

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2010



*Source of retirement security for Missouri public school employees since 1946.*



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2010

**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.psr-peers.org](http://www.psr-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.

# TABLE OF CONTENTS

## INTRODUCTORY SECTION

Board of Trustees .....	7
Transmittal Letter .....	8
Certificate of Achievement for Excellence in Financial Reporting .....	11
Public Pension Coordinating Council (PPCC) Public Pension Standards Awards .....	12
Administrative Organization .....	14
Professional Services .....	15

## FINANCIAL SECTION

Independent Auditors' Report from Williams Keepers, LLC .....	19
Management's Discussion and Analysis .....	20
Basic Financial Statements	
Statements of Plan Net Assets .....	26
Statements of Changes in Plan Net Assets .....	27
Notes to the Basic Financial Statements .....	28
Required Supplementary Information	
Schedules of Funding Progress .....	46
Schedules of Employer Contributions .....	47
Staff Retiree Health Plan - Defined Benefit OPEB Plan .....	48
Schedule of Administrative Expenses .....	49
Schedule of Investment Expenses .....	50
Schedule of Professional Services .....	51

## INVESTMENT SECTION

Letter from Russell Investment Group .....	55
Letter from the Chief Investment Officer .....	56
Investment Highlights .....	58
Asset Allocation .....	59
Total Fund Review .....	61
Public Risk Assets Review .....	62
U.S. Public Equity Review .....	63
Global Public Equity Review .....	67
Credit Bonds Review .....	70
Hedged Assets Review .....	72
Safe Assets Review .....	75
Private Risk Assets Review .....	78
Real Estate Review .....	79
Private Equity Review .....	82
Private Credit Review .....	85
U.S. Public Equity Broker Commissions Report .....	87
Global Public Equity Broker Commissions Report .....	88
Investment Summary .....	89
Investment Expenses .....	90

# TABLE OF CONTENTS (CONTINUED)

## ACTUARIAL SECTION

Certification of Actuarial Results, PricewaterhouseCoopers LLP .....	95
Calculations of Unfunded Actuarial Accrued Liability .....	97
Required Contribution Rates and Amortizations of Unfunded Liability .....	98
Analysis of Actuarial Gains and Losses .....	99
PSRS Summary of Actuarial Assumptions and Methods .....	100
PEERS Summary of Actuarial Assumptions and Methods .....	102
Schedules of Active Member Valuation Data .....	104
Solvency Tests .....	105
PSRS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls .....	106
PEERS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls .....	107
PSRS Summary Plan Description .....	108
PEERS Summary Plan Description .....	110

## STATISTICAL SECTION

Statistical Summary .....	115
Summary of Benefits by Type .....	116
Schedules of Changes in Plan Net Assets, Last 10 Fiscal Years .....	117
PSRS Summary of Changes in Membership During 2009-2010 .....	118
PEERS Summary of Changes in Membership During 2009-2010 .....	119
PSRS 2009-2010 New Service Retirees .....	120
PEERS 2009-2010 New Service Retirees .....	121
PSRS Schedule of Average Benefit Payments to New Retirees .....	122
PEERS Schedule of Average Benefit Payments to New Retirees .....	123
Comparisons of Actuarial Assets and Total Actuarial Liabilities .....	124
Growth in Membership .....	125
PSRS Schedule of Covered Employees for the 10 Years Ended June 30, 2010 .....	126
PEERS Schedule of Covered Employees for the 10 Years Ended June 30, 2010 .....	128

# INTRODUCTORY SECTION

- 7..... Board of Trustees
- 8..... Transmittal Letter
- 11 ... Certificate of Achievement for Excellence in Financial Reporting
- 12 ... Public Pension Coordinating Council (PPCC)  
Public Pension Standards Awards
- 14 ... Administrative Organization
- 15 ... Professional Services







## 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

## TRANSMITTAL LETTER



December 17, 2010

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

---

**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

## 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.

	PSRS	PEERS
<b>2010 ARC</b>	28.45%	13.29%
<b>2010 Maximum Rate per State Statute</b>	27.00%	13.00%
<b>2010 Rate set by Board</b>	27.00%	13.00%
<b>2011 ARC</b>	30.11%	13.26%
<b>2011 Maximum Rate per State Statute</b>	28.00%	13.50%
<b>2011 Rate set by Board</b>	28.00%	13.26%
<b>2012 ARC</b>	31.34%	13.72%
<b>2012 Maximum Rate per State Statute</b>	29.00%	13.76%
<b>2012 Rate set by Board</b>	29.00%	13.72%

### *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*

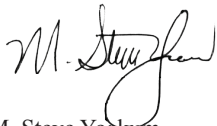
Certain professional services are provided to the Systems by retained consultants. The required opinion letters from two of those consultants, PricewaterhouseCoopers, LLC, actuaries, and Williams Keepers LLC, independent certified public accountants, are contained elsewhere in this report.

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

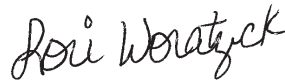
### *Acknowledgements*

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  
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, 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 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)

A handwritten signature in cursive script, reading 'Alan H. Winkle', is positioned above the printed name.

Alan H. Winkle  
Program Administrator

## PEERS PUBLIC PENSION STANDARDS AWARD



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)

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

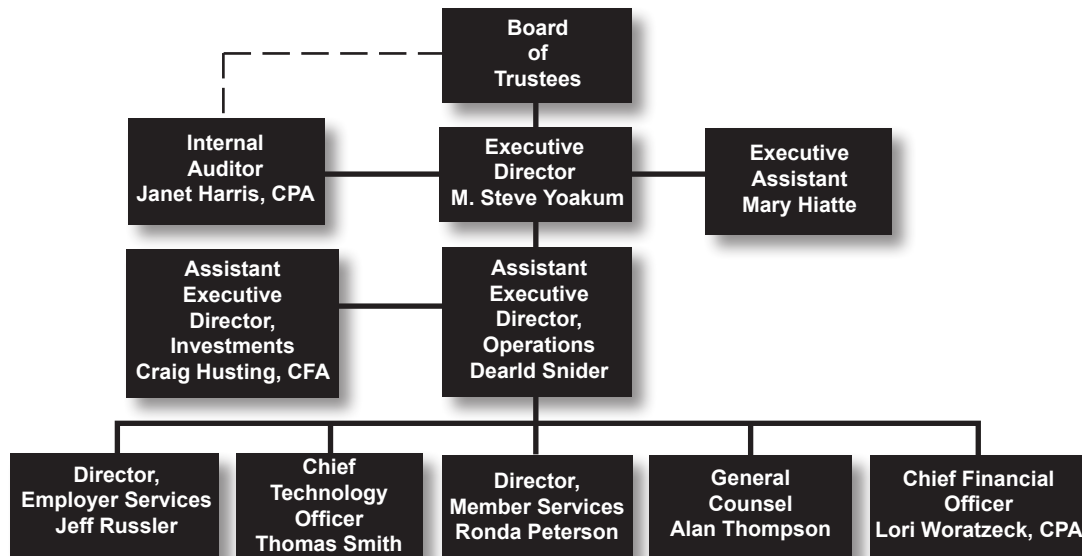
Alan H. Winkle  
Program Administrator

## 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

### AUDITOR

**Williams Keepers, LLC**  
Heidi A. Chick, CPA  
Amanda Gaither, CPA  
Columbia, 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

**Mitten Software, Inc.**  
Jim Morgan  
Long Lake, Minnesota

**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

### 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

### LEGAL COUNSEL

**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 Pages 90 and 91. Additional information on Investment Managers can also be found in the Investment Section of this report.