

# Comprehensive Annual Financial Report

*for the fiscal year ended June 30, 2012*

# Strength

PSRS/PEERS AND MISSOURI'S PUBLIC SCHOOLS

*A Strong Partnership  
for Secure Retirement*



PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

# Comprehensive Annual Financial Report

*for the fiscal year ended June 30, 2012*

# Strength

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](http://www.psrs-peers.org)



PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

**TABLE OF CONTENTS**

Mission Statement..... 4

**INTRODUCTORY SECTION**

Board of Trustees..... 5  
 Transmittal Letter..... 6  
 Certificate of Achievement for Excellence in Financial Reporting..... 9  
 Public Pension Coordinating Council (PPCC), Public Pension Standards Awards..... 10  
 Administrative Organization ..... 11  
 Professional Services ..... 12

**FINANCIAL SECTION**

Independent Auditors’ Report from Williams Keepers, LLC ..... 13  
 Management’s Discussion and Analysis ..... 14  
 Basic Financial Statements..... 20  
     Statements of Plan Net Assets ..... 20  
     Statements of Changes in Plan Net Assets..... 21  
     Notes to the Financial Statements ..... 22  
 Required Supplementary Information ..... 40  
     Schedules of Funding Progress ..... 40  
     Schedules of Employer Contributions..... 41  
     Notes to the Schedules of Required Supplementary Information ..... 41  
     Staff Retiree Health Plan - Defined Benefit OPEB Plan ..... 42  
 Schedules of Administrative Expenses..... 43  
 Schedules of Investment Expenses ..... 44  
 Schedules of Professional Services..... 44

**INVESTMENT SECTION**

Letter from Towers Watson..... 45  
 Letter from the Chief Investment Officer ..... 46  
 Investment Policy Summary ..... 49  
 Asset Allocation..... 51  
 Total Fund Review ..... 53  
     Public Risk Assets Class Summary ..... 57  
         U.S. Public Equity Program Summary ..... 59  
         Alpha Overlay Program Summary ..... 62  
         Global Public Equity Program Summary..... 64  
         Public Credit Program Summary..... 66  
         Hedged Assets Program Summary ..... 68  
     Safe Assets Class Summary..... 71  
     Private Risk Assets Class Summary ..... 74  
         Private Equity Program Summary ..... 75  
         Private Credit Program Summary..... 78  
         Private Real Estate Program Summary..... 80  
 U.S. Public Equity Broker Commissions Reports ..... 83  
 Global Public Equity Broker Commission Reports..... 84  
 Investment Summary ..... 85  
 Investment Expenses ..... 86

**ACTUARIAL SECTION**

Certification of Actuarial Results, PricewaterhouseCoopers LLP .....	87
Calculations of Unfunded Actuarial Accrued Liability .....	89
Required Contribution Rates and Amortizations of Unfunded Liability .....	90
Analysis of Actuarial Gains and Losses .....	91
Schedules of Active Member Valuation Data .....	92
Solvency Tests .....	93
Schedules of Retirees and Beneficiaries Added to and Removed from Retirement Rolls .....	94
PSRS Summary Plan Description .....	95
PEERS Summary Plan Description .....	98
PSRS and PEERS Summary of Actuarial Assumptions and Methods .....	100

**STATISTICAL SECTION**

Statistical Summary .....	105
Summary of Benefits by Type .....	106
Schedules of Changes in Plan Net Assets, Last 10 Fiscal Years .....	107
PSRS Summary of Changes in Membership During 2011-2012 .....	108
PEERS Summary of Changes in Membership During 2011-2012 .....	109
PSRS 2011-2012 New Service Retirees .....	110
PEERS 2011-2012 New Service Retirees .....	111
PSRS Schedule of Average Benefit Payments to New Retirees .....	112
PEERS Schedule of Average Benefit Payments to New Retirees .....	113
Comparisons of Actuarial Assets and Total Actuarial Liabilities .....	114
Growth in Membership .....	115
PSRS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June, 2012 .....	116
PEERS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June, 2012 .....	118

## 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

**A**t 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.



**INTRODUCTORY SECTION**

Board of Trustees..... 5

Transmittal Letter..... 6

Certificate of Achievement for Excellence in Financial Reporting..... 9

Public Pension Coordinating Council (PPCC),  
Public Pension Standards Awards ..... 10

Administrative Organization ..... 11

Professional Services ..... 12

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

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

**Location** 3210 W. Truman Blvd. / Jefferson City, MO 65109 **Mail** P.O. Box 268 / Jefferson City, MO 65102 **Phone** (573) 634-5290  
**Toll Free** (800) 392-6848 **Email** psrspeers@psrspeers.org **Member Services FAX** (573) 634-7934 **Employer Services FAX** (573) 634-7911

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.

## TRANSMITTAL LETTER (continued)

**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  
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, 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. Danison*

President

*Jeffrey R. Emer*

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**

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)

Alan H. Winkle  
Program Administrator

ADMINISTRATIVE ORGANIZATION



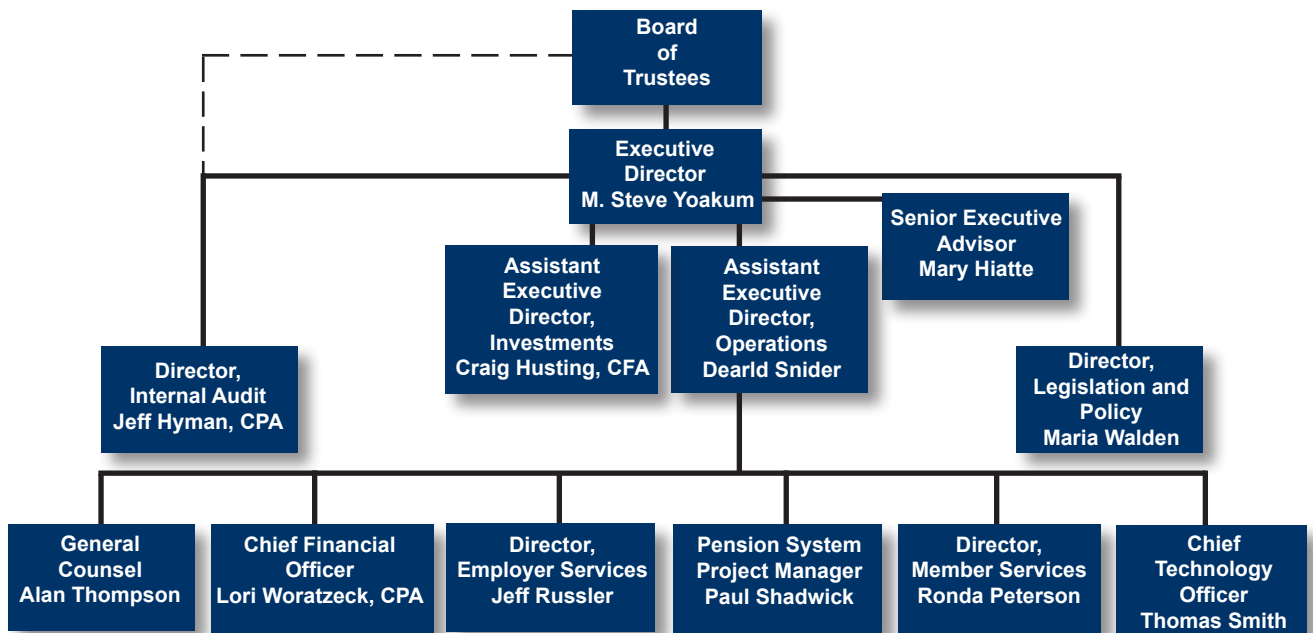
**M. Steve Yoakum**  
Executive Director



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



**Dearld Snider**  
Assistant Executive  
Director, Operations



**PROFESSIONAL SERVICES**

*June 30, 2012*

**ACTUARIES**

**PricewaterhouseCoopers, LLC**

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

**AUDITOR**

**Williams Keepers, LLC**

Heidi A. Chick, CPA  
Amanda Pinkerton, CPA  
Columbia, Missouri

**TECHNOLOGY CONSULTANTS**

**Aspect Software, Inc.**

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

**Sagitec Solutions, LLC**

Rod Sheppard  
Jeff Freeman  
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**

**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 86. Additional information on Investment Managers can also be found in the Investment Section of this report.