Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2011

M. Steve Yoakum, Executive Director

Prepared by:
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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 PSRS/PEERS 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, when 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.
Simple yet powerful words that describe our philosophy, values, goals and proudly, our accomplishments. Since inception, the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS) have strived to apply the principles of leadership, innovation and outstanding member service in order to deliver strong, stable and secure retirement benefits to generations of Missouri’s public school teachers and education employees.
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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
November 8, 2011

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 the Public Education Employee Retirement System of Missouri (PEERS) for the fiscal year ended June 30, 2011.

This letter provides a brief overview of the contents of the CAFR. We encourage you to read the Management’s Discussion and Analysis on pages 16 to 20 for a more detailed analysis of our financial position for the fiscal year.

This past year was a very successful year for PSRS/PEERS and we are proud to highlight some of our accomplishments.

- PSRS/PEERS was recognized on a national level with two highly regarded pension industry awards.
- PSRS and PEERS earned investment returns of 21.8% and 21.4%, respectively, for the fiscal year ended June 30, 2011 – the highest fiscal-year returns for both Systems in over 20 years.
- The pre-funded percentages increased to 85.5% for PSRS and 85.3% for PEERS.
- Based on the June 30, 2011 actuarial valuation, the PSRS/PEERS Board of Trustees adopted contribution rates for both PSRS and PEERS that exceed the annual required contribution rates determined by the actuary without increasing the rates paid by our members and employers.
- The staff successfully processed a record high number of new service retirees.

Overview of the Retirement Systems

The Public School Retirement System of Missouri (PSRS), a cost-sharing multiple employer retirement system, was established in 1946 by an act of the Missouri legislature to provide certificated public school employees and their families with a significant and stable source of retirement income, disability and survivor benefits. The majority of PSRS members do not contribute to Social Security.

The Non-Teacher School Employee Retirement System of Missouri (NTRS), also a cost-sharing multiple employer retirement system, was established in 1965 by an act of the Missouri legislature to build a plan similar to PSRS, but for non-certificated public school personnel. The name of the non-teacher system was changed to the Public Education Employee Retirement System of Missouri (PEERS) in August 2005 to more positively represent the members of the system. Members of PEERS contribute to Social Security.

PSRS and PEERS are governed jointly by a seven-member Board of Trustees, composed of three elected PSRS members, one elected PEERS member and three members appointed by the governor.
Unlike most public pension systems, the members of PSRS and PEERS share equally in funding the Retirement Systems. This funding mechanism has kept the employer contributions lower than many public plans while still providing a very good benefit package to members.

The combined systems serve over 222,000 total members at 541 school districts and other employers. Approximately $168 million is paid monthly to over 69,000 benefit recipients. At June 30, 2011, PSRS/PEERS had combined assets in excess of $31 billion, making it larger than all other retirement systems in the state of Missouri combined.

**Report Contents**

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.

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, 2011.

**Investment Activities**

PSRS/PEERS achieved record high investment returns in fiscal year 2011. The Retirement Systems earned returns of 21.8% and 21.4%, respectively, for the fiscal year July 1, 2010 through June 30, 2011 – the highest fiscal-year returns for both Systems in over 20 years.

These earnings resulted in an increase in PSRS/PEERS’ assets of more than $5 billion over the previous year, due largely to strong gains in publicly traded stocks. The returns exceeded both the plans’ investment return benchmark of 20.4%, and the 8.0% actuarially assumed rate of return.

Additional detailed information regarding the PSRS/PEERS investments can be found in the Investment Section of this report beginning on page 47.

**Funding Status and Valuation Results**

Over the past year, staff and the Board have worked diligently with various member organizations on a funding strategy to ensure the Systems’ financial stability for future generations of educators and other public school personnel. For the June 30, 2011 valuation, the Board adopted its Funding Stabilization Policy, which sets the annual cost-of-living increase for retirees at 2% in any year in which the change in the Consumer Price Index for Urban Consumers (CPI-U) is between 0% and 5%. This policy reflects the shared commitment between both the active and retired members in maintaining the strong financial condition of the Systems.

The Systems’ actuary, PricewaterhouseCoopers, completed a five-year review of the Systems’ actuarial assumptions during Fiscal Year 2011. Changes to the assumptions were approved by the Board and used in preparing the June 30, 2011 valuation. Some assumptions were adjusted to better reflect actual experience, resulting in additional actuarial gains to the Systems.

In addition to the actuarial experience study, the Systems hired Towers Watson to perform an Asset Liability Study. This study verified the reasonableness of our earnings assumption within the constraints of our current asset allocation.
As of June 30, 2011, PSRS was 85.5% pre-funded, while PEERS was 85.3% pre-funded. Both Systems showed a substantial improvement in funding over the June 30, 2010 pre-funded percentages of 77.7% for PSRS and 79.1% for PEERS.

In previous years, the Board has been limited in setting the PSRS annual contribution rate to the maximum rate allowable by law. This has prevented PSRS from collecting the full annual required contribution (ARC) rate needed to fund the normal costs of the plans plus amortize the unfunded actuarial accrued liabilities over a 30-year period.

Based upon the June 30, 2011 valuation, the Board set the fiscal year 2013 contribution rates for both PSRS and PEERS above the ARC rate determined by the actuary and did not require an increase in rates paid by the members or school districts. The ARC rates determined by the actuary and the rates set by the Board are detailed below for fiscal years 2011 through 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>PSRS ARC (%</th>
<th>PEERS ARC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>30.11%</td>
<td>13.26%</td>
</tr>
<tr>
<td>2012</td>
<td>31.34%</td>
<td>13.72%</td>
</tr>
<tr>
<td>2013</td>
<td>26.10%</td>
<td>13.01%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>PSRS Maximum Rate per State Law</th>
<th>PEERS Maximum Rate per State Law</th>
<th>PSRS Rate set by Board</th>
<th>PEERS Rate set by Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>28.00%</td>
<td>*</td>
<td>28.00%</td>
<td>13.26%</td>
</tr>
<tr>
<td>2012</td>
<td>29.00%</td>
<td>*</td>
<td>29.00%</td>
<td>13.72%</td>
</tr>
<tr>
<td>2013</td>
<td>29.00%</td>
<td>*</td>
<td>29.00%</td>
<td>13.72%</td>
</tr>
</tbody>
</table>

* Maximum rate did not apply because the ARC was funded with the contribution rate set by the Board.

Legislative Changes During 2010-2011
There was no legislation passed in 2010-2011 that directly affected PSRS or PEERS.

Awards

Money Management Letter, Large Public Plan of the Year Award
PSRS/PEERS was named the Large Public Plan of the Year by Institutional Investor’s Money Management Letter on March 13, 2011. This award recognizes the people and organizations across the public pension industry that have excelled in their profession over the previous year and are leaders of the “best run funds in performance and investment decisions.”
Plan Sponsor, Plan Sponsor of the Year Award in the Public Sector

PSRS/PEERS won PLANSPONSOR magazine’s Plan Sponsor of the Year Award in the Public Sector – Defined Benefit Pension category on March 24, 2011. This award recognizes plan sponsors that “demonstrate leadership in providing a more secure retirement for workers.” PSRS/PEERS was showcased in the March 2011 issue of PLANSPONSOR magazine.

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

PSRS and PEERS each received the Public Pension Standards Awards in 2011 in recognition of meeting professional standards for plan administration and plan funding as set forth in the Public Pension Standards of the PPCC. 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).

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 (CAFR) for the fiscal year ended June 30, 2010. 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.

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 Towers Watson.

Acknowledgements

We would like to express our thanks and gratitude to the Board, 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
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, 2010

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.

Linda C. Jaquish
President

Jeffrey K. Erceg
Executive Director
Public Pension Coordinating Council (PPCC),
Public Pension Standards Awards

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

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)

[Signature]
Alan H. Winkle
Program Administrator

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

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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)

[Signature]
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Program Administrator
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ADMINISTRATIVE ORGANIZATION

M. Steve Yoakum
Executive Director

Craig Husting, CFA
Assistant Executive Director, Investments

Dearld Snider
Assistant Executive Director, Operations

Board of Trustees

Executive Director
M. Steve Yoakum

Director, Internal Audit
Jeff Hyman, CPA

Assistant Executive Director, Investments
Craig Husting, CFA

Assistant Executive Director, Operations
Dearld Snider

Director, Legislation and Policy
Maria Walden

Director, Member Services
Ronda Peterson

Director, Employer Services
Jeff Russler

Director, Pension System Project Manager
Paul Shadwick

General Counsel
Alan Thompson

Chief Financial Officer
Lori Woratzeck, CPA
PROFESSIONAL SERVICES
June 30, 2011

ACTUARIES

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

AUDITOR

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Amanda Pinkerton, CPA
Columbia, Missouri

TECHNOLOGY CONSULTANTS

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Jim McPherson
St. Charles, MO

CherryRoad Technologies
Ron Small
Morris Plains, NJ

Huber & Associates
James Huber
Jefferson City, Missouri

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

Mitten Software, Inc.
Jim Morgan
Long Lake, Minnesota

Sagitec Solutions, LLC
Rod Sheppard
John Finnegan
Roseville, Minnesota

TowerWall, Inc.
Michelle Drolet
Holliston, Massachusetts

Towner Communication Systems
Mark Towner
Jefferson City, Missouri

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Bob Charlesworth
Overland Park, Kansas

Wallstreet Insurance Group
Lee Wilbers
Jefferson City, Missouri

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Toronto, Ontario

LEGAL COUNSEL

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David Levine
Washington, D.C.

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

Thompson Coburn, LLP
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 page 88. Additional
information on Investment Managers can also be
found in the Investment Section of this report.