

# Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004

The Public School &  
The Non-Teacher School Employee



**M. Steve Yoakum**  
Executive Director

**Prepared by:**  
PSRS/NTRS Staff  
3210 W. Truman Boulevard  
Jefferson City, MO 65109  
(573) 634-5290  
(800) 392-6848

[www.psrntrs.org](http://www.psrntrs.org)

## Mission Statement

**The Public School Retirement System of Missouri and the Non-Teacher School Employee Retirement System of Missouri (PSRS and NTRS)** 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 NTRS 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 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, where applicable, the federal Social Security system.
- We shall 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 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.

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## Board of Trustees

As of June 30, 2004

**Wayne Wheeler**

Chair

Elected PSRS Member

Term Expires 6/30/04



**Peggy Preston**

Vice-Chair

Elected PSRS Member

Term Expires 6/30/08



**Cheryl Boggess**

Elected PSRS Member

Term Expires 6/30/06



**J. Richard Franklin**

Appointed Retired Member

Term Expires 6/30/07



**Nancy Gaines**

Elected NTRS Member

Term Expires 6/30/06



**Sherri Talbott**

Appointed Member

Term Expires 6/30/08



**John Kruse**

Appointed Member

Term Expires 6/30/06





December 1, 2004

**TO: Board of Trustees and Members of the Retirement Systems:**

I am pleased to present the *Comprehensive Annual Financial Report* of the Public School Retirement System of Missouri (PSRS) and the Non-Teacher School Employee Retirement System of Missouri (NTRS) for the fiscal year ended June 30, 2004. The management and staff of the Systems are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. To the best of our knowledge, the information presented is a fair and accurate portrayal of the financial position and operations of PSRS and NTRS as of June 30, 2004.

***Report Contents***

This report is presented in five sections:

- The Introductory Section contains general information about the Systems;
- The Financial Section contains the independent auditors' report, management's discussion and analysis of the financial statements, the financial statements and related notes, and required supplemental schedules;
- The Investment Section contains a summary of the investment activities during the year, including investment performance;
- The Actuarial Section reports the funded condition of both Systems, including a summary of major actuarial assumptions; and
- The Statistical Section contains general information concerning members, benefit recipients and finances.

***Overview of the Retirement Systems***

The Public School Retirement System of Missouri, a cost-sharing multiple employer retirement system, was established in 1946 by an act of the Missouri legislature to provide retirement, disability and death benefits to full-time, certificated employees in the public schools and four-year regional universities. It has been amended to include part-time certificated employees of public schools and no longer accepts new employees of the regional colleges and universities.

The Non-Teacher School Employee Retirement System of Missouri, also a cost-sharing multiple employer retirement system, was established in 1965 by an act of the Missouri legislature to provide retirement, disability and death benefits to non-certificated school employees in the public schools, community colleges and junior colleges who have elected to join the System.

***Financial Information***

The Systems' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB). A system of internal

controls is in place to help monitor and safeguard assets and promote efficient operations. An independent certified public accounting firm selected by the Board of Trustees performs a financial audit each year. In addition, the Systems employ an internal auditor who performs operational reviews to ensure that the internal controls are functioning effectively.

Please refer to the Management's Discussion and Analysis on pages 18 through 22 for an overview of additions to and deductions from the plans for the fiscal year.

### ***Investment Activities***

The total investment return for the Systems in 2004 was higher than the actuarial assumed return of 8% for the first time since fiscal year 1999. The total fund performance was 12.4% for PSRS and 12.1% for NTRS. The Systems' strong investment returns were aided by the rebounding stock markets throughout the world, which had returns in excess of 20%. Additional detailed information regarding the PSRS and NTRS investments can be found in the Investment Section of this report.

### ***Funding Status***

PSRS and NTRS are defined benefit retirement systems. This means that a formula made up of credit (years of service) times final average salary, times a multiplier (2.5% for PSRS and 1.61% for NTRS) determines each member's retirement benefit. The actuarial accrued liability is calculated for each System using the plan provisions in effect at the time of the calculation. Actuarial assumptions used in the calculation are recommended by the Systems' outside actuary and are based upon prior experience of the plans.

To determine the relative health of the Systems, the actuarial accrued liability is compared to the actuarial value of assets to arrive at a funded percentage. As of June 30, 2004, PSRS was 82.0% funded, while NTRS was 82.7% funded. This is a slight increase from the June 30, 2003 funded ratios of 81.1% for PSRS and 81.9% for NTRS.

The actuarial value of assets was determined using a "smoothing" method that requires all gains (earnings in excess of 8%) and losses (earnings below 8%) to be recognized over a five-year period. Because of this methodology, only one-fifth of the 2004 gains in excess of 8% have been recognized as of June 30, 2004.

Although the investment returns for the year exceeded the expected returns, we are still not able to fund the unfunded actuarial accrued liabilities of the Systems over a 30-year period. During the 2004 fiscal year, the contribution rates collected in PSRS exceeded the normal cost required to fund the System by 1.07%. In NTRS, the contribution rate was 0.14% less than the amount needed to fund the normal cost. The contribution rates will continue to rise each year until the rates collected above the normal cost rates are adequate to fund the unfunded actuarial accrued liability within a 30-year period. We believe that it is probable that these rate increases will continue over the next several years.

Based upon the June 30, 2004 actuarial valuations, the Board of Trustees has set the 2005-2006 contribution rates at 23% (11.5% for employees matched by the employer) for PSRS and 11.0% (5.5% for employees matched by the employer) for NTRS. The annual required contribution rates recommended by the actuary were 27.76% for PSRS and 12.56% for NTRS. The approved rates were set in accordance with the annual contribution rate increase limits set forth in the statute.

### ***Major Initiatives During 2003-2004***

Although no new legislation was enacted during the 2004 legislative session, many administrative initiatives were launched during fiscal year 2004. Some of these are summarized below:

- **Partial Lump Sum Option (PLSO)**

The Partial Lump Sum benefit payment option became effective on August 28, 2003. Under this option, qualified members can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time, lump-sum payment at retirement equal to 12, 24, or 36 times the Option 1, Single-Life benefit amount. To qualify to elect the PLSO, a member must have a minimum of 33 years of service, or be at least 63 with a minimum of eight years of service, or have their years of service plus their age equal 86 or greater (Rule of 86). During fiscal year 2004, 247 PSRS service retirees and 34 NTRS service retirees elected the PLSO option.

## INTRODUCTORY SECTION

- **Ticket to the Future**

During fiscal year 2004, a major technology initiative was launched that has been named the “Ticket to the Future.” This project encompasses several software projects that are being undertaken by the Systems. This initiative involves the following projects:

- **PeopleSoft Financial Management and Human Capital Management Implementation Project** – This project was launched in June 2004. In November 2004, we went live with this Web-based software. Over the next year, we will train employer school districts on the functionality available to view and pay contribution balances via the Web. In addition, we will be expanding the functionality available to internal staff.
- **Enterprise Content Management (ECM) Software and Backfile Conversion** – The System has contracted with eStream/Identitech to provide Enterprise Content Management software and to provide necessary services to image all member records. Over five million paper records will be converted to digital images that will be stored and accessed electronically. This project will allow us to set up workflows to electronically route retirement and withdrawal applications through the processing steps. It will also provide us with more effective disaster recovery options.
- **Expansion of the Member Education Program** – Over the past year, the Systems have focused a great deal of effort in providing additional educational opportunities to our members. Since we have experienced a 14% increase in office visitors, a 36% increase in educational events available to members, and a 13% increase in members attending pre-retirement planning seminars (previously referred to as regional retirement counseling), we have expanded the availability of these programs to our members. We began mailing a New Member Introduction Newsletter to all new members in August 2003.

### *Awards*

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 NTRS for the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2003. 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 comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both 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*

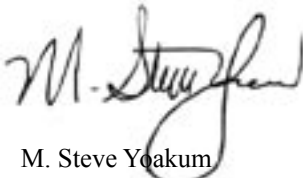
Certain professional services are provided to the Systems by retained consultants. The required opinion letters from two of those consultants, Gabriel, Roeder, Smith & Company, actuaries, and Williams Keepers LLC, independent certified public accountants, are contained elsewhere in this report.

Investment consulting services, as well as investment manager search assistance and investment performance analysis, have been provided by Russell Investment Group of Tacoma, WA.

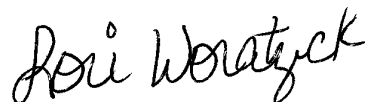
### *Acknowledgements*

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

Presented to

The Public School Ret. System  
of Missouri and the Non-Teacher  
School Employee Ret. System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emery".

Executive Director

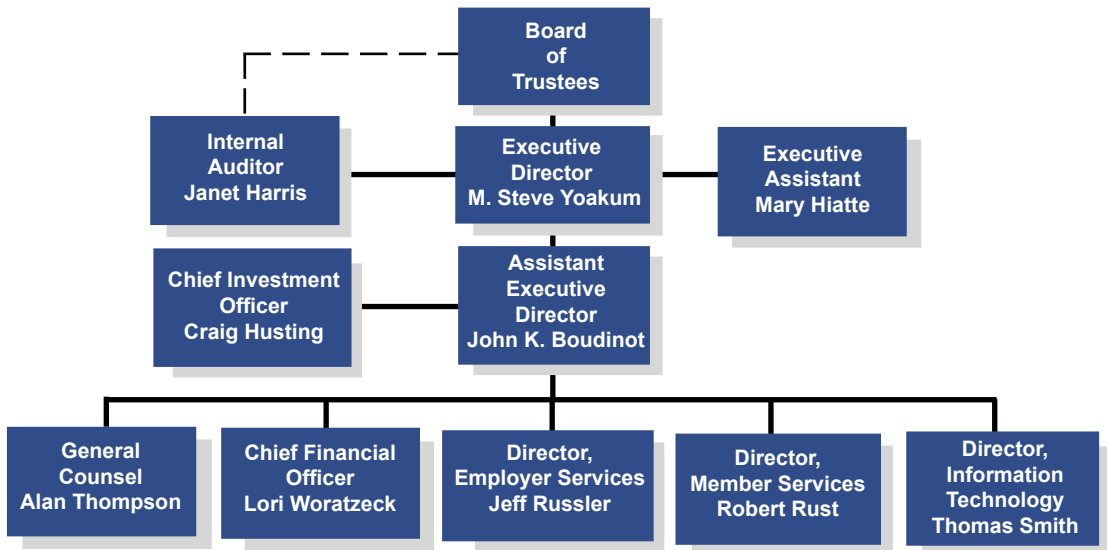
**INTRODUCTORY SECTION**

The Public School &  
The Non-Teacher School Employee



**Administrative Organization**

June 30, 2004



Pictured front row from left to right: John K. Boudinot, Assistant Executive Director; M. Steve Yoakum, Executive Director; Mary Hiatte, Executive Assistant; Middle row from left to right: Lori Woratzeck, Chief Financial Officer; Janet Harris, Internal Auditor; Back row from left to right: Craig Husting, Chief Investment Officer; Robert Rust, Director, Member Services; Thomas Smith, Director, Information Technology; Jeff Russler, Director, Employer Services; and Alan Thompson, General Counsel.

## Professional Services

June 30, 2004

### Actuary

#### **Gabriel, Roeder, Smith & Co.**

Actuaries and Consultants  
Norman S. Losk, F.S.A.  
Alex Rivera, A.S.A.  
Roseville, California

### Auditor

#### **Williams Keepers, LLC**

Michael J. Oldelehr, CPA  
Jill S. Hatfield, CPA  
Jefferson City, Missouri

### Computer Consultants

#### **Catalyst Group**

Michael Thibault  
Lenexa, Kansas

#### **Conqwest, Inc.**

Michelle Drolet  
Holliston, Massachusetts

#### **eVerge Group**

Brent Benn  
Plano, Texas

#### **eVisory**

Dan Elam  
Richmond, Virginia

#### **Huber & Associates, Inc.**

James Huber  
Jefferson City, Missouri

#### **IT Staffing, Inc.**

Davis R. Corlew  
Grand Junction, Tennessee

#### **Mitten Software**

Jim Morgan  
Minnetonka, Minnesota

#### **Total Network Integration**

Kirt Dunwoody  
Jefferson City, Missouri

### Insurance Consultant

#### **Charlesworth & Associates**

Bob Charlesworth  
Overland Park, Kansas

### Legal Counsel

#### **Thompson Coburn**

##### **Attorneys at Law**

Allen Allred  
St. Louis, Missouri

#### **Blackwell Sanders Peper**

##### **Martin, LLP**

Michael R. Annis  
St. Louis, Missouri

### Legislative Consultant

Jack Pierce  
Jefferson City, Missouri

### Medical Advisor

Andrew Matera  
Columbia, Missouri

### Investment Management Consultants\*

#### **Frank Russell Company**

Michael Hall  
Rachel Carroll  
Tacoma, Washington

#### **Pathway Capital Management**

Doug LeBon  
Irvine, California

#### **The Townsend Group**

Terry Ahern  
Linda Assante  
Cleveland, Ohio

### U.S. Equity Investment Advisors\*

#### **Alliance Capital Management**

John A. Koltas  
Elizabeth Smith  
Minneapolis, Minnesota

#### **Aronson & Johnson & Ortiz, LP**

Ted Aronson  
Martha Ortiz  
Philadelphia, Pennsylvania

#### **Chartwell Investment Partners**

Edward Antoian  
Timothy Riddle  
Berwyn, Pennsylvania

#### **DSI International**

John Holmgren, Jr.  
Norwalk, Connecticut

#### **State Street Global Advisors**

Arlene Rockefeller  
Michael Feehily  
Mary Guy  
Boston, Massachusetts

#### **Systematic Financial Management**

Kevin McCreesh  
James Wallerius  
Teaneck, New Jersey

#### **Thomson, Horstmann & Bryant, Inc.**

Richard Horstmann  
Al Thomson  
Saddle Brook, New Jersey

#### **Trust Company of the West (TCW)**

Glen Bickerstaff  
Brian Beitner  
Los Angeles, California

#### **UBS Global Asset Management**

John Leonard  
Steven E. Wilde  
Chicago, Illinois

#### **Westcap Investors**

Greg Weirick  
Robert Foran  
Los Angeles, California

(continued)

## Professional Services *(continued)*

### International Investment Advisors\*

#### AllianceBernstein Institutional Investment Management

Giulio Martini  
Elizabeth Smith  
New York, New York

#### AQR Capital Management

Robert Krail  
David Kabiller  
Greenwich, Connecticut

#### BPI Global Asset Management

Dan Jaworski  
Ryan Burrow  
Orlando, Florida

#### Citigroup Asset Management

Aquico Wen  
Alan Fressle  
London, England

#### INVESCO Global Asset Management

Erik Granade  
Lori McDermott  
Atlanta, Georgia

#### Julius Baer Investment Management

Riad Younes  
Brigid Flanagan  
New York, New York

#### Oechsle International Advisors

Kathleen Harris  
Jamie Macmillan  
Boston, Massachusetts

### Fixed Income Investment Advisors\*

#### BlackRock Financial Management

Andy Phillips  
Robert Capaldi  
New York, New York

#### NISA Investment Advisors

Jess Yawitz  
Robert Krebs  
St. Louis, Missouri

#### Payden & Rygel

Brian Matthews  
Michael Salvay  
Los Angeles, California

#### Seix Investment Advisors

Christina Seix  
Michael McEachern  
Woodcliff Lake, New Jersey

#### State Street Global Advisors

Sean Flannery  
John Kirby  
Mary Guy  
Boston, Massachusetts

#### Wellington Management Co., LLP

Tom Pappas  
Alexander Grant  
Boston, Massachusetts

#### Master Trustee/Custodian\*

#### State Street Bank and Trust Company

R. Scott Paton  
Steve Davies  
Boston, Massachusetts

### E-MAP U.S. Equity Advisors\*

#### Analytic Investors, Inc.

Harindra de Silva  
Los Angeles, California

#### Chartwell Investment Partners

David Dalrymple  
Berwyn, Pennsylvania

#### Legg Mason Capital Management

Bill Miller  
Baltimore, Maryland

#### New Amsterdam Partners

Michelle Clayman  
New York, New York

#### Next Century Growth Investors, LLC

Tom Press  
Minneapolis, Minnesota

#### Westwood Management Corporation

Susan Byrne  
Dallas, Texas

#### Zevenbergen Capital, Inc.

Nancy Zevenbergen  
Seattle, Washington

\*Information on investment management and consulting fees can be found in the Schedule of Investment Expenses on page 64.