

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2015

Financial
Security

Peace of
Mind in
Retirement

PSRS/PEERS

PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2015

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Peace of
Mind in
Retirement

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.



Financial Security

Peace of Mind – Before and During Retirement

At the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS), our job is to provide secure, lifetime retirement benefits to our members. But when you think about it, the benefits of membership add up to more than just the dollars.

In addition to financial security, we are proud to provide our members financial peace of mind. PSRS/PEERS membership brings with it the confidence of knowing you have a secure, stable retirement system standing with you, helping you provide for your retirement income, your family and your future.

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Board of Trustees



Dr. Aaron Zalis
Chair
Elected PSRS
Member



Jason Hoffman
Vice Chair
Elected PEERS
Member



Yvonne Heath
Elected PSRS
Member



Wayne Wheeler
Appointed Retired
Member



Scott Hunt
Appointed Member



Susan McClintic
Elected PSRS
Member

NOTE: As of the printing of this *Comprehensive Annual Financial Report*, one appointed Board position is vacant.

Transmittal Letter



PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

December 10, 2015

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, 2015. *Peace of Mind in Retirement*...in addition to financial security, we are proud to provide our members financial peace of mind before and during retirement.

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 Statues 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.

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Toll Free (800) 392-6848 **Email** psrpeers@psrpeers.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 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 250,000 total members in 537 districts and other employers. Approximately \$2.5 billion is paid annually to over 82,000 service retirees and beneficiary recipients. At June 30, 2015, PSRS/PEERS had a market value of invested assets of approximately \$38.6 billion, making it larger than all other retirement systems in the state of Missouri combined.

Investment Activities

The Systems earned an investment return of 4.5% for fiscal year 2015. The total plan return exceeded the total plan policy benchmark return of 3.5% but fell short of the long-term objective (actuarial assumption) of 8.0%. The Systems' 2015 fiscal year return net of all fees and expenses was 4.3%. Over long periods of time, the Systems continue to produce investment returns that meet or exceed the Systems' objective. The annualized investment return for the Systems' over the last five years is 11.3% and 9.1% over the last 30 years.

The investment return for the fiscal year was lower than the long-term expected return of 8.0% but far better than most other institutional investors. The Systems' investment return for fiscal year 2015 exceeded 85% of the peer group as defined by the Wilshire TUCS universe of public pension plans with assets in excess of \$1 billion. Additionally, the Systems generated the fiscal year 2015 return (and longer-term investment returns) while taking less risk than approximately two-thirds of comparable public funds in the United States.

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

As stated in the Systems', Actuarial Funding Policy, the funding objective of the Systems is to achieve a funded ratio of 100% over a closed 30-year period from fiscal year 2001 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, 2015, PSRS was 83.9% pre-funded, while PEERS was 86.8% pre-funded. Both Systems showed an increase in funding from the June 30, 2014 funded percentages of 82.8% for PSRS and 85.1% for PEERS. The increase in funding is due to favorable investment experience over the past five years. Additional information on actuarial assumptions and funding can be found in the actuarial section of this report.

Based upon the June 30, 2015 valuation, the Board of Trustees was able to set the fiscal year 2017 contribution rates at the fiscal year 2016 level for both members and employers. This was the sixth 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 long-term investment returns achieved by our internal investment staff and outside investment managers.

Transmittal Letter, continued

Legislative Changes During 2014-2015

There was no legislation during the 2015 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 2015 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, 2014. 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,

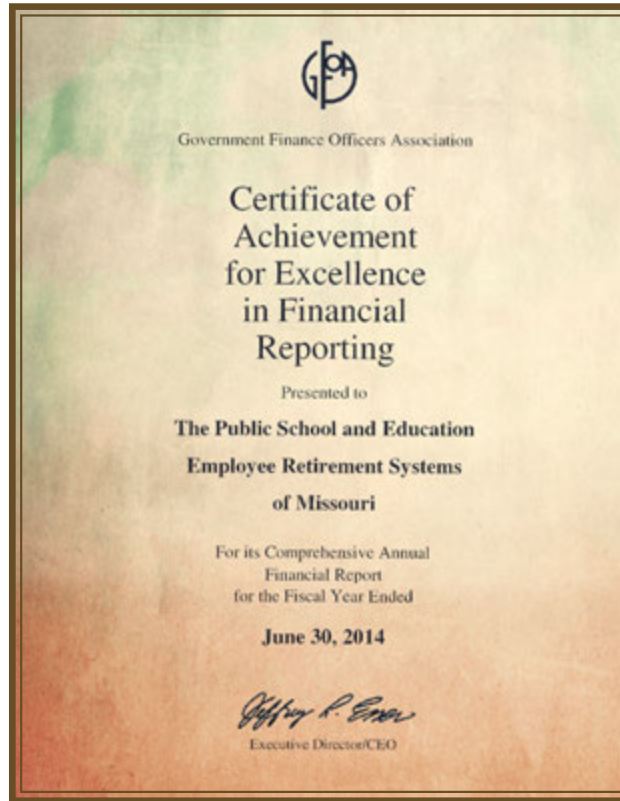


M. Steve Yoakum
Executive Director

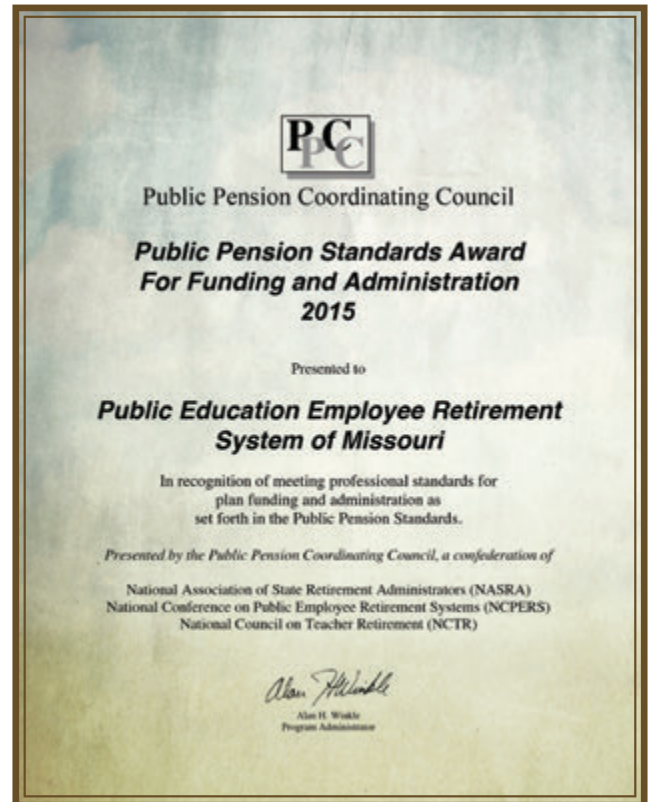
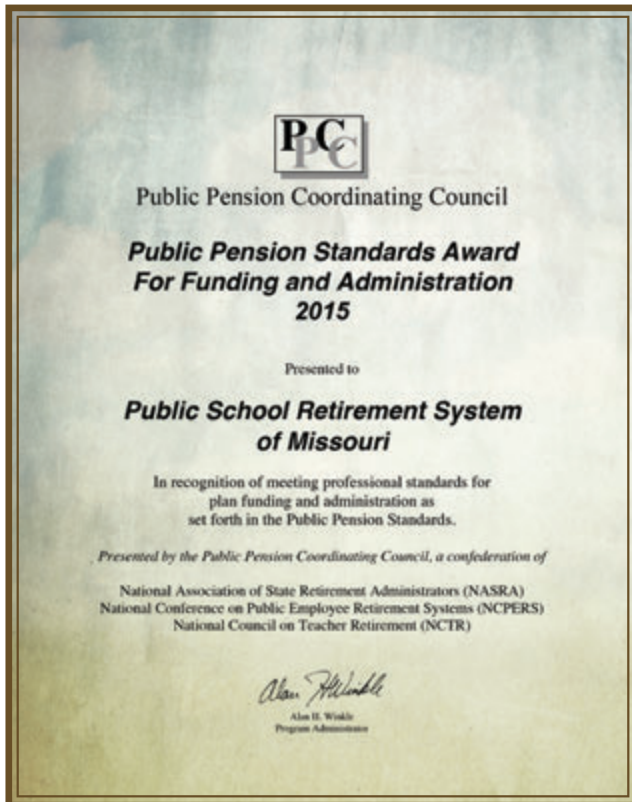


Anita Brand, CPA
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting



Public Pension Coordinating Council Public Pension Standards Awards



2015 Investor Intelligence Awards/Executive Director of the Year



Executive Director of the Year

In April 2015, Steve Yoakum, executive director of the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS), was named Executive Director of the Year by *Institutional Investor – Investor Intelligence Network*.

The annual Investor Intelligence Award is an honor that reflects industry-wide recognition of accomplishments during the past year. Nominees are selected by their peers at the world's largest pension funds, foundations, endowments and sovereign pools.

This award is the culmination of the dedication, teamwork and knowledge of the entire PSRS/PEERS staff, management and Board of Trustees.

Administrative Organization



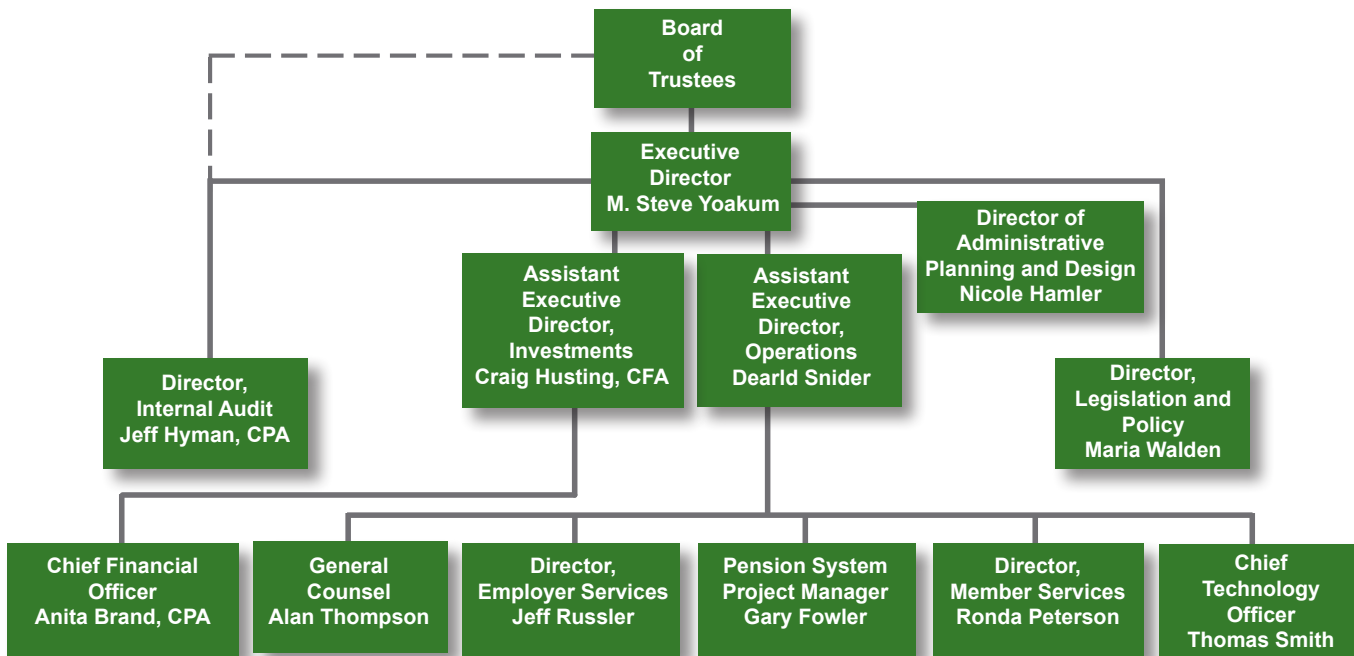
M. Steve Yoakum
Executive Director



Craig Hustung, CFA
Assistant Executive
Director, Investments



Dearld Snider
Assistant Executive
Director, Operations



Professional Services

June 30, 2015

Actuaries**PricewaterhouseCoopers, LLC**

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

Auditor**Williams Keepers, LLC**

Heidi A. Chick, CPA
 Nick Mestres, CPA
 Columbia, Missouri

Technology Consultants**AOS**

Adrian Archer
 Fenton, Missouri

Analytics 8

Annelise Lynch
 Chicago, Illinois

Fishnet Security, Inc.

Robert Richardson
 Chicago, Illinois

Huber & Associates

James Huber
 Jefferson City, Missouri

L.R. Wechsler, Ltd.

Ben Lott
 William Morrow
 Fairfax, Virginia

Nexum

Mike Scher
 Chicago, Illinois

PSC Group

Patrick Terry
 Schaumburg, Illinois

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

The Insurance Group

Jason Swindle
 Columbia, Missouri

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.