

Comprehensive Annual Financial Report

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

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2014

M. Steve Yoakum
Executive Director

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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 the 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

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.

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Board of Trustees



Dr. Aaron Zalis
Chair
Elected PSRS
Member



Jason Hoffman
Vice Chair
Elected PEERS
Member



William Compere
Appointed Member



Yvonne Heath
Elected PSRS
Member



Wayne Wheeler
Appointed Retired
Member



Scott Hunt
Appointed Member



Susan McClintic
Elected PSRS
Member

Transmittal Letter



PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

December 31, 2014

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, 2014. *Building on the Past, Investing in Your Future...* we are proud to provide peace of mind 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.

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 19 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

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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 over 230,000 total members in 537 districts and other employers. Approximately \$2.4 billion is paid annually to over 79,000 service retirees and beneficiary recipients. At June 30, 2014, PSRS/PEERS had a market value of invested assets of approximately \$37.9 billion, making it larger than all other retirement systems in the state of Missouri combined.

Accounting Changes

The Systems implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, during the fiscal year. GASB Statement No. 67 required changes in the presentation of the financial statements, notes to the financial statements and required supplementary information. The statement does not affect the funding requirements for the plans, which continue to be calculated based on annual actuarial valuations in conformity with actuarial standards and practices and applicable statutes.

Investment Activities

The Systems achieved strong absolute and relative returns in fiscal year 2014. The Systems' investment portfolio added approximately \$5.5 billion in investment earnings to the growth of assets during fiscal year 2014. The Systems earned an investment return of 16.9% in fiscal year 2014, exceeding both the long-term investment goal (actuarially assumed return) of earning 8% and the total plan policy benchmark return of 15.5%. The Systems' return net of all fees and expenses was 16.7%. Over long periods of time, the Systems continue to produce investment returns that meet or exceed the Systems' objectives. The annualized investment return over the last 30 years is 9.9%.

Effective July 1, 2013, the invested assets of PSRS and PEERS were combined in a commingled investment trust, as allowed by state statute. The commingled assets are for the exclusive benefit of PSRS and PEERS and are discussed in greater detail in the financial and investment sections of this report. The commingled structure provides increased operational and strategic efficiency.

Additional detailed information regarding the Systems' investments, including policies and strategies, can be found in the Investment Section of this report beginning on page 45.

Funding Status and Valuation Results

The Board of Trustees reaffirmed the Systems' funding objectives during the year with the approval of the Actuarial Funding Policies. The funding objective of the Systems is to achieve a funded ratio of 100% over a closed 30-year period from fiscal year 2011 through fiscal year 2040. For funding purposes, the funded ratio is defined as the actuarial value of assets divided by the actuarial accrued liability determined under the entry age normal cost method and the actuarial assumptions adopted by the Board of Trustees. As of June 30, 2014, PSRS was 82.8% pre-funded, while PEERS was 85.1% pre-funded. Both Systems showed a significant increase in funding from the June 30, 2013 funded percentages of 80.1% for PSRS and 81.6% for PEERS. The increase in funding is due to favorable investment experience. Additional information on actuarial assumptions and funding can be found in the actuarial section of this report beginning on page 89.

Based upon the June 30, 2014 valuation, the Board of Trustees was able to set the fiscal year 2016 contribution rates at the fiscal year 2015 level for both members and employers. This was the fifth year that rates remained constant. The Systems have maintained solid funded positions without raising the contribution rates due to funding policies 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

Major Initiatives over the Past Year

Over the last few years, the Systems have been working with a third-party to implement a new pension administration solution. The new system was built on a framework and customized to meet the needs of PSRS/PEERS. It's a browser based solution referred to as OASIS (Online Automated System Integration Solution) and will assist the Systems in meeting a number of objectives including: improved data integrity, full transaction processing, improved internal controls, enhanced security, new reporting tools and improved interfaces for employers, members and the staff of the Systems. OASIS replaces the legacy system, which was first developed in the 1970's and the employer interface developed in 2000. OASIS has flexibility to be expanded and customized for future needs.

Legislative Changes During 2013-2014

There was no legislation during the 2014 legislative session that directly affected the Systems.

Awards

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

PSRS and PEERS each received the Public Pension Standards Awards in 2014 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, 2013. 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, applicable legal requirements and GFOA standards. 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

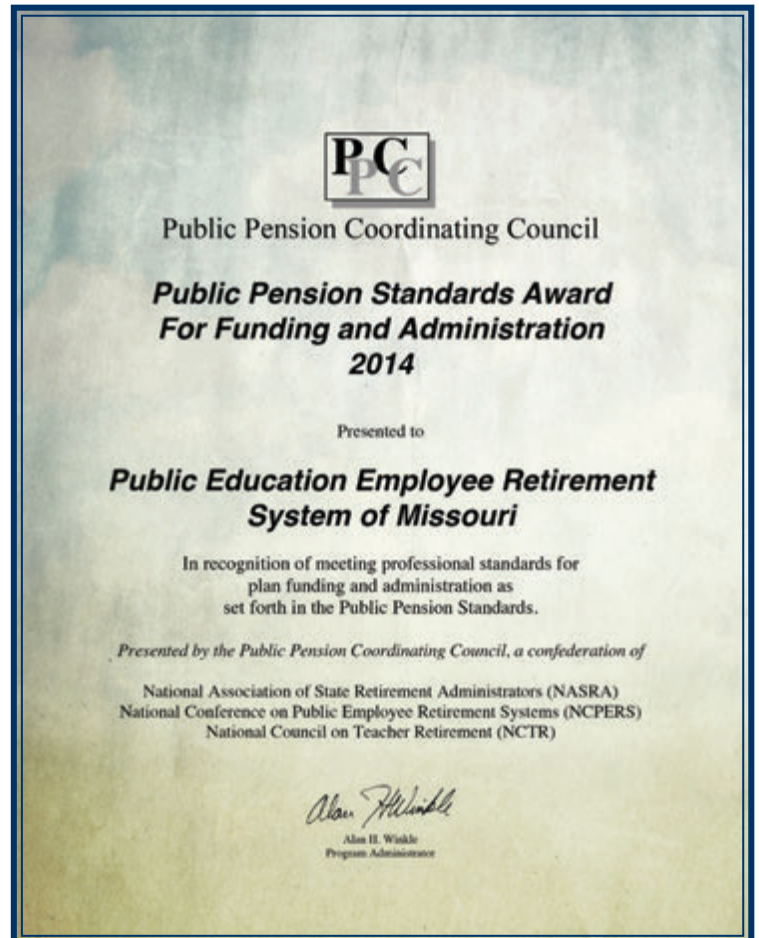
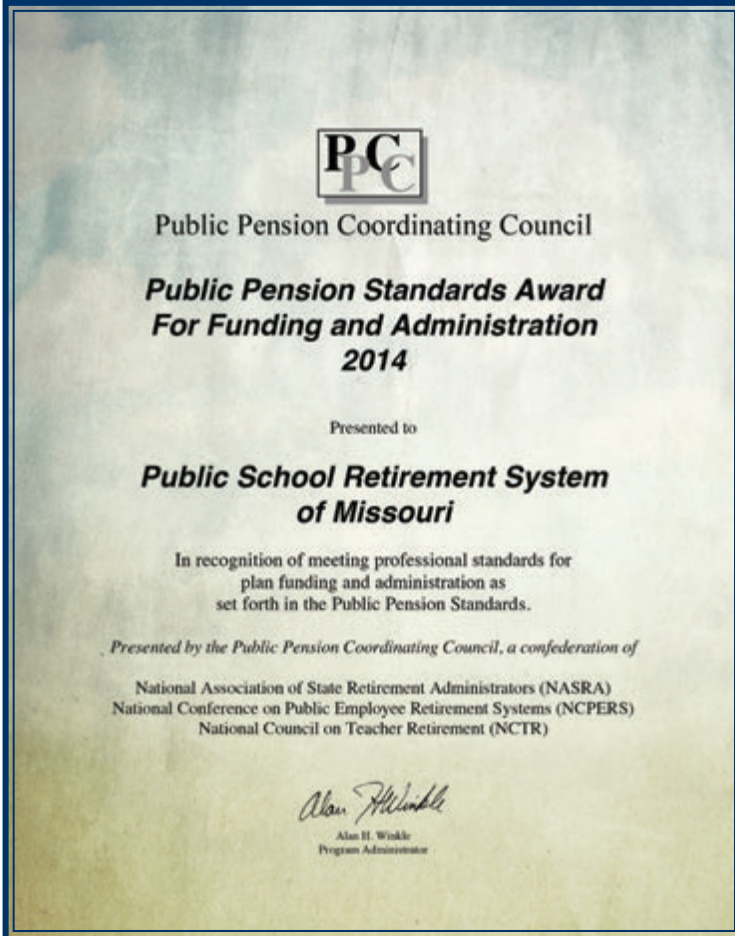
**The Public School and Education
Employee Retirement Systems
of Missouri**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Public Pension Coordinating Council
Public Pension Standards Awards



Administrative Organization



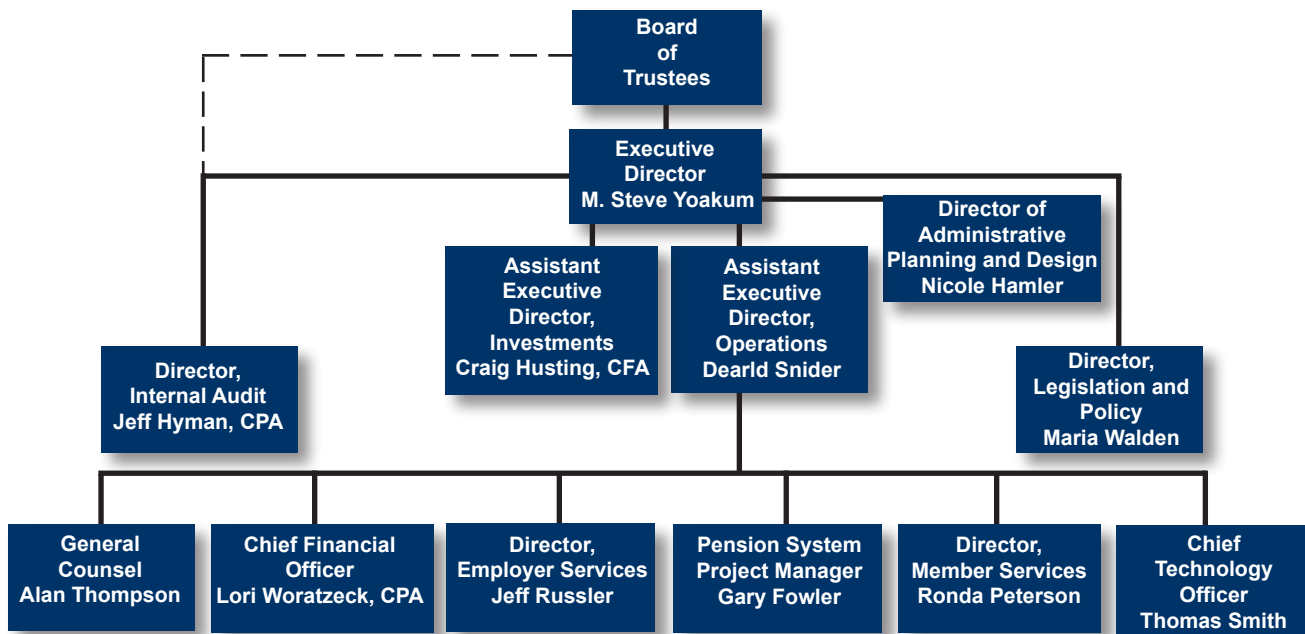
M. Steve Yoakum
Executive Director



Craig Hustung, CFA
Assistant Executive
Director, Investments



Dearld Snider
Assistant Executive
Director, Operations



Professional Services

June 30, 2014

Actuaries

PricewaterhouseCoopers, LLC

Cindy Fraterrigo, FSA, EA, MAAA
Sheldon Gamzon, FSA, EA, MAAA
Brandon Robertson, ASA, EA, MAAA
Chicago, Illinois
New York, NY

Auditor

Williams Keepers, LLC

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

Technology Consultants

Aspect Software, Inc.

Jim McPherson
St. Charles, MO

Fishnet Security, Inc.

Robert Richardson
Chicago, Illinois

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

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

Tom Iannucci
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 88. Schedules of broker commissions can be found on page 86. Additional information on Investment Managers can also be found in the Investment Section of this report.