

2014 Summary Report to Members

for the fiscal year ended June 30, 2014

PEACE
of
MIND

Building on
the Past,
Investing in
Your Future



PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

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PSRS/ PEERS

Since the creation of PSRS by the Missouri Legislature in 1946, the management, staff and trustees of the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) remain dedicated to three overarching goals:

- To provide **retirement security** to Missouri's educators and education employees after a full career of service
- To help school districts **attract and retain** the best and brightest educators and employees for Missouri's school children
- To manage the Systems in a **prudent and cost-efficient** manner

We build on our past success by managing the Retirement Systems in a professional, prudent and cost-efficient manner, using a long-term approach. This has ensured that the Systems remain well funded and benefit promises are kept as we continue our daily mission to invest wisely in your secure retirement future.

Introduction

PSRS/PEERS has helped almost 115,000 members and their families achieve financial security during retirement. We are dedicated to helping our current and future members achieve the financially secure retirement they deserve after a full career of service to Missouri's public schools and students.

A Snapshot of PSRS/PEERS Members

While the average age and years of service among our working members have remained fairly constant over the past five years, average annual salaries have increased somewhat, and total PSRS and PEERS membership continues to grow. As our membership grows, we remain dedicated to maintaining our financial strength and providing the highest level of service and retirement security to all of our members, now and in the future.

PSRS Active Member Profile					
	2014	2013	2012	2011	2010
Average Age	42.2	42.1	42.2	42.3	42.3
Average Years of Service	11.8	11.4	11.4	11.5	11.3
Average Annual Salary	\$58,876	\$57,135	\$56,483	\$55,837	\$56,701

PEERS Active Member Profile					
	2014	2013	2012	2011	2010
Average Age	48.6	48.1	48.1	47.9	47.5
Average Years of Service	8.9	8.5	8.4	8.3	8.0
Average Annual Salary	\$31,646	\$30,196	\$29,571	\$28,984	\$28,467

PSRS Total Membership					
	2014	2013	2012	2011	2010
Active	75,168	78,076	77,529	77,708	79,256
Inactive	14,451	11,649	11,523	11,580	11,159
Retired	49,707	47,646	45,895	43,779	41,464
Disabled	859	843	803	763	721
Survivors	3,920	3,817	3,646	3,523	3,282
Total Membership	144,105	142,031	139,396	137,353	135,882

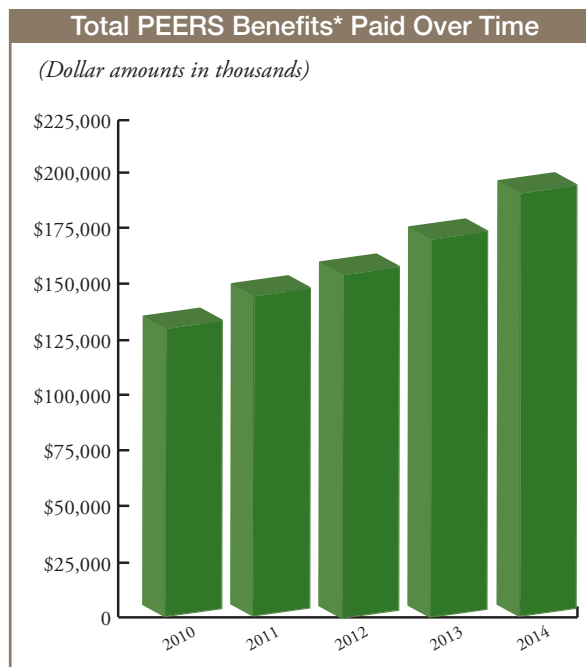
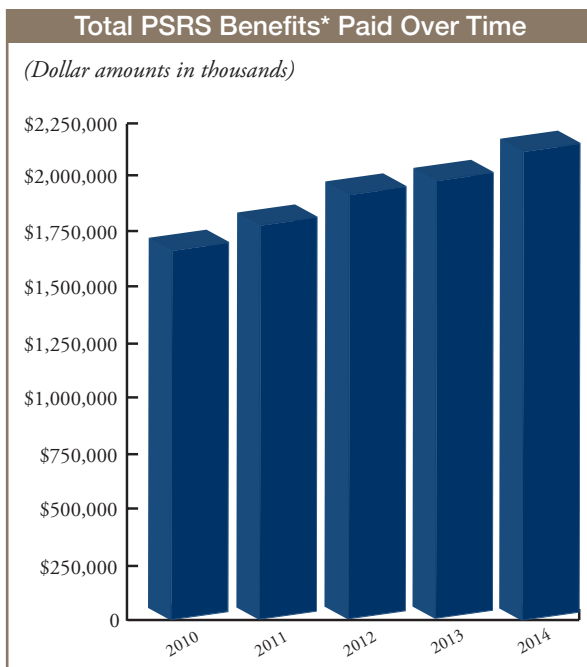
PEERS Total Membership					
	2014	2013	2012	2011	2010
Active	45,589	48,709	48,605	48,800	50,363
Inactive	16,215	14,439	14,552	15,402	15,355
Retired	22,756	21,519	20,537	19,444	18,274
Disabled	735	709	668	620	575
Survivors	1,538	1,446	1,357	1,264	1,222
Total Membership	86,833	86,822	85,719	85,530	85,789

Retirement Trends

The total number of PSRS/PEERS retirees and amount of benefits paid each year continue to grow. In fiscal year 2014 (July 1, 2013 to June 30, 2014) we helped 4,807 individuals begin their retirement by providing them with PSRS/PEERS benefits.

PSRS Members Retiring By Year					
	2014	2013	2012	2011	2010
Number of Retirements	2,888	2,642	2,926	3,122	2,379
Average Age	58.8	58.9	58.7	58.6	58.6
Average Years of Service	23.5	23.2	23.7	23.8	23.3
Average Single Life Monthly Benefit	\$3,445	\$3,370	\$3,334	\$3,342	\$3,197

PEERS Members Retiring By Year					
	2014	2013	2012	2011	2010
Number of Retirements	1,919	1,656	1,714	1,656	1,400
Average Age	63.0	63.0	63.0	62.9	62.7
Average Years of Service	16.1	16.3	16.3	16.6	15.2
Average Single Life Monthly Benefit	\$793	\$763	\$748	\$752	\$630



*Annual benefits paid to service retirees, disability retirees, and survivors. Includes PLSO Payments.

About Our Retirees

We take great pride in the long-term strength and stability of the Systems. We believe our retired members, after a full career of service to our schools, students and communities, are deserving of the peace of mind that comes with knowing they will receive lifetime retirement benefits.

Most PSRS/PEERS benefit recipients are service retirees. Lifetime service retirement benefits are payable to members who have met age and service requirements. Disability benefits are provided for members who are unable to earn a livelihood due to permanent disability and who have met eligibility criteria. The Systems also provide death benefits to qualified beneficiaries of deceased members.

PSRS 2013-2014 School Year Retirees

Years of Service at Retirement	Number of Retirees	Average Years of Service	Average Monthly Single Life Benefit*	Average Age at Retirement
5 - 9.9	274	6.8	\$ 697	62.0
10 - 14.9	260	12.3	\$ 1,299	62.0
15 - 19.9	317	17.4	\$ 2,135	62.4
20 - 24.9	483	22.3	\$ 3,108	60.7
25 - 29.9	746	27.1	\$ 3,955	55.3
30 - 34.9	696	31.6	\$ 5,147	56.7
35 - 39.9	101	36.8	\$ 6,319	61.9
40+	11	41.3	\$ 6,601	66.5
Overall Average		23.5	\$ 3,445	58.8

PEERS 2013-2014 School Year Retirees

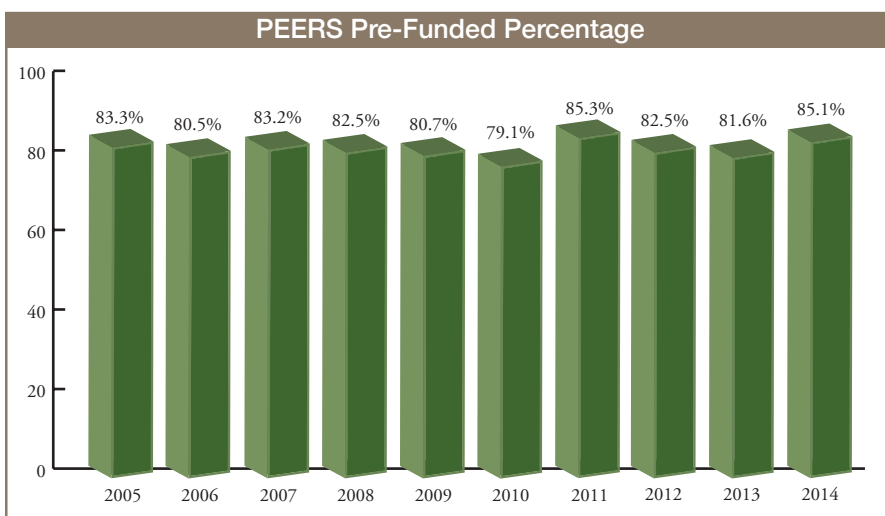
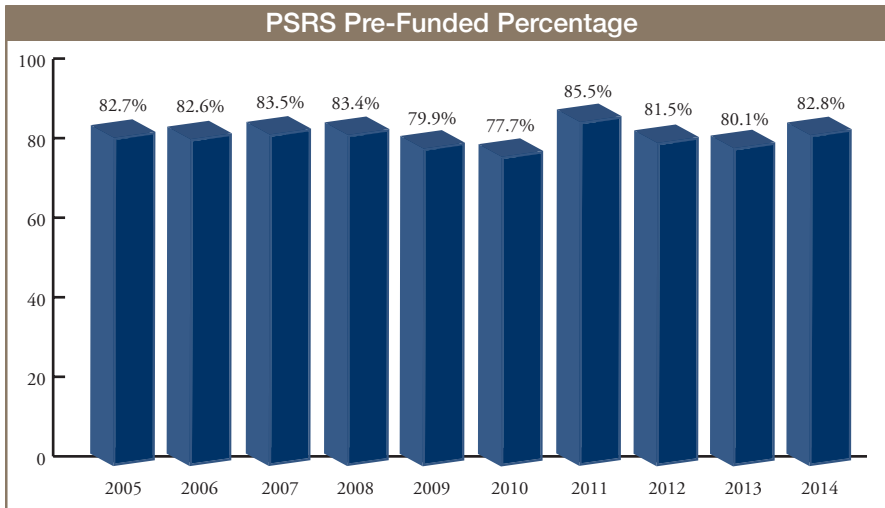
Years of Service at Retirement	Number of Retirees	Average Years of Service	Average Monthly Single Life Benefit*	Average Age at Retirement
5 - 9.9	568	7.1	\$ 228	63.7
10 - 14.9	429	12.2	\$ 461	63.8
15 - 19.9	301	17.3	\$ 796	63.7
20 - 24.9	283	22.4	\$ 1,178	62.2
25 - 29.9	206	27.0	\$ 1,588	59.8
30 - 34.9	98	32.0	\$ 2,135	60.2
35 - 39.9	23	36.3	\$ 2,328	64.5
40+	11	43.2	\$ 2,907	69.6
Overall Average		16.1	\$ 793	62.9

*The Single Life Plan pays the largest lifetime monthly retiree benefit. Actual amounts paid are lower due to benefit plan chosen by retiree.

The average 2013-2014 Single Life monthly benefit for new PSRS retirees is \$3,445 and for PEERS retirees is \$793. How much will your benefit be? Use our online Benefit Estimate Calculator at www.psrs-peers.org to estimate your own monthly retirement benefit amount.

How PSRS/PEERS Is Funded

How do we determine how well funded the Systems are? By comparing the value of assets to the amount of benefit promises made to members. This comparison shows the pre-funded status of the Systems, or in other words, the plan's ability to pay projected benefits with today's dollars. As of June 30, 2014, PSRS was 82.8% pre-funded, and PEERS was 85.1% pre-funded. The Systems' pre-funded levels are an indication of our strength as one of the leading retirement systems in the United States.



**Actuarial value of assets as a percentage of actuarial accrued liabilities*

Funding Sources

The investment portfolios of PSRS and PEERS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities. In total, approximately 63¢ of every dollar used to pay retirees is generated from investment earnings.

20-Year Average



Note: The 19¢ includes member contributions and service purchases.

The Importance of Diversification

The Systems' portfolio is prudently invested across a broad array of assets that reflects the long-term nature of the PSRS/PEERS pension obligations.

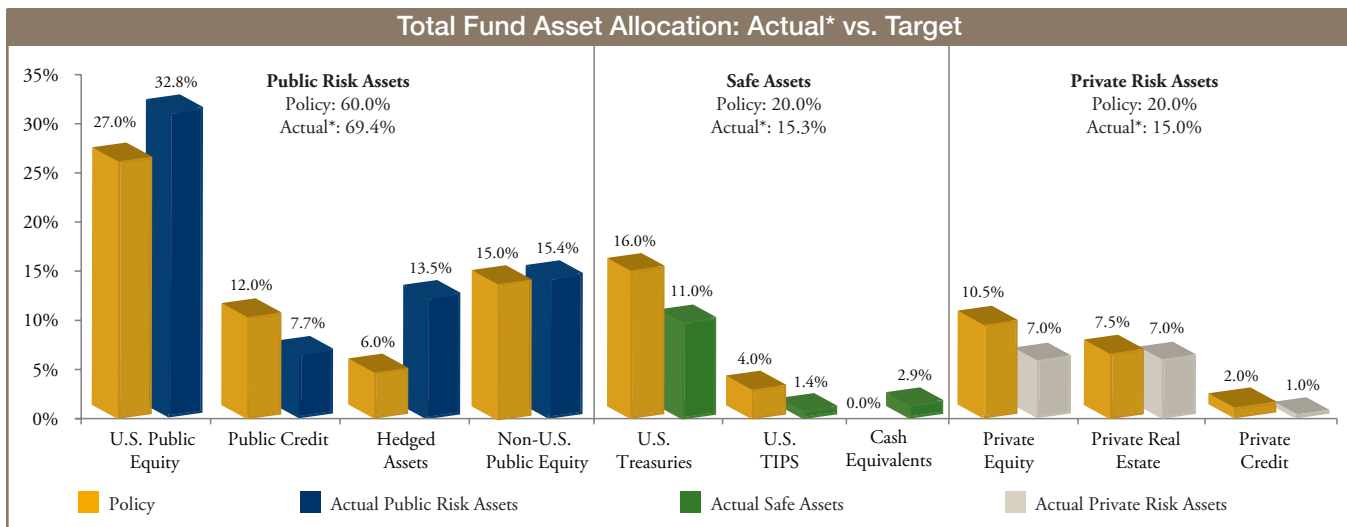
The asset allocation decision is generally regarded as the most important decision in the investment management process, since it is crucial to achieving long-term objectives established by the Board of Trustees. Within that asset allocation, it is important to not only consider the expected investment return, but also to understand the risks. The importance of risk consideration for institutional investors is critical to long-term success.

PSRS/PEERS employs an effective and intuitive risk-based approach to setting and reporting the asset allocation. The Systems developed a risk-based asset allocation to clearly define the prudent risks taken within its investment portfolios. The Systems consider a variety of risks including but not limited to liquidity risk, volatility, tail risk (the possibility that an investment will move much more than expected) and the ability to meet the Systems' assumed rate of return when structuring the portfolio.

The Systems' asset allocation includes Public Risk Assets, Safe Assets and Private Risk Assets. Within each risk allocation, the Systems' investment portfolio includes strategic, long-term commitments to specific asset programs. Public Risk Assets include U.S. Public Equity, Non-U.S. Public Equity, Public Credit and Hedged Assets. Safe Assets include U.S. Treasuries, U.S. TIPS and Cash Equivalents. Private Risk Assets include Private Real Estate, Private Equity and Private Credit Assets.

The Systems' internal investment staff continuously monitor the asset allocation and risk and return characteristics of the portfolio. The Systems' long-term asset allocation is reviewed regularly in conjunction with plan liabilities.

The Systems' asset allocation as of June 30, 2014, was as follows:



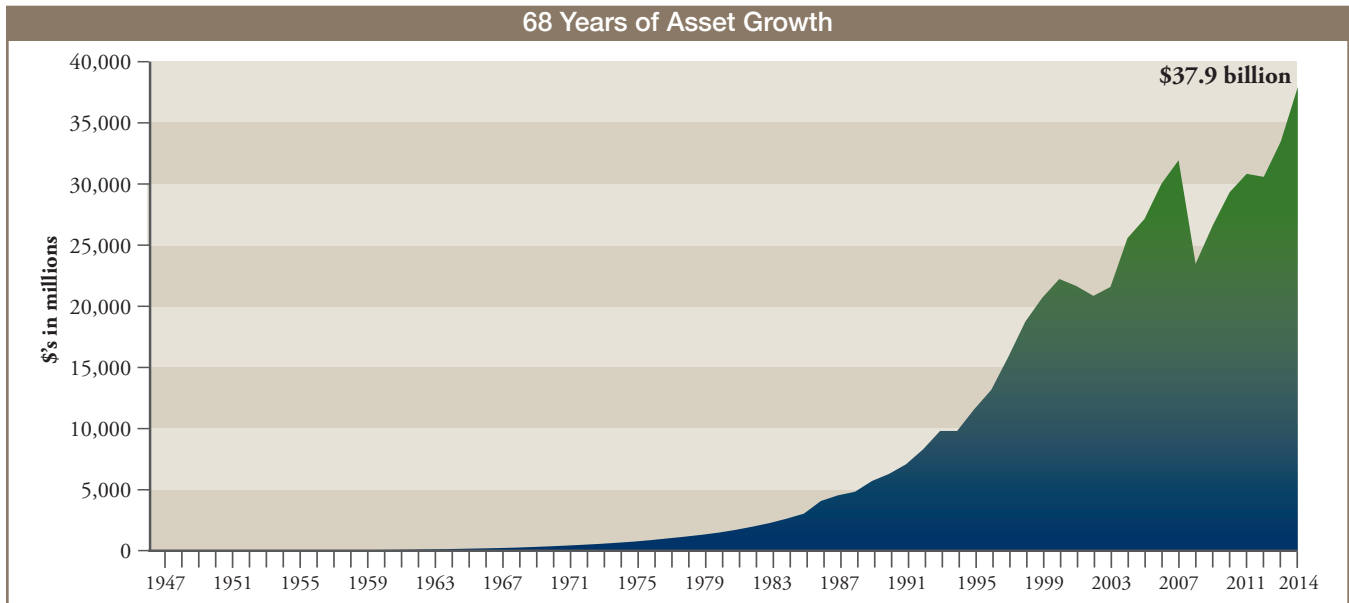
*Actual assets include 0.3% invested in cash and cash equivalents and securities lending collateral that is not reflected in the chart above.

Investment Performance

Prudent and cost-efficient management of investments is a major tenant of the PSRS/PEERS investment program. Our investment staff has produced consistent and stable investment returns over long periods of time that exceed the 8% actuarial assumed rate of return.

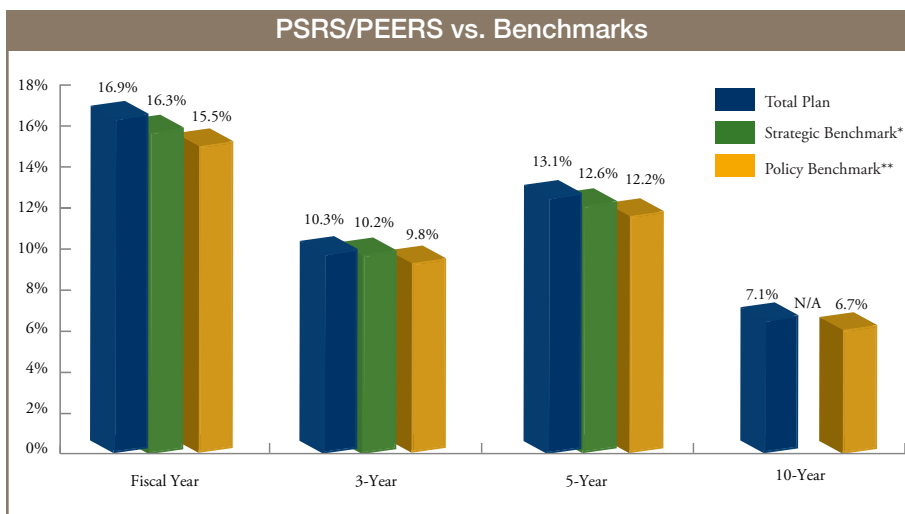
The market value of PSRS/PEERS' invested assets was \$37.9 billion on June 30, 2014, making the combined entity larger than all other public retirement plans in Missouri combined, and the 44th largest defined benefit plan in the United States. There has been consistent and long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965.

Growth in Assets



Total Portfolio Returns

The Board has established a long-term goal to achieve a total investment return of at least 8.0% per year and a real rate of return of at least 5.5% per year. Both PSRS and PEERS achieved total investment returns for the current fiscal year of 16.9%. The Systems' well structured investment portfolio added approximately \$5.5 billion in investment earnings to the growth of assets during fiscal year 2014. The returns exceeded both the Systems' policy benchmark of 15.5%, and the 8.0% actuarially assumed rate of return. Additionally, the strong returns were achieved while once again taking less investment risk than a large majority of other public pension funds in the nation.



*As of June 30, 2014: 35.3% Russell 3000 Index, 18.7% MSCI ACWI ex-USA Index, 14.7% Barclays U.S. Intermediate Credit Index, 10.2% Barclays U.S. Treasury: Intermediate Index, 1.1% Barclays U.S. Treasury: Long Index, 10.6% Merrill Lynch 3- Month U.S. Treasury Bill Index, 7.0% NCREIF Property Index, 1.4% Barclays U.S. TIPS 1-10 Years Index, and 1% Merrill Lynch High Yield Master II Index. The Total Plan Strategic Benchmark changes monthly based on the actual asset allocation at the end of the previous month. It was established more recently so a 10-year return is not available.

**As of June 30, 2014: 39.0% Russell 3000 Index, 16.5% MSCI ACWI ex-USA Index, 14.4% Barclays U.S. Treasury: Intermediate Index, 1.6% Barclays U.S. Treasury: Long Index, 15% Barclays U.S. Intermediate Credit Index, 7.5% NCREIF Property Index, 4% Barclays U.S. TIPS 1-10 Years Index, and 2% Merrill Lynch High Yield Master II Index.

Note: Investment returns were prepared using a time-weighted rate of return based in market values.

Top 10 Stock Holdings And Their Market Values

The top ten U.S. stock holdings as of June 30, 2014 are shown in the table below.

U.S. Public Equity - Top 10 Holdings		
Top 10 Largest Holdings* June 30, 2014	Market Value	% of Total U.S. Public Equity
Chevron Corp.	\$ 73,155,390	0.6%
Apple, Inc.	70,212,053	0.6%
Exxon Mobil, Corp.	69,638,040	0.6%
Celgene, Corp.	54,886,252	0.4%
AT&T, Inc.	52,883,391	0.4%
Verizon Communications, Inc.	49,432,805	0.4%
Tesla Motors, Inc.	49,308,324	0.4%
Amdocs, Ltd.	49,112,626	0.4%
FaceBook, Inc.	48,608,614	0.4%
Amazon.com, Inc.	45,699,144	0.3%
Total	\$ 562,936,639	4.5%

* Includes only actively managed separate accounts
A complete list of portfolio holdings is available upon request.

The following table displays the top ten non-U.S. stock holdings as of June 30, 2014.

Non-U.S. Public Equity - Top 10 Holdings		
Top 10 Largest Holdings* June 30, 2014	Market Value	% of Total Non- U.S. Public Equity
Bayer AG	\$ 48,929,650	0.8%
Nestle SA	37,614,955	0.6%
Compass Group	30,153,263	0.5%
HSBC Holdings	28,038,751	0.5%
Roche Holdings AG	27,853,628	0.5%
ING	26,919,493	0.5%
Honda Motor Co.	25,595,723	0.5%
WPP Plc	23,997,759	0.4%
Schneider Electric	23,637,313	0.4%
Denso Corp	23,090,400	0.4%
Total	\$ 295,830,935	5.1%

* Includes only actively managed separate accounts
A complete list of portfolio holdings is available upon request.

Financial Statements

The Statements of Fiduciary Net Position present information on the assets and liabilities of the Systems, with the difference between the two reported as net position. The net position of the Systems reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net position measure whether the Systems' financial position is improving or deteriorating.

Statements of Fiduciary Net Position				
<i>(As of June 30, 2014 with comparative totals for June 30, 2013)</i>				
	PSRS	PEERS	Combined Totals	
			June 30, 2014	June 30, 2013
ASSETS				
Cash	\$ 125,545,964	\$ 17,449,984	\$ 142,995,948	\$ 198,069,171
Receivables	1,764,411,238	201,609,018	1,966,020,256	1,367,547,966
Investments, at fair value	36,968,599,267	4,131,186,949	41,099,786,216	36,905,790,171
Invested securities lending collateral	384,994,457	43,003,529	427,997,986	482,966,750
Prepaid expenses	382,129	30,416	412,545	144,842
Capital assets, net of accumulated depreciation	23,861,742	-	23,861,742	21,267,894
TOTAL ASSETS	39,267,794,797	4,393,279,896	43,661,074,693	38,975,786,794
LIABILITIES				
	4,887,186,237	546,957,010	5,434,143,247	5,283,857,205
NET POSITION - RESTRICTED FOR PENSIONS				
	\$ 34,380,608,560	\$ 3,846,322,886	\$ 38,226,931,446	\$ 33,691,929,589

The Statements of Changes in Fiduciary Net Position show the incoming revenue (additions) and outgoing expenses (deductions) of the Systems throughout the fiscal year.

Statements of Changes in Fiduciary Net Position				
<i>(For the year ended June 30, 2014 with comparative totals for the year ended June 30, 2013)</i>				
	PSRS	PEERS	Combined Totals Year Ended	
			June 30, 2014	June 30, 2013
ADDITIONS				
Employer contributions	\$ 643,989,869	\$ 100,699,735	\$ 744,689,604	\$ 731,099,648
Member contributions	679,390,918	106,420,656	785,811,574	769,196,044
Net investment income	4,927,192,395	544,153,967	5,471,346,362	3,732,260,107
Other income	6,171	977	7,148	20,305
TOTAL ADDITIONS	6,250,579,353	751,275,335	7,001,854,688	5,232,576,104
DEDUCTIONS				
Monthly benefits	2,180,546,938	196,744,702	2,377,291,640	2,234,427,197
Refunds of contributions	55,921,469	19,880,108	75,801,577	74,030,753
Administrative expenses	8,902,611	4,837,920	13,740,531	13,513,394
Other expenses	16,568	2,515	19,083	4,769
TOTAL DEDUCTIONS	2,245,387,586	221,465,245	2,466,852,831	2,321,976,113
NET INCREASE IN NET POSITION	4,005,191,767	529,810,090	4,535,001,857	2,910,599,991
NET POSITION - RESTRICTED FOR PENSIONS				
Beginning of year	30,375,416,793	3,316,512,796	33,691,929,589	30,781,329,598
End of year	\$ 34,380,608,560	\$ 3,846,322,886	\$ 38,226,931,446	\$ 33,691,929,589

Summary/Conclusion

We take pride in the positive impact we are able to make for our members and their families, as well as for our schools, communities and state. During fiscal year 2013-2014, we provided strong, stable and secure retirement benefits to 79,515 retirees and beneficiaries, and the highest quality member service to 120,757 actively working Missouri public school educators and education employees. During that year, we helped 4,807 members begin their retirement, and provided retirement counseling, education and assistance to thousands more.

The guaranteed retirement income provided by PSRS/PEERS also has a positive impact on our school districts, by helping them attract and retain talented education professionals and provide the best quality education for the students they serve.

Our ongoing passion for success and desire to continue to make a positive contribution to our state, our schools, and the well-being of our members, during both their working and retirement years, will keep us ***Building on the Past and Investing in Your Future.***

2014 Summary Report to Members
for the fiscal year ended June 30, 2014

PSRS/PEERS is pleased to present the **2014 Summary Report to Members** for the fiscal year ended June 30, 2014. This report highlights information from our most recent **Comprehensive Annual Financial Report**. Printed copies of the comprehensive report are available upon request, or may be viewed online at www.psr-peers.org.

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