

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2009



IN FACING ADVERSITY, WE GAIN STRENGTH AND KNOWLEDGE FOR THE JOURNEY AHEAD.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2009

M. Steve Yoakum, Executive Director

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



IN FACING ADVERSITY, WE GAIN STRENGTH AND KNOWLEDGE FOR THE JOURNEY AHEAD.

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



Tina Zubeck
Chair
Elected PEERS Member



Joncee Nodler
Vice-Chair
Appointed Member



Yvonne Heath
Elected PSRS Member



James O'Donnell
Appointed Member



Wayne Wheeler
Appointed Retired
Member



Aaron Zalis
Elected PSRS Member

TRANSMITTAL LETTER



December 17, 2009

TO: Board of Trustees and Members of the Retirement Systems:

We are 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, 2009. 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, 2009.

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 -19.3% for the Public School Retirement System (PSRS) and -18.9% for 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. In comparison to other large multi-billion dollar public funds, the PSRS and PEERS investment returns for fiscal year 2009 were right at the median. 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 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 2009, the staff continued to work towards implementation of the long-term asset allocation adopted in fiscal year 2007.

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

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) 634-6248; Employer Services (573) 634-7911; Administration (573) 634-5375

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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 funded percentage. As of June 30, 2009, PSRS was 79.9% funded, while PEERS was 80.7% funded. This is a slight decrease from the June 30, 2009 funded ratios of 83.4% for PSRS and 82.5% 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 2009 return below 8% was recognized as of June 30, 2009.

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 2011, 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 2009 through 2011.

	PSRS	PEERS
2009 ARC	28.24%	12.98%
2009 Rate set by Board	26.00%	12.50%
2010 ARC	28.45%	13.29%
2010 Rate set by Board	27.00%	13.00%
2011 ARC	30.11%	13.26%
2011 Rate set by Board	28.00%	13.26%

Legislative Changes During 2008-2009

House Bill 265 and Senate Bill 411 made operational and procedural changes which will allow the Systems to operate more efficiently and effectively as well as allow for investment cost savings overall. There are three main provisions of the bill; the expressed authority for the Systems to indemnify, the ability for the funds from both systems (PSRS and PEERS) to be combined for investment purposes and providing a sunset for association admission into the Systems.

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, 2008. 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

PSRS and PEERS each received the Public Pension Standards Award in 2009 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

TRANSMITTAL LETTER

Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Professional Services

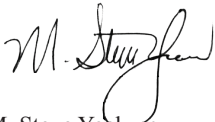
Certain professional services are provided to the Systems by retained consultants. The required opinion letters from two of those consultants, PricewaterhouseCoopers, LLC, actuaries, and Williams Keepers LLC, independent certified public accountants, are contained elsewhere in this report.

Investment consulting services, as well as investment manager search assistance and investment performance analysis, have been provided by Russell Investment Group of Tacoma, WA.

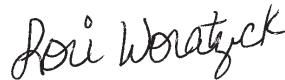
Acknowledgements

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
Executive Director



Lori Woratzeck, CPA
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, 2008

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 PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Recognition Award for Administration
2009***

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)

A handwritten signature in cursive script, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

PEERS PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2009***

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)

A handwritten signature in cursive script, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

ADMINISTRATIVE ORGANIZATION

June 30, 2009



M. Steve Yoakum
Executive Director



Janet Harris, CPA
Internal Auditor



Mary Hiatte
Executive Assistant



Craig Husting, CFA
Assistant Executive
Director, Investments



Jeff Russler
Director,
Employer Services



Rob Rust
Assistant Executive
Director, Operations



Tom Smith
Chief Technology
Officer



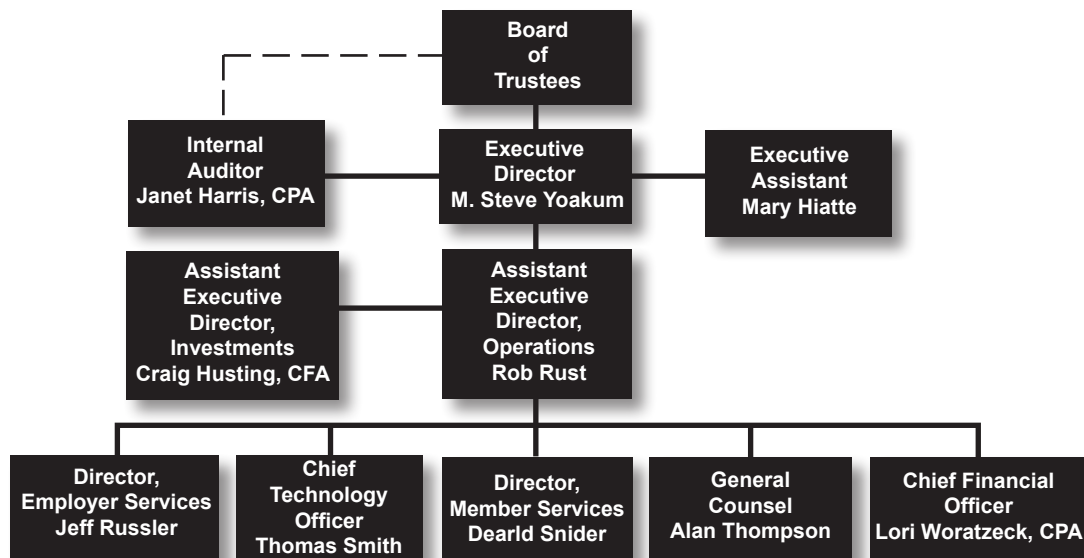
Dearld Snider
Director,
Member Services



Alan Thompson
General Counsel



Lori Woratzek, CPA
Chief Financial
Officer



PROFESSIONAL SERVICES

June 30, 2009

ACTUARIES

Gabriel, Roeder, Smith & Co.

Actuaries and Consultants
Norman S. Losk, FSA
Alex Rivera, FSA
Chicago, Illinois

PricewaterhouseCoopers, LLC

Actuaries and Consultants
Kim Nicholl, FS.A, MAA
Brandon Robertson, ASA, MAAA
Chicago, Illinois

AUDITOR

Williams Keepers, LLC

Heidi A. Chick, CPA
Amanda Gaither
Columbia, Missouri

TECHNOLOGY CONSULTANTS

AOS

Jason Harris
Columbia, Missouri

Advanced Image Systems

Stan Idel
Jefferson City, Missouri

Contingency Now

Dan Esser
Sherman Oaks, California

Hanshew Consulting

Jon Hanshew
Oakland, California

Huber & Associates

James Huber
Jefferson City, Missouri

ICON Integration

Michael Thibault
Overland Park, Kansas

Ikon Office Solutions

Nick Grathwohl
Jefferson City, Missouri

Image Technologies

Preston Tucker
Columbia, Missouri

Information Technology Group

Patti Brown
Kansas City, Missouri

Integrated Solutions Group

Roger Rudkin
Columbia, Missouri

Maximus, Inc.

Meir Schechter
Baltimore, Maryland

McAfee

Hardy Burnett
Santa Clara, California

Rose International

Teri Elder
Jefferson City, Missouri

Sungard

Lori O'Toole
St. Louis, Missouri

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, Missouri

Cortex

Dr. John Por
Toronto, Ontario

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 83 and 84. Additional information on Investment Managers can also be found in the Investment Section of this report.

