

# Comprehensive Annual Financial Report

*for the fiscal year ended June 30, 2013*



Retirement *security,*  
*today, tomorrow,*  
*together.*



**PSRS/PEERS**

PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

# Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2013



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Executive Director

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*today, tomorrow,*  
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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 ..... 15  
 Basic Financial Statements..... 20  
     Statements of Plan Net Position..... 20  
     Statements of Changes in Plan Net Position ..... 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 ..... 58  
         U.S. Public Equity Program Summary ..... 60  
         Alpha Overlay Program Summary ..... 63  
         Global Public Equity Program Summary..... 65  
         Public Credit Program Summary..... 68  
         Hedged Assets Program Summary ..... 70  
     Safe Assets Class Summary..... 73  
     Private Risk Assets Class Summary ..... 76  
         Private Equity Program Summary ..... 77  
         Private Credit Program Summary..... 80  
         Private Real Estate Program Summary..... 82  
 U.S. Public Equity Broker Commissions Reports ..... 85  
 Global Public Equity Broker Commission Reports..... 86  
 Investment Summary ..... 87  
 Investment Expenses ..... 88

**ACTUARIAL SECTION**

Certification of Actuarial Results, PricewaterhouseCoopers LLP .....	89
Calculations of Unfunded Actuarial Accrued Liability.....	91
Required Contribution Rates and Amortizations of Unfunded Liability.....	92
Analysis of Actuarial Gains and Losses.....	93
Schedules of Active Member Valuation Data .....	94
Solvency Tests.....	95
Schedules of Retirees and Beneficiaries Added to and Removed from Retirement Rolls .....	96
PSRS Summary Plan Description.....	97
PEERS Summary Plan Description .....	100
PSRS and PEERS Summary of Actuarial Assumptions and Methods .....	102

**STATISTICAL SECTION**

Statistical Summary.....	107
Summary of Benefit Recipients by Type .....	108
Schedules of Changes in Plan Net Position, Last 10 Fiscal Years .....	109
PSRS Summary of Changes in Membership During 2012-2013 .....	110
PEERS Summary of Changes in Membership During 2012-2013.....	111
PSRS 2012-2013 New Service Retirees .....	112
PEERS 2012-2013 New Service Retirees.....	113
PSRS Schedule of Average Benefit Payments to New Retirees.....	114
PEERS Schedule of Average Benefit Payments to New Retirees .....	115
Comparisons of Actuarial Assets and Total Actuarial Liabilities .....	116
Growth in Membership.....	117
PSRS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June, 2013 .....	118
PEERS Schedule of Covered Employees in the Top 10 Employers for the 10 Years Ended June, 2013.....	120



## 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.



This Comprehensive Annual Financial Report (CAFR) is dedicated to all past, present and future members of the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS).

PSRS/PEERS members have proven to be a unique and fascinating group of individuals from all walks of life, with diverse backgrounds, interests and talents and skills. But they are connected by the contributions they have made to their communities through service in Missouri's public education system.

They share a dedication to hard work, a desire to help others. They make it their daily work to be there for the young people of our state, to help them learn, grow and experience life to the fullest. Past, present and future, the many achievements of PSRS/PEERS members, big and small, build character, sharpen minds and improve lives.

We say thank you, to each and every one, currently working, enjoying retirement, or just starting out. We are proud to serve you, and provide you with the strong, stable and secure retirement benefits you earn through years of hard work. After being there for our children, know we will be there for you, providing retirement security – **today, tomorrow, together.**

*The men and women pictured in this report are members of PSRS/PEERS. The PSRS/PEERS Board of Trustees, management and staff would like to extend our thanks to each of these extraordinary individuals for allowing us to include their photographs.*





**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

November 25, 2013

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, 2013. *Today, tomorrow, together...* we are proud to provide a secure retirement to our members.

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. (4).16 and 169.450(4).11 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 15 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 cost of internal controls should not exceed the benefits to be derived. The objective of internal controls is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements. 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.

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 contributions 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 almost 230,000 total members in 537 districts and other employers. Approximately \$182 million is paid monthly to over 75,000 service retirees and beneficiary recipients. At June 30, 2013, PSRS/PEERS had a market value of invested assets of approximately \$33.5 billion, making it larger than all other retirement systems in the state of Missouri combined.

## Investment Activities

The PSRS and PEERS total investment returns for the current fiscal year were 12.6% and 12.3%, respectively, compared to the prior fiscal year returns of 1.9% for PSRS and 1.6% for PEERS. The fiscal year returns exceeded policy benchmarks by 1.25% in PSRS and .91% in PEERS adding over \$380 million in excess returns to the Systems. The three-year annualized fund performance for the period ended June 30, 2013 was 11.8% for PSRS and 11.5% for PEERS. The 25-year annualized return of 8.5% remains above the Systems' long-term return objective of 8%.

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, 2013, PSRS was 80.1% funded, while PEERS was 81.6% funded. Both Systems showed a slight decrease in funding from the June 30, 2012 funded percentages of 81.5% for PSRS and 82.5% for PEERS. This decrease occurred due to the final recognition of all 2009 investment losses. At June 30, 2013, the market value of assets for the Systems exceeded the actuarial value of assets used to calculate the funded percentages.

Based upon the June 30, 2013 valuation, the Board of Trustees was able to set the fiscal year 2015 contribution rates at the fiscal year 2014 level for both members and employers. This was the fourth year that rates remained constant. The Systems have maintained solid funded positions without raising the contribution rates due to the Funding Stabilization Policy enacted by the Board of Trustees in 2011 and the exemplary investment returns achieved by our internal investment staff and outside investment managers.

## TRANSMITTAL LETTER (continued)

**Legislative Changes During 2012-2013**

On July 11, Governor Jay Nixon signed legislation making the 25-and-Out early retirement provision a permanent retirement option for members of PSRS and PEERS. The same bill extended the availability of the PSRS 2.55% benefit factor for 31 or more years of service through July 1, 2014. CCS HCS SCS Senate Bill 17 became law effective August 28, 2013. These changes resulted in an actuarial savings to the combined Systems of \$60 million.

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

PSRS and PEERS each received the Public Pension Standards Awards in 2013 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, 2012. 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.

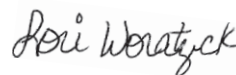
**Acknowledgements**

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**



Government Finance Officers Association

**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, 2012**

Executive Director/CEO

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



Public Pension Coordinating Council

**Public Pension Standards Award  
For Funding and Administration  
2013**

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  
2013**

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**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



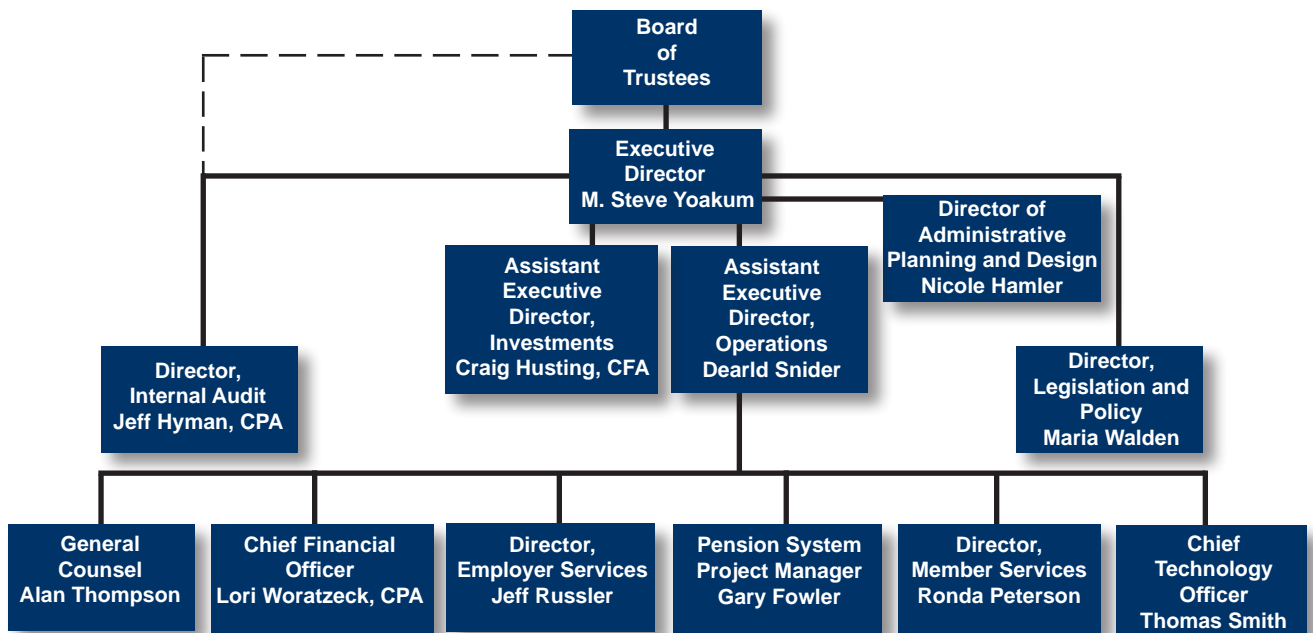
**M. Steve Yoakum**  
Executive Director



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



**Dearld Snider**  
Assistant Executive  
Director, Operations





**PROFESSIONAL SERVICES**

*June 30, 2013*

**ACTUARIES**

**PricewaterhouseCoopers, LLC**

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**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.