Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2012

PSRS/PEERS AND MISSOURI’S PUBLIC SCHOOLS
A Strong Partnership for Secure Retirement

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
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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.
PSRS/PEERS and Missouri’s Public Schools – A Strong Partnership for Secure Retirement

The Public School and Education Employee Retirement Systems of Missouri (PSRS/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.

– From the PSRS/PEERS Mission Statement

At PSRS/PEERS, we don’t work alone in our mission to provide members with financial security in retirement. We rely on the hard work and dedication of the many public school districts that employ those members.

These school districts truly are our partners in providing the best possible retirement benefits for PSRS/PEERS members. Not only do they contribute financially to the Retirement Systems on behalf of their employees’ retirement, but they also provide the all-important payroll and employment data we need to pay retirement benefits accurately and on time.

The strength displayed by these school districts every day goes well beyond what they demonstrate through contributions to their employees’ retirement security. It helps them to achieve great things for Missouri’s students, families and communities.

In this report, we are proud to feature just a few stories of this strength. These are stories of districts that have faced extraordinary challenges, such as rebuilding after disaster, as well as accounts of districts that have adopted proactive and innovative ways to maintain growing facilities, and ensure the safety of students and staff.

We hope you are as inspired by their dedication, perseverance and achievement as we are.
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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
December 12, 2012

TO: 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, 2012.

In addition to providing information to our Board of Trustees and members concerning the financial condition of the Systems, this report also meets our reporting requirements under Sections 169.020.16 and 169.610.3 of the Revised Statutes of Missouri (RSMo). Printed copies are available to the public upon request and the complete report is also posted on our website, www.psrs-peers.org.

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 14 to 18 for a more detailed analysis of our financial position for the fiscal year.

Report Contents and Structure

Responsibility for the preparation, accuracy and completeness of this report, including all disclosures, rests with the management staff of PSRS/PEERS (the Systems). 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). To the best of our knowledge, the enclosed data is accurate in all material respects and fairly presents our financial position and operating results.

The management of the Systems is responsible for internal accounting controls, which are designed to provide reasonable but not absolute assurance for the safeguarding of assets and the reliability of financial records. The Systems employ two internal auditors who perform operational reviews to ensure that the internal controls are functioning effectively. We believe the internal controls in place are adequate to meet the purpose for which they were intended.

Our independent external auditors selected by the Board of Trustees have conducted an audit of the basic financial statements in accordance with U.S. generally accepted auditing standards. This audit and the financial statements are presented on pages 13 to 44 of this report.

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 to 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 225,000 total members in 538 school districts and other employers. Approximately $184 million is paid monthly to over 72,000 service retirees and beneficiary recipients. At June 30, 2012, PSRS/PEERS had combined net assets of $30.8 billion, making it larger than all other retirement systems in the state of Missouri combined.

**Investment Activities**

The Systems’ three-year annualized fund performance ended June 30, 2012 was 11.9% for PSRS and 11.6% for PEERS. The investment returns of the last two fiscal years reflect the volatility and complexity in global markets. PSRS and PEERS total investment returns for the current fiscal year are 1.9% and 1.6%, respectively, compared to the prior fiscal year returns of 21.8% for PSRS and 21.4% for PEERS.

The Board of Trustees has embraced a philosophy to institute a disciplined and diversified investment portfolio. The Systems have developed a portfolio that is invested across a broad array of assets within a prudent level of risk. Additional detailed information regarding the PSRS and PEERS investments can be found in the Investment Section of this report beginning on page 45.

**Funding Status and Valuation Results**

As of June 30, 2012, PSRS was 81.5% funded, while PEERS was 82.5% funded. Both Systems showed a slight decrease in funding from the June 30, 2011 funded percentages of 85.5% for PSRS and 85.3% for PEERS.

In 2011, the Board of Trustees enacted its Funding Stabilization Policy which limits Cost-of-Living Adjustments (COLAs) to 2% in most years. Various groups representing active and retired members supported this proposal demonstrating the commitment of our members to ensuring a sound retirement system for future generations of educators.

Based upon the June 30, 2012 valuation, the Board of Trustees set the fiscal year 2014 contribution rates for both PSRS and PEERS above the Annual Required Contribution (ARC) rate determined by the actuary. This did not require an increase in rates paid by the members or employers. This will mark the second year that the Systems have collected actual contributions in excess of the ARC rate. Prior to this, the Systems were unable to fully collect the ARC due to limitations established in Missouri law.
Legislative Changes During 2011-2012
There was no legislation approved in 2011-2012 that directly affected PSRS or PEERS.

Awards
Public Pension Coordinating Council (PPCC), Public Pension Standards Award
PSRS and PEERS each received the Public Pension Standards Awards in 2012 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 for the fiscal year ended June 30, 2011. 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 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 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, 2011

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. Anderson
President

Jeffrey R. Erwin
Executive Director
Public Pension Coordinating Council (PPCC),
Public Pension Standards Awards

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

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 Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

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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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M. Steve Yoakum  
Executive Director

Craig Husting, CFA  
Assistant Executive Director, Investments

Dearld Snider  
Assistant Executive Director, Operations

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Chief Financial Officer  
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Director, Employer Services  
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Assistant Executive Director, Operations  
Dearld Snider

Director, Legislation and Policy  
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Director, Member Services  
Ronda Peterson

Pension System Project Manager  
Paul Shadwick

Director, Member Services  
Ronda Peterson

Chief Technology Officer  
Thomas Smith
PROFESSIONAL SERVICES

June 30, 2012

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

INSURANCE CONSULTANTS
Charlesworth & Associates
Bob Charlesworth
Overland Park, Kansas

Wallstreet Insurance Group
Lee Wilbers
Jefferson City, Missouri

AUDITOR
Williams Keepers, LLC
Heidi A. Chick, CPA
Amanda Pinkerton, CPA
Columbia, Missouri

OTHER CONSULTANTS
Cortex
Dr. John Por
Toronto, Ontario

TECHNOLOGY CONSULTANTS
Aspect Software, Inc.
Jim McPherson
St. Charles, MO

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

CherryRoad Technologies
Ron Small
Morris Plains, NJ

Thompson Coburn, LLP
Allen Allred
St. Louis, Missouri

Huber & Associates
James Huber
Jefferson City, Missouri

LEGAL COUNSEL
Groom Law Group
David Levine
Washington, D.C.

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

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

Huber & Associates
James Huber
Jefferson City, Missouri

Cortext
Dr. John Por
Toronto, Ontario

Sagitec Solutions, LLC
Rod Sheppard
Jeff Freeman
Roseville, Minnesota

LEGAL COUNSEL
Groom Law Group
David Levine
Washington, D.C.

TowerWall, Inc.
Michelle Drolet
Holliston, Massachusetts

MEDICAL ADVISOR
Andrew Matera, M.D.
Columbia, Missouri

Towner Communication Systems
Mark Towner
Jefferson City, Missouri

Investment Management, Custodial and Consulting fees can be found in the Schedule of Investment Expenses on page 86. Additional information on Investment Managers can also be found in the Investment Section of this report.