2018 Media Kit

Serving Missouri's Public Schools Past, Present and Future

PSRS/PEERS

PUBLIC SCHOOL & EDUCATION EMPLOYEE RETIREMENT SYSTEMS OF MISSOURI

Table of Contents

PSRS/PEERS Quick Facts

Organization

- The Public School Retirement System of Missouri (PSRS) was established in 1946.
- The Public Education Employee Retirement System of Missouri (PEERS) was established in 1965.

Benefits

- The Systems provide an important source of financial security to over 260,000 members and retirees.
- In fiscal year 2017, PSRS/PEERS paid over $2.7 billion in benefits to nearly 90,000 retirees and beneficiaries.
- Nearly 89% of the benefits paid in fiscal year 2017 were paid to retirees living in Missouri.
- The average annual Single Life* benefit paid to a PSRS new service retiree is $40,308.** The average annual Single Life* benefit paid to a PEERS new service retiree is $10,128.

** The Single Life benefit pays the largest benefit amount.*

***Most PSRS members are not covered by Social Security and generally are not eligible for Social Security benefits.*

Funding

- PSRS/PEERS is over 80% pre-funded.
- Funding for PSRS/PEERS comes from three sources: investment earnings, member contributions and employer contributions.
- On average, over the last 20 years, 61¢ of every dollar used to fund PSRS/PEERS came from investment earnings.

20-Year Average

Note: The 20¢ includes member contributions and service purchases.

Investments

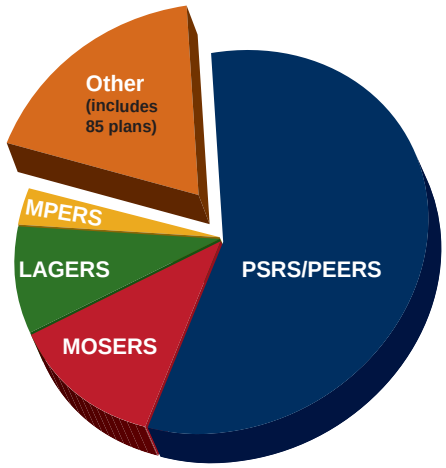
The market value of PSRS/PEERS invested assets was approximately $41.5 billion on June 30, 2017, making the combined entity larger than all other public retirement plans in Missouri combined and the 43rd largest defined benefit plan in the United States.

The Systems achieved strong absolute and relative returns for the fiscal year ended June 30, 2017. The investment portfolio added approximately **$4.6 billion** in investment earnings to the growth of assets during fiscal year 2017, and earned an investment return of 12.5% for fiscal year 2017 (12.3% net of all investment expenses and fees). The total plan return, net of all investment expenses and fees, exceeded both the total plan policy benchmark return of 11.0% and the actuarial required rate of return of 7.75% for fiscal year 2017.

PSRS and PEERS are long-term investors with a diversified portfolio that continues to produce strong long-term returns. Over the last 30 years, the annualized investment return is 8.4% (8.3% net of all investment expenses and fees).

PSRS and PEERS closed fiscal year 2017 with actuarial pre-funded ratios of 84.0% and 85.8%, respectively, and market pre-funded ratios of 83.8% for PSRS and 85.4% for PEERS. Both plans are considered financially healthy.

Distribution of Assets Among Missouri Public Pension Plans



Source: June 30, 2017 CAFRs of PSRS/PEERS, MOSERS, LAGERS and MPERS

Membership

- As of June 30, 2017, PSRS/PEERS served over 126,000 active members and nearly 90,000 retirees and beneficiaries.
- 4,624 PSRS/PEERS members retired in 2017.

Source: 2017 Comprehensive Annual Financial Report/Summary Report to Members.

Organization

The PSRS/PEERS' Board of Trustees and staff take great pride in serving teachers and employees of Missouri's public schools: **past, present and future**. The PSRS/PEERS Board of Trustees and staff are committed to assisting teachers and education employees in achieving their retirement goals by providing a secure retirement for the greatest possible value.

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,
- Impartially and in accordance with applicable law administer the benefit programs, and
- Set contribution rates that are adequate to fund promised benefits.

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

Board Structure

PSRS/PEERS is governed by a seven-member Board of Trustees. Board members include:

- Three elected PSRS members,
- One elected PEERS member, and
- Three gubernatorial appointees, one of whom must be a PSRS or PEERS retiree.

Role of the Board

The PSRS/PEERS Board of Trustees is charged by law with the administration of the Systems. The law empowers the Board to adopt rules to operate the Systems.

The Board meets regularly six times a year in February, April, June, August, October and December. Special meetings are called when necessary. Trustees receive no compensation but are reimbursed for business-related expenses.

Fiduciary Responsibility

The PSRS/PEERS Board of Trustees is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the 'prudent person' rule. To that end, the Board has adopted the following principles to guide all investment-related decisions:

1. Act in the exclusive interest of the members of the Systems,
2. Maximize total return within prudent risk parameters, and
3. Preserve the long-term purchasing power of the fund.

The Board of Trustees governs the investment process by maintaining policies and objectives for all aspects of the Systems' investment program including the determination of long-term policies for risk tolerance and asset allocation.

Selection of an appropriate asset allocation is one of the most important decisions made by a retirement plan. Within that asset allocation, it has always been important to not only consider the expected investment return, but also to understand the risks. The importance of risk consideration for institutional investors is critical to long-term success. To that end, the Systems continue to employ an effective and intuitive risk-based approach to setting and reporting the asset allocation decision.

Management

M. Steve Yoakum
Executive Director

M. Steve Yoakum, Executive Director

M. Steve Yoakum joined the Retirement Systems as executive director on June 6, 2001. Steve most recently worked in the private sector as a managing partner of Rockwood Capital Advisors of St. Louis. He previously served as PSRS/PEERS executive director from 1994-1997, director of the Missouri State Employees' Retirement System (MOSERS) from 1987-1994, director of the Joint Committee on Public Employee Retirement of the Missouri General Assembly (JCPER) from 1986-1987 and assistant director of the Missouri Local Government Employees' Retirement System (LAGERS) from 1978-1986.

Craig Husting, CFA
Assistant Executive Director, Investments

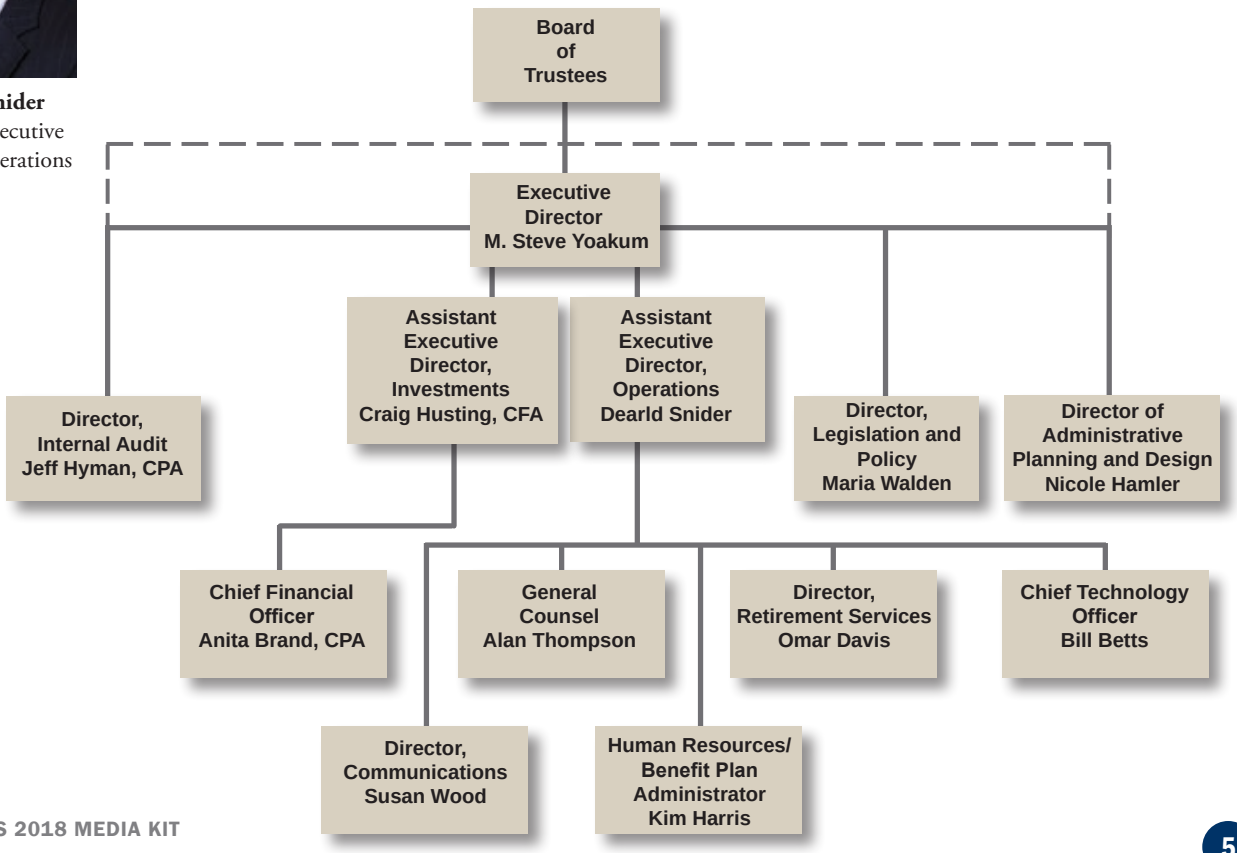
Craig Husting, CFA, Assistant Executive Director, Investments; Chief Investment Officer

Craig Husting joined the Retirement Systems as chief investment officer in January 1999. He added the title of assistant executive director to his responsibilities in November 2005. Craig is responsible for the evaluation and implementation of all investment initiatives. Craig is a technical and strategic advisor to the Board, executive director and investment consultants related to the economic, financial, political and strategic events affecting the Systems. Craig and his staff's responsibilities include among others, the policies governing external investment managers entrusted with the investment of System funds, asset allocation, risk tolerance and performance measurement.

Dearld Snider
Assistant Executive Director, Operations

Dearld Snider, Assistant Executive Director, Operations

Dearld Snider has been with PSRS/PEERS since January 2006 and served as director of member services prior to being named to his current position. As assistant executive director, operations, Dearld's primary responsibilities include day-to-day system operations and acting in an advisory capacity to the PSRS/PEERS executive director and Board of Trustees.



Benefits

PSRS and PEERS are defined benefit plans that provide lifetime service and disability retirement benefits to members, and survivor benefits to qualified beneficiaries. PSRS/PEERS is the largest retirement program in Missouri with a market value of invested assets of $41.5 billion as of June 30, 2017.

PSRS was established in 1946 to provide retirement benefits for certificated teachers employed in Missouri public school districts, except for the St. Louis city and Kansas City districts. PEERS (then called the Non-Teacher School Employee Retirement System or NTRS) was created and became operative October 13, 1965, to provide a similar program for other school employees.

PSRS membership is automatic, regardless of position, for certificated, full-time employees of public school districts in Missouri (except the St. Louis city and the Kansas City school districts), public two-year colleges in Missouri, and employees of PSRS/PEERS. Certificated part-time employees whose employment qualifies them for membership in PEERS are contributing members of PSRS unless they elect PEERS membership.

PEERS membership is automatic, regardless of position, for all persons not covered by PSRS who are employed for 20 or more hours a week on a regular basis in a position that normally requires at least 600 hours during the school term.

Most PSRS members are not covered under Social Security, but do contribute to Medicare if they were hired or changed school districts after April 1, 1986. PEERS members are covered under Social Security and contribute to Medicare regardless of hire date.

Benefit Formulas

The calculation of benefits for members who meet service and age requirements is based on a formula that is set by state law.

Components of the formula are:

- **Benefit Factor**
  Set by law, the factor used is determined by age and years of service
- **Final Average Salary**
  Three highest consecutive years of salary divided by 36 months
- **Years of Service**
  Total number of years of service with PSRS/PEERS, including reinstated and purchased service

Benefit Factor X Final Average Salary (FAS) X Years of Service = Lifetime Single Life Benefit

Members have the option to choose from several different benefit plans for lifetime monthly benefits, offering varying degrees of beneficiary protection. More information regarding benefits can be found in the PSRS and PEERS ***Member Handbooks*** online at **www.psrs-peers.org**.

Retirement Eligibility

The eligibility and benefit formulas for PSRS and PEERS full-formula service retirement are:

Plan	Eligibility	Formula
PSRS	• Rule of 80 (years of service plus age equal 80 or more) • Age 60 with 5 years of service • 30 years of service at any age	2.5% x FAS x Years of Service
PEERS	• Rule of 80 (years of service plus age equal 80 or more) • Age 60 with 5 years of service • 30 years of service at any age	1.61% x FAS x Years of Service or 2.41% x FAS x Years of Service under Rule of 80 or with 30 years of service up to age 62

Qualified members also have options for early retirement and a Partial Lump Sum Option (PLSO) plan.

Benefits Provided

As of June 30, 2017, PSRS/PEERS had provided the following benefits:

Plan	PSRS	PEERS	Total
Number of Retirees/Beneficiaries	59,772	29,002	88,774
Annual Benefits Paid	$2.5 billion	$251 million	$2.7 billion
Average Single Life Monthly Benefit of New Service Retirees in 2017	$3,359	$844	N/A

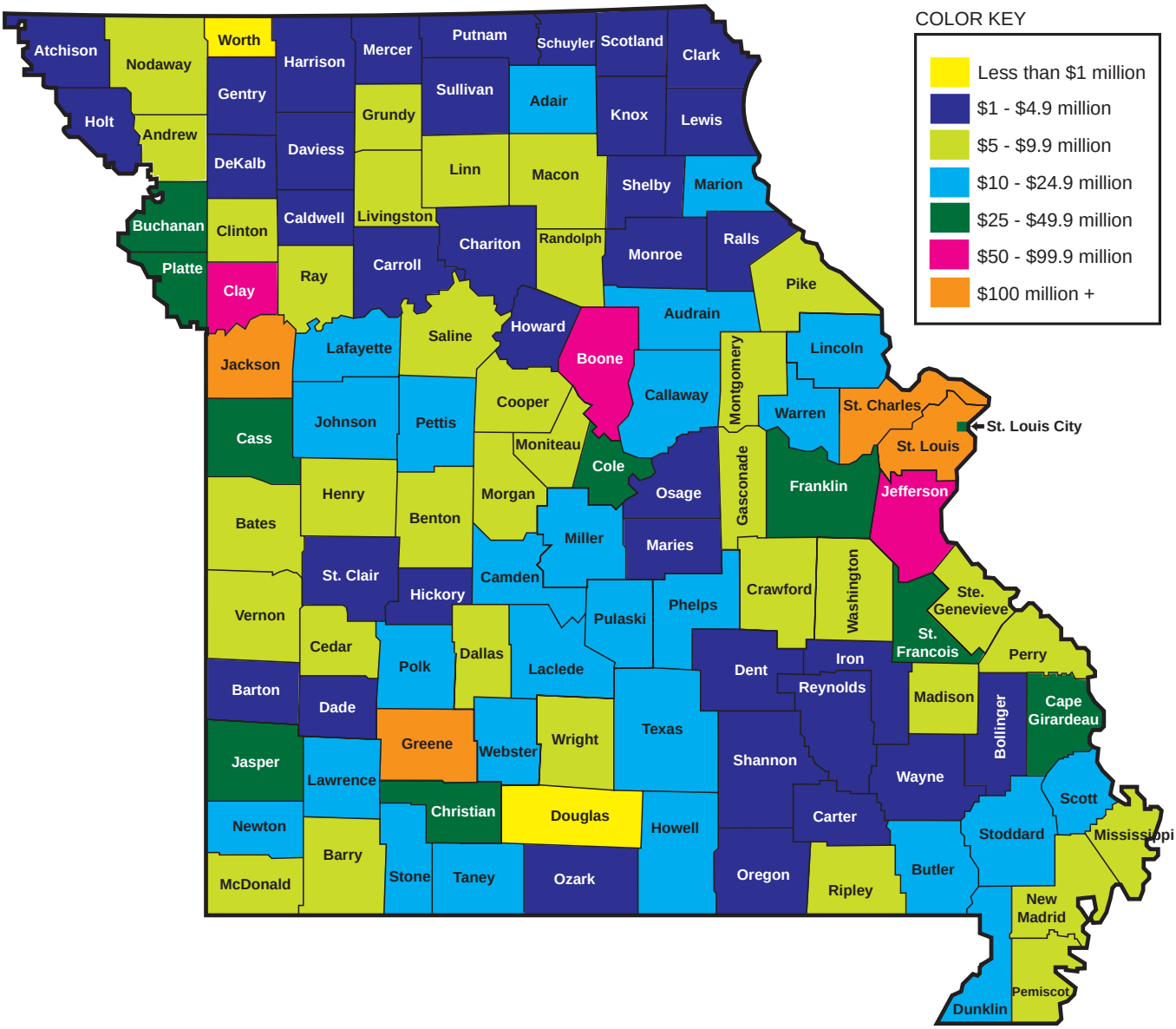
PSRS/PEERS Contribution to Missouri's Economy

In fiscal year 2017 PSRS/PEERS paid **$2.7 billion** in retirement benefits to nearly 90,000 retirees and beneficiaries.

The benefits distributed by PSRS/PEERS each year make a sizable contribution to Missouri's economy and help Missouri public schools attract and retain quality teachers and education employees.

- Eighty-nine percent of the benefits paid went to retirees residing in Missouri.
- Those benefits serve not only as a source of income to retirees and their beneficiaries, but they also fuel the local economies in which the retirees reside.
- The expenditures and sales tax revenue our retired members generate stimulate the growth of Missouri's economy.

PSRS/PEERS Pension Benefits by County – As of June 30, 2017



Funding

PSRS/PEERS is an actuarial reserve, joint-contributory program, and its funding comes from three sources:

- Member contributions
- Employer contributions
- Investment earnings

PSRS and PEERS are separate corporate bodies and trust funds that are not a part of or assigned to any department of state government. PSRS/PEERS does not receive state appropriations and administrative expenses are paid from investment earnings of the trust.

How Contribution Rates are Determined

Each year PSRS/PEERS is evaluated by an independent actuary in order to determine the actuarial soundness of the Systems and to provide information needed by the Board of Trustees. This enables the Board of Trustees to determine contribution rates that are adequate to fund the normal costs of the plan and to amortize the unfunded actuarial liability of the Systems over a period of time.

2018-2019 Contribution Rates

Based upon the June 30, 2017 valuations and overall financial projections, the Board of Trustees held the fiscal year 2019 contribution rates at the fiscal year 2018 level for both members and employers.

The plans should achieve full funding within the fixed 30-year amortization period as a result of the 2011 Funding Stabilization Policy and subsequent Funding Policy revisions, if all actuarial assumptions are met.

The objective of the 2011 Funding Stabilization Policy and subsequent Funding Policy revisions continues to be to achieve a funded ratio of 100% over a closed, 30-year amortization period.

2018-2019 Contribution Rates (% of Salary)	PSRS	PEERS
Employee	14.5%	6.86%
Employer	14.5%	6.86%
Total	29.0%	13.72%

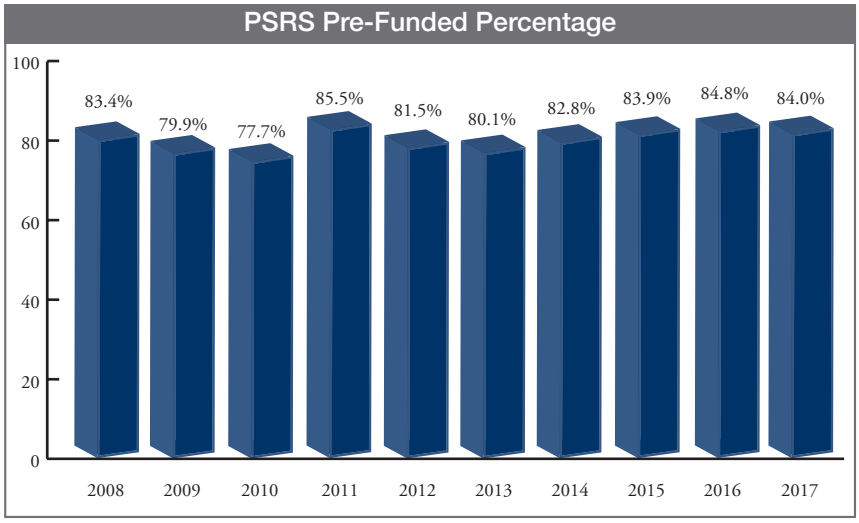
Funding Status

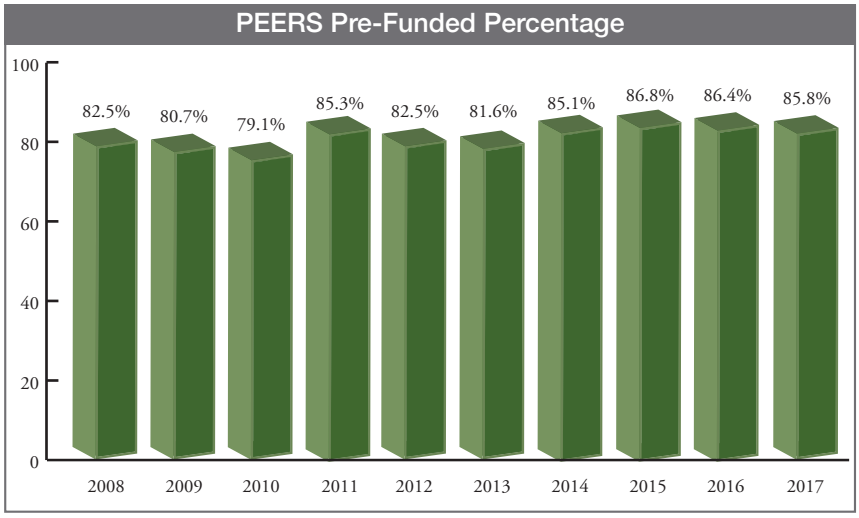
The actuarial accrued liability is compared to the actuarial value of assets to determine the pre-funded percentage of each System. This pre-funded percentage shows a plan's ability to pay projected benefits with today's dollars. The funded status of a pension plan provides an indication of the overall health of the plan. An 80% level of pre-funding is generally considered to be the standard for adequate funding.

	Market Pre-Funded Status	Actuarial Pre-Funded Status
PSRS	83.8 %	84.0 %
PEERS	85.4 %	85.8 %

When comparing the pre-funded statuses of all public retirement plans in Missouri with assets over one billion dollars, PSRS and PEERS are two of only four funds that are **over 80%** pre-funded.

PSRS/PEERS Remain Well-Funded





As of June 30, 2017, PSRS was 84.0% pre-funded, while PEERS was 85.8% pre-funded. Both Systems' showed a slight decrease in funding from the June 30, 2016 funded percentage of 84.8% for PSRS and 86.4% for PEERS. The slight changes in funded status are primarily due to the investment return assumption being lowered and the future COLA assumption being increased because of changes to the COLA policy.

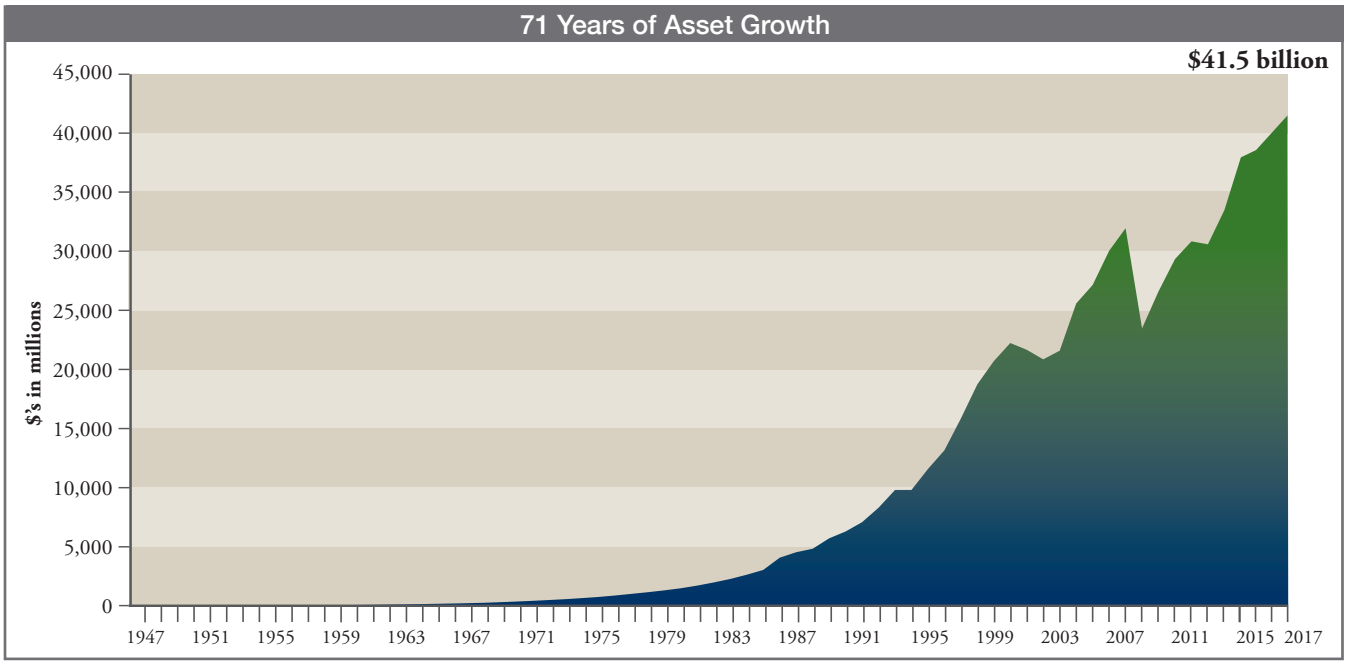
Investments

Investment Principals

The Board of Trustees is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the 'prudent person' rule. To that end, the Board has adopted the following principles to guide all investment-related decisions.

1. Act in the exclusive interest of the members of the Systems,
2. Maximize total return within prudent risk partners, and
3. Preserve the long-term purchasing power of the fund.

The investment portfolios of PSRS/PEERS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities.



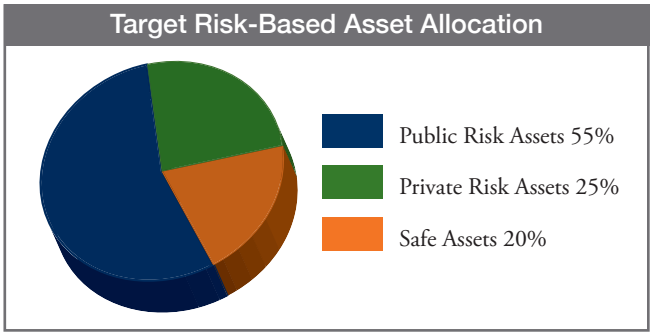
Over the past 71 years, PSRS/PEERS Assets have grown to a market value of **$41.5 billion.**

Based on the general beliefs about the long-term investment returns available from a well-diversified, prudently invested portfolio, the Board has adopted an objective to achieve a total nominal investment return of 7.6% with a real rate of return of at least 5.35% per annum over time. The real rate of return is the rate by which the long-term total return exceeds the long-term inflation rate.

The Board of Trustees revised the long-term investment return objective to 7.60% effective for fiscal year 2018 investment performance and 7.75% effective for fiscal year 2017 investment performance. The investment objective of 8.0% was effective from 1980 through fiscal year 2016. The reductions in the long-term objective is based on capital market expectations and the belief that expected investment returns going forward will be lower than historical returns.

The Systems consider a variety of risks including, but not limited to, liquidity risk, volatility, tail risk (the possibility that an investment will move much more than expected) and the ability to meet the Systems' assumed rate of return when structuring the portfolio.

This analysis results in an asset allocation to Public Risk Assets, Safe Assets and Private Risk Assets. Within each risk allocation, the Systems' investment portfolio includes long-term commitments to specific asset programs. The target risk-based asset allocation is illustrated in the pie chart on the right. The Board of Trustees recently increased the Private Risk Assets target by 5% and proportionately decreased the Public Risk Assets target. These changes are discussed further in the following section.

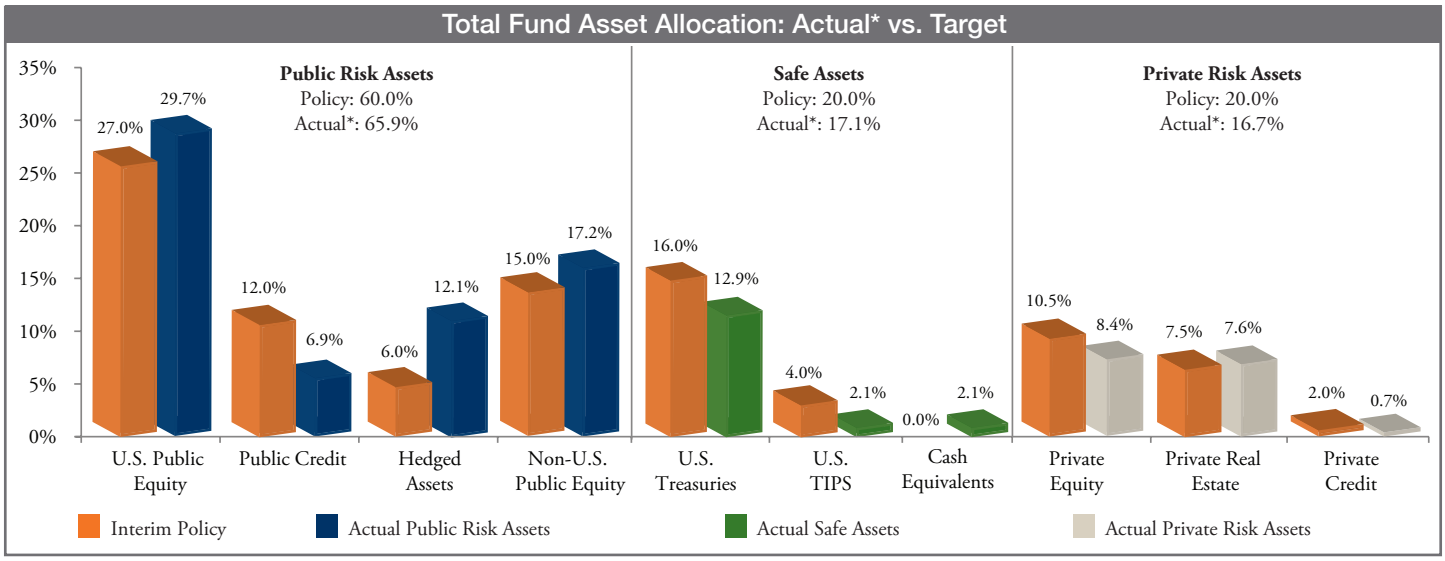


Asset Allocation

The asset allocation decision is generally regarded as the most important decision in the investment management process since it is crucial to achieving the long-term objectives established by the Board. In that light, it is the Board's responsibility to determine the appropriate policy asset allocation based upon several criteria with input and guidance from internal staff and Willis Towers Watson, a general consultant. These criteria are as follows:

1. The expected rate of return for each asset classification;
2. The expected risk of each asset classification (expressed as the standard deviation of the rate of return);
3. The correlation of returns between asset types;
4. The investment objectives and risk constraints of the Systems (including, but not limited to, liquidity needs and the expected time horizon);
5. The funded ratio and cash flow requirements for PSRS and PEERS; and
6. The impact of the Systems' return volatility on the contribution rate.

The Board of Trustees amended the long-term target asset allocation at the June 2016 Board of Trustees meeting. The allocation to each investment program considers both the risk tolerance of the Systems and the long-term return objective. The new long-term target asset allocation is expected to maintain similar levels of total portfolio risk while allowing for more efficient investment returns. However, given the nature of investing in Private Risk assets, it is expected to take several years to implement. Implementation will be achieved over a number of years through a disciplined investment approach. The policy benchmarks will change over time as the Systems make meaningful progress to the new long-term targets. The changes to the asset allocation are as follows: Public Risk Assets decreased 5% and Private Risk Assets increased 5%. Within Public Risk Assets, Public Credit decreased from 12% to 7%. Within Private Risk Assets, Private Equity increased from 10.5% to 12%, Real Estate increased from 7.5% to 9% and Private Credit increased from 2% to 4%.



**Total Plan assets include 0.3% invested in an operating cash account that is not reflected in the chart above.*

Investment Performance Relative to Benchmarks

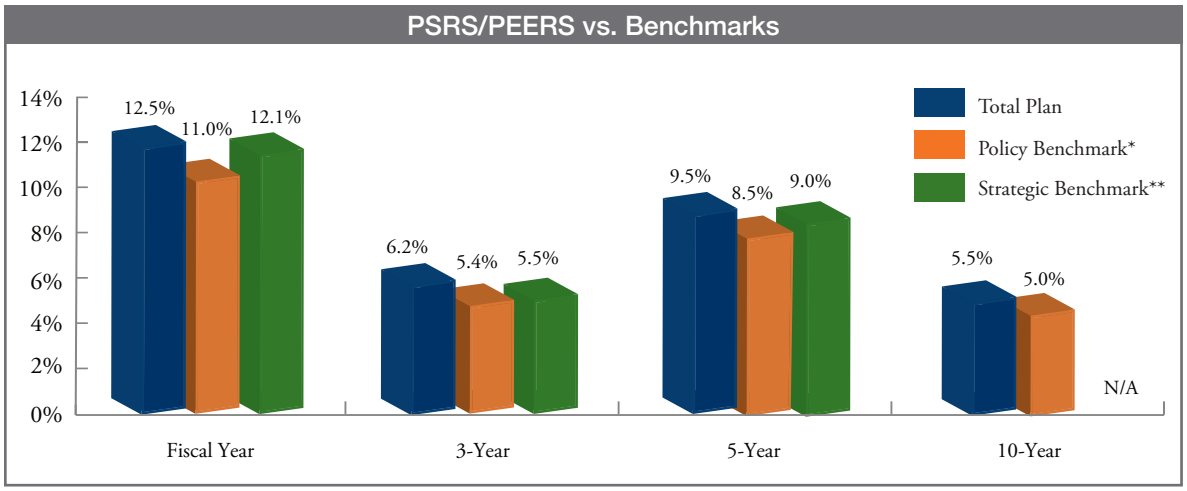
The Board has established a long-term objective (actuarial required rate of return) to achieve a total investment return of at least 7.75% per year and a real rate of return of at least 5.5% per year. As discussed in the Investment Principals section, the long-term objective was revised to 7.75% effective for fiscal year 2017 and 7.60% effective for fiscal year 2018. The fiscal year 2017 total plan return of 12.5% was substantially higher than the long-term objective. Over long periods of time, PSRS and PEERS continue to produce investment returns that exceed the Systems' objective. The annualized investment return for the Systems is 8.4% over the last 30 years. The reductions in the long-term objective is based on capital market expectations and the belief that expected investment returns going forward will be lower than historical returns.

In order to determine if the Systems' short-term and long-term objectives are being achieved, the Board utilizes three benchmarks by which the Systems' progress may be judged: (1) performance relative to a **policy benchmark** (defined set of broad market indices that reflects the Systems' long-term asset allocation, or market beta), (2) performance relative to a **strategic benchmark** which indicates value added by the internal staff, and, to a lesser extent, (3) performance relative to other public pension systems and their investment managers as a reference point of oversight.

The internal staff presents to the Board a detailed attribution of the total fund performance at the end of each fiscal year. Value is added over and above expected market returns if the strategic benchmark exceeds the policy benchmark (i.e., the internal staff made positive strategic decisions) and/or if the actual total fund return exceeds the strategic benchmark.

The fiscal year 2017 return was 12.5%, which exceeded the policy benchmark by 150 basis points. The fiscal year investment return, net of ***all*** fees and expenses, was 12.3%, which was also significantly above the policy benchmark. The total fund return has exceeded the policy benchmark in seven of the last ten fiscal years, an indication that internal staff and active investment management have added value to the Systems. Over the past five years, the total fund return has exceeded the policy benchmark by 100 basis points, on an annualized basis, resulting in over $1.6 billion in excess performance (net of all investment expenses and fees) to the Systems.

The Systems' utilize the Trust Universe Comparison Services (TUCS) to compare the total return and risk levels of the Systems relative to other public pension funds with assets in excess of $1 billion. The total return for the three-year and five-year time periods exceeded the median return of other large public funds. Total returns for the fiscal year and 10-year time periods were marginally below the public fund median return, primarily due to asset allocation and risk tolerance differences. The systems have taken substantially less risk than comparable funds during all time periods yet have consistently provided higher investment returns.



**As of June 30, 2017: 39.0% Russell 3000 Index, 16.5% MSCI ACWI ex-USA Index, 16% Barclays US Treasury Index, 15% Barclays U.S. Intermediate Credit Index, 7.5% NFI-ODCE, 4% Barclays U.S. TIPS 1-10 Years Index, and 2% Merrill Lynch High Yield Master II Index.*

***As of June 30, 2017: 41.3% Russell 3000 Index, 20.4% MSCI ACWI ex-USA Index, 13.1% Barclays US Treasury Index, 12.9% Barclays U.S. Intermediate Credit Index, 7.6% NFI-ODCE, 2.7% Merrill Lynch 3- Month U.S. Treasury Bill Index, 1.3% Barclays U.S. TIPS 1-10 Years Index, and 0.7% Merrill Lynch High Yield Master II Index. The Total Plan Strategic Benchmark changes monthly based on the actual asset allocation at the end of the previous month. It was established more recently so a 10-year return is not available.*

Investment Performance

Prudent and cost-efficient management of investments is a major principle of the PSRS/PEERS investment program. Our investment staff has produced consistent and stable investment returns over long periods of time that exceed the actuarial assumed rate of return. The annual investment return for the Systems' over the last five years is 9.5%, and 8.4% over the last 30 years.

The market value of PSRS/PEERS' invested assets was $41.5 billion on June 30, 2017, making the combined entity larger than all other public retirement plans in Missouri combined, and the 43rd largest defined benefit plan in the United States. There has been consistent and long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965.

Investment Return History	
Period	**PSRS Annualized Returns (As of June 30, 2017)**
1 Year	12.5%
5 Year	9.5%
10 Year	5.5%
20 Year	6.8%
30 Year	8.4%

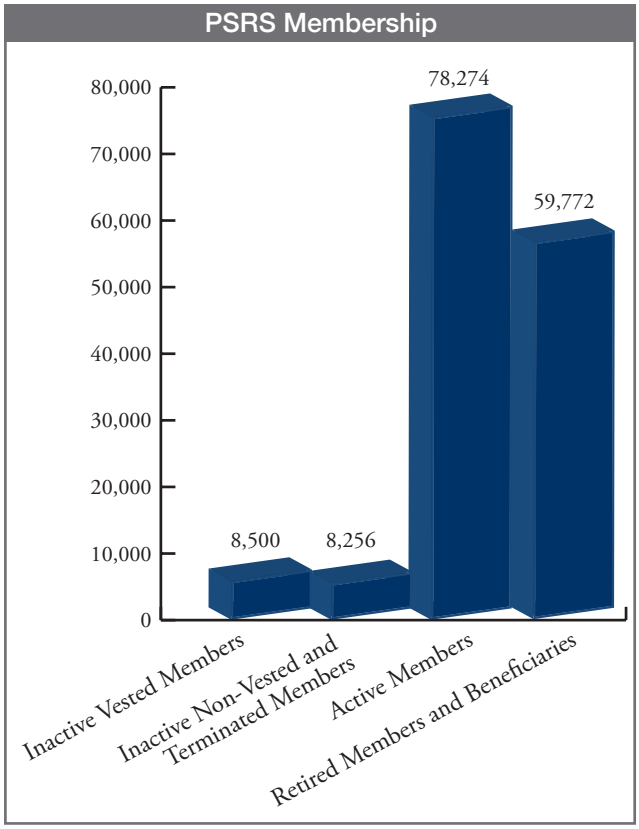
Over long periods of time, PSRS/PEERS has out-performed the assumed investment return of 7.6% (the assumed rate was 8.0% from fiscal year 1980 through fiscal year 2016 and 7.75% during fiscal year 2017).

Membership

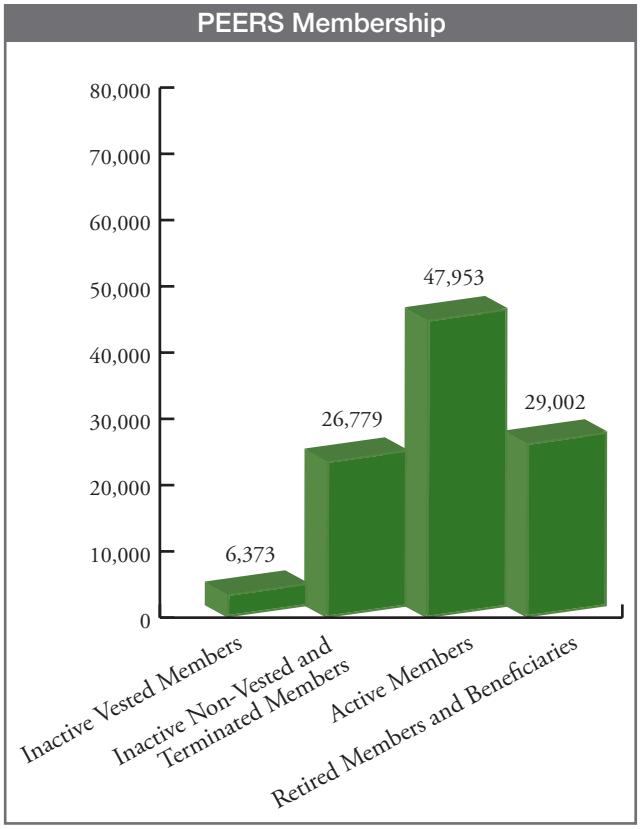
All eligible teachers and school support personnel in public school districts (except those in Kansas City and St. Louis city) and most public two-year colleges throughout Missouri are members of PSRS/PEERS. There are currently 535 employing school districts and education entities covered by PSRS/PEERS.

As of June 30, 2017, PSRS/PEERS served over 126,000 active members and nearly 90,000 retirees.

Members are fully vested after five years of covered employment.



Total PSRS Members Served = 154,802



Total PEERS Members Served = 110,107

	PSRS Membership	PEERS Membership
2017 Active Members		
Annual Salaries	$4.66 billion	$1.56 billion
Average Annual Salary	$60,643	$33,643
Average Age	42.0	48.3
Average Years of Service	11.7	8.5
2017 Retired Members		
Annual Benefits Paid	$2.5 billion	$251 million
Average Single Life Monthly Benefit of New Service Retirees	$3,359	$844
Average Age of New Retirees	59.0	62.8
Average Years of Service for New Retirees	22.5	16.5

Contact Information

For more information on PSRS/PEERS, contact us.

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