

# Comprehensive Annual Financial Report

*for the fiscal year ended June 30, 2011*

Strength  
Stability  
Security

**PSRS/PEERS**

PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

# Comprehensive Annual Financial Report

*for the fiscal year ended June 30, 2011*

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Stability  
Security

M. Steve Yoakum,  
Executive Director

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**PSRS/PEERS**

PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

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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.

# Strength Stability Security

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



## TRANSMITTAL LETTER



PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

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.

**TRANSMITTAL LETTER (continued)**

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.

	PSRS	PEERS
2011 ARC	30.11%	13.26%
2011 Maximum Rate per State Law	28.00%	*
2011 Rate set by Board	28.00%	13.26%
2012 ARC	31.34%	13.72%
2012 Maximum Rate per State Law	29.00%	*
2012 Rate set by Board	29.00%	13.72%
2013 ARC	26.10%	13.01%
2013 Maximum Rate per State Law	*	*
2013 Rate set by Board	29.00%	13.72%

*\* 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

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.



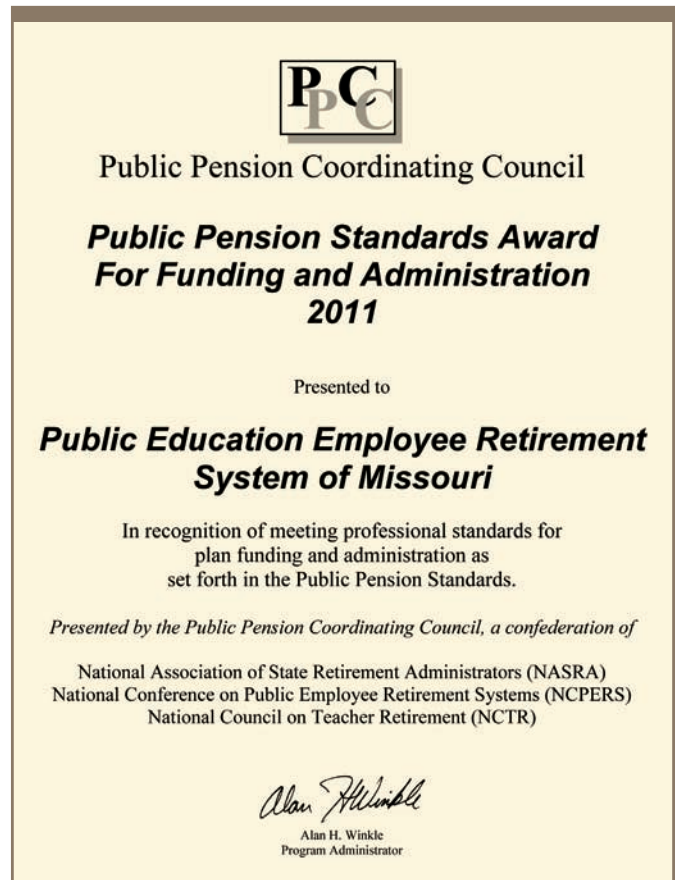
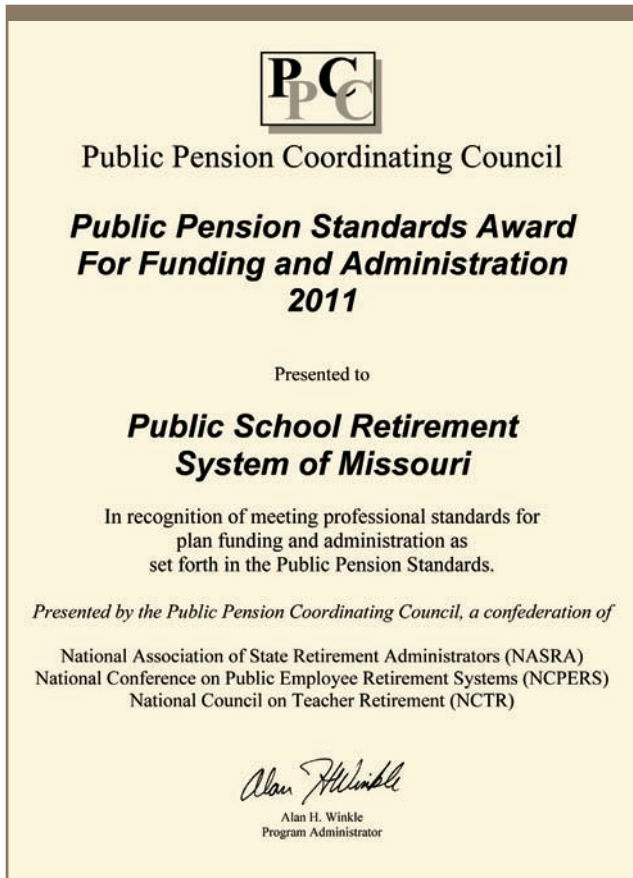
*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

**Public Pension Coordinating Council (PPCC),  
Public Pension Standards Awards**



Money Management Letter, Large Public Plan of the Year Award and Plan Sponsor, Plan Sponsor of the Year Award in the Public Sector



**Money Management Letter, Large Public Plan of the Year Award**

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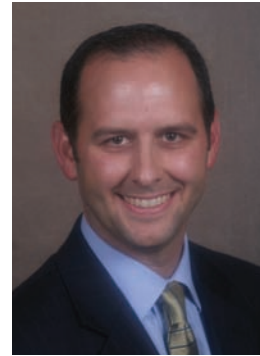
ADMINISTRATIVE ORGANIZATION



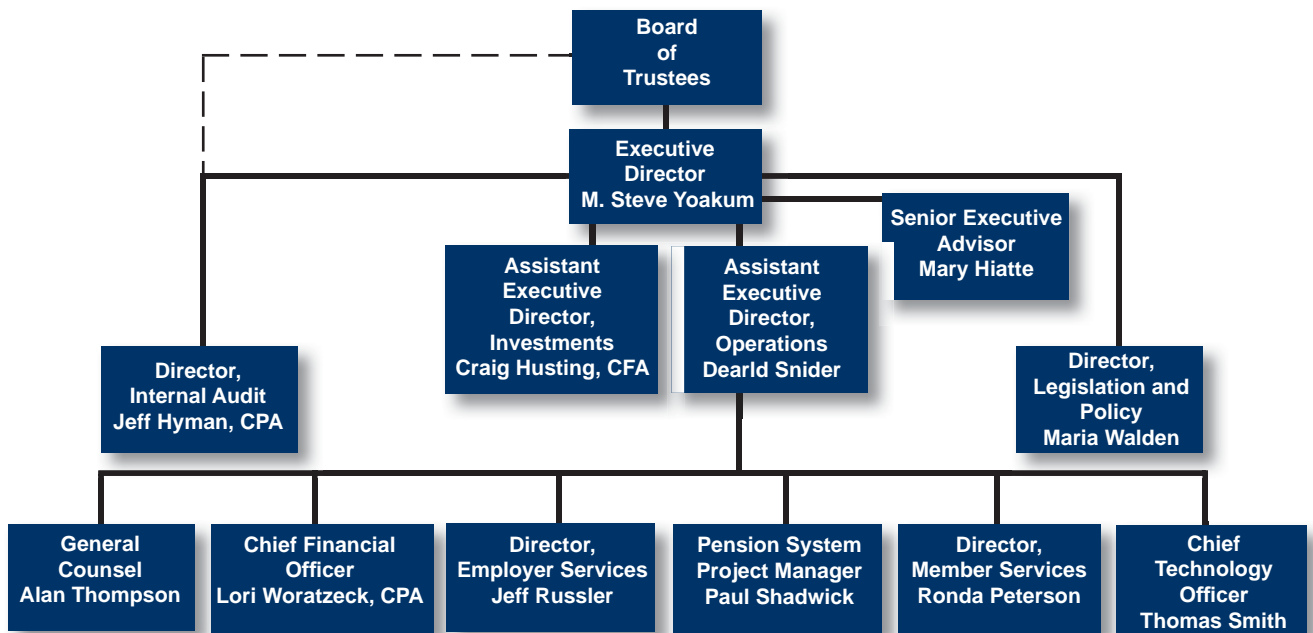
**M. Steve Yoakum**  
Executive Director



**Craig Husting, CFA**  
Assistant Executive  
Director, Investments



**Dearld Snider**  
Assistant Executive  
Director, Operations





**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

**OTHER CONSULTANTS**

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Toronto, Ontario

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**Groom Law Group**

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.