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 pre-funded percentage. As of June 30, 2010, PSRS was 77.7% pre-funded, while PEERS was 79.1% pre-funded. This is a slight decrease from the June 30, 2009 pre-funded ratios of 79.9% for PSRS and 80.7% 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 2010 return above 8% was recognized as of June 30, 2010.

Each year, as part of the annual actuarial valuation, an annual required contribution (ARC) rate is calculated which is sufficient to fund the normal costs of the plans plus amortize the unfunded actuarial accrued liabilities over a 30-year period. The Board of Trustees then sets the contribution rates in accordance with the 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 ARC rates as determined by the actuary. For fiscal year 2012, PEERS will be collecting the ARC rate determined by the actuary and did not require the full 0.5% increase allowed by statute. The ARC rates determined by the actuary and the rates set by the Board of Trustees are detailed below for fiscal years 2010 through 2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>PSRS</th>
<th>PEERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 ARC</td>
<td>28.45%</td>
<td>13.29%</td>
</tr>
<tr>
<td>2010 Maximum Rate per State Statute</td>
<td>27.00%</td>
<td>13.00%</td>
</tr>
<tr>
<td>2010 Rate set by Board</td>
<td>27.00%</td>
<td>13.00%</td>
</tr>
<tr>
<td>2011 ARC</td>
<td>30.11%</td>
<td>13.26%</td>
</tr>
<tr>
<td>2011 Maximum Rate per State Statute</td>
<td>28.00%</td>
<td>13.50%</td>
</tr>
<tr>
<td>2011 Rate set by Board</td>
<td>28.00%</td>
<td>13.26%</td>
</tr>
<tr>
<td>2012 ARC</td>
<td>31.34%</td>
<td>13.72%</td>
</tr>
<tr>
<td>2012 Maximum Rate per State Statute</td>
<td>29.00%</td>
<td>13.76%</td>
</tr>
<tr>
<td>2012 Rate set by Board</td>
<td>29.00%</td>
<td>13.72%</td>
</tr>
</tbody>
</table>

Legislative Changes During 2009-2010

No legislation was passed in 2009-2010 that directly affected 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, 2009. 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
TRANSMITTAL LETTER

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
PSRS and PEERS each received the Public Pension Standards Award in 2010 in recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards of the PPCC. PEERS also received an award in recognition of meeting professional standards for plan funding. These awards are 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, PricewaterhouseCoopers, LLC, 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, CPA
Executive Director        Chief Financial Officer
CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Public School and Education Employee Retirement Systems of Missouri

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

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
PSRS/PEERS OF MISSOURI 2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT

PSRS PUBLIC PENSION STANDARDS AWARD

Public Pension Coordinating Council

Recognition Award for Administration
2010

Presented to

Public School Retirement System of Missouri

In recognition of meeting professional standards for plan 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 Coordinating Council

Public Pension Standards Award
For Funding and Administration
2010

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, 2010

From left to right: Thomas Smith, Lori Woratzeck, Paul Shadwick, Janet Harris, Craig Husting, Steve Yoakum, Dearld Snider, Ronda Peterson, Alan Thompson, Mary Hiatte and Jeff Russler.
PROFESSIONAL SERVICES
June 30, 2010

ACTUARIES

PricewaterhouseCoopers, LLC
Actuaries and Consultants
Sheldon Gamzon, FSA, MAAA
Brandon Robertson, ASA, MAAA
Chicago, Illinois

Rose International
Terri Elder
Jefferson City, Missouri

Sagitec Solutions, LLC
Rod Sheppard
John Finnegan
Roseville, Minnesota

TowerWall, Inc.
Michelle Drolet
Holliston, Massachusetts

Towner Communication Systems
Mark Towner
Jefferson City, Missouri

Mitten Software, Inc.
Jim Morgan
Long Lake, Minnesota

LEGAL COUNSEL

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

Thompson Coburn, LLP
Allen Allred
St. Louis, Missouri

TECHNOLOGY CONSULTANTS

Contingency Now
Dan Esser
Sherman Oaks, California

Hanshew Consulting
Jon Hanshew
Oakland, California

Huber & Associates
James Huber
Jefferson City, Missouri

L.R. Wechsler, Ltd.
Ben Lott
William Morrow
Fairfax, Virginia

Linea Solutions
Akio Tagawa
Los Angeles, California

Hanshew Consulting
Jon Hanshew
Oakland, California

Huber & Associates
James Huber
Jefferson City, Missouri

L.R. Wechsler, Ltd.
Ben Lott
William Morrow
Fairfax, Virginia

Linea Solutions
Akio Tagawa
Los Angeles, California

INSURANCE CONSULTANTS

Charlesworth & Associates
Bob Charlesworth
Overland Park, Kansas

Wallstreet Insurance Group
Lee Wilbers
Jefferson City, Missouri

OTHER CONSULTANTS

Cortex
Dr. John Por
Toronto, Ontario

INVESTMENT MANAGEMENT, CUSTODIAL AND CONSULTING FEES CAN BE FOUND IN THE SCHEDULE OF INVESTMENT EXPENSES ON PAGES 90 AND 91. ADDITIONAL INFORMATION ON INVESTMENT MANAGERS CAN ALSO BE FOUND IN THE INVESTMENT SECTION OF THIS REPORT.