

**Public School Retirement System
of the City of St. Louis**

1997 Annual Report

Table of Contents

I. INTRODUCTION	1
BOARD OF TRUSTEES	
ADMINISTRATIVE STAFF	
PROFESSIONAL ADVISORS	
II. LETTER OF TRANSMITTAL	5
III. FINANCIAL STATEMENTS	9
INDEPENDENT AUDITOR'S REPORT	11
STATEMENTS OF PLAN ASSETS	12
STATEMENTS OF CHANGES IN PLAN NET ASSETS	13
NOTES TO FINANCIAL STATEMENTS	14
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION	20
SCHEDULES OF FUNDING PROGRESS	21
SCHEDULES OF EMPLOYER CONTRIBUTIONS	22
SCHEDULES OF OPERATING EXPENSES	23
IV. INVESTMENT INFORMATION	25
ASSET ALLOCATION	25
INVESTMENT MANAGERS	27
EQUITY INVESTMENTS	28
BOND INVESTMENTS	29
BROKERAGE FEES	30
MARKET VALUE OF ASSETS	31
V. ACTUARIAL INFORMATION	32
REPORT OF THE ACTUARY	33
PRINCIPAL RESULTS OF THE ACTUARIAL REPORT	35
ACTUARIAL METHODOLOGY	36
ACTUARIAL ASSUMPTIONS	39
ACTUARIAL BALANCE SHEET	42
FUNDING STATUS	43
PRIORITIZED SOLVENCY TEST	44
VALUATION OF ASSETS	45
MEMBERSHIP INFORMATION	46
VI. SUMMARY OF BENEFITS	47

I. Introduction

Board of Trustees

An eleven-member Board of Trustees is responsible for general administration of the Retirement System as well as investment of the System's assets. Four trustees are appointed by the Board of Education; and seven are elected by members of the Retirement System. Terms of office are four years. Active Retirement System members elect five trustees – one administrator, two teachers, and two non-teachers. Retired members elect two trustees – one retired teacher and one retired non-teacher. As of January 1, 1998, the following individuals served on the Board of Trustees.

Appointed by the Board of Education

Mrs. Hattie Jackson
Ms. Marybeth McBryan
Ms. Dana Person
Mr. William Purdy

Elected by Retired Members

Mr. Norbert Eisele
Ms. Lois Jean Turner

Elected by Active Members

Mr. Joseph Clark
Mr. James Coppedge
Mr. James Irwin
Mr. John Miriani
Mr. Charles Shelton

Administrative Staff

The administrative staff members listed below are employed by the Retirement System.

Executive Director	Gail A. Lakin
Accounting Specialist	Marty Winters
Insurance Benefits Specialist	Carolyn M. Feuchtenbeiner
Member Services Supervisor	Evelyn E. Gass
Member Services Clerical Assistant	Jeanette Cooper
Member Services Clerical Assistant	Rita E. Thiel

Professional Advisors

The individuals and firms listed below provide professional services to the Retirement System, the Administrative Staff, and the Board of Trustees.

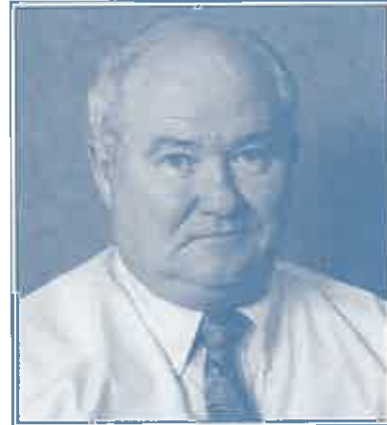
Legal Counsel	Larry L. Deskins Lewis, Rice & Fingersh, L.C.
Investment Advisor	Doris Ewing New England Pension Consultants
Independent Auditor	Thomas Helm Huber, Ring, Helm & Co.
Actuary	James S. Rubie, Jr. W. Alfred Hayes & Company

I. Introduction

BOARD OF TRUSTEES



Mr. Joseph Clark, Jr.



Mr. James A. Coppedge



Mr. Norbert Eisele



Mrs. Hattie R. Jackson



Ms. Marybeth McBryan



Mr. John Miriani

I. Introduction

BOARD OF TRUSTEES



Ms. Dana Person



Mr. William Purdy



Mr. Charles L. Shelton, Jr.



Ms. Lois Jean Turner



Mr. James D. Irwin, Chairman

I. Introduction

ADMINISTRATIVE STAFF



Carolyn M. Feuchtenbeiner



Evelyn E. Gass



Rita E. Thiel



Marty Winters



Gail A. Lakin, Executive Director

A photograph of Jeanette Cooper was not available for the report.

II. Letter of Transmittal

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
ONE MERCANTILE CENTER, SUITE 2607
ST. LOUIS, MO 63101-1657

OFFICE OF THE
EXECUTIVE DIRECTOR

PHONE: (314) 241-7763
FAX: (314) 241-1806

September 1, 1998

On behalf of the Retirement System's Board of Trustees, I am pleased to present the Annual Report of the Public School Retirement System of the City of St. Louis for the fiscal year ended December 31, 1997. This report provides summary and detailed financial, investment, actuarial, and statistical information about the status of the Retirement System. Responsibility for the contents and presentation of the data contained herein rest with the management of the System. To the best of our knowledge, management believes the information in this report is accurate in all material respects. Management also believes the information is presented in a manner that fairly represents the status of the Retirement System. We hope you find the report informative and helpful.

The Year in Review

Calendar year 1997 and the first half of 1998 have been very busy and productive. Two accomplishments are especially significant.

Investment Initiative

In conjunction with its Investment Consultant, the Board of Trustees conducted an asset / liability study. The study resulted in the development and adoption of an Asset Allocation Policy and comprehensive Investment and Operating Guidelines for the Retirement System's assets.

The Asset Allocation Policy improves diversification within the Retirement System's

investment strategy and is expected to increase long-term, risk-adjusted returns.

The Investment and Operating Guidelines provide a well-defined and objective method for directing investment managers and evaluating investment performance.

Benefits Initiative

The Board of Trustees and the Board of Education approved a Retirement System amendment that will provide a catch-up cost-of-living-adjustment (COLA) for retired members as well as the first material benefit improvement for active members in more than 35 years.

Increase for retired members. July 1, 2000, a catch-up COLA will provide adjustments in monthly benefit payments for members who retired before June 30, 1999. The catch-up COLA will assure that every retired member's monthly benefit reflects an increase of at least 65% of the Consumer Price Index for each year since the member retired.

Improvement for active members. For active members employed on June 29, 1999 who retire on or after June 30, 1999, the formula for calculating a benefit will increase

- from 1.25% of Average Final Compensation multiplied by years of Creditable Service
- to 2% of Average Final Compensation multiplied by years of Creditable Service (up to a maximum benefit of 60% of Average Final Compensation).

II. Letter of Transmittal (continued)

Internal Controls and Financial Summary

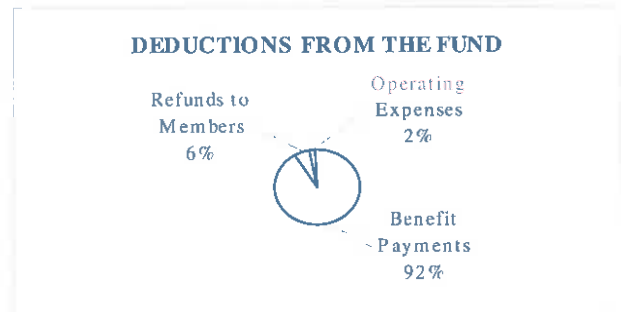
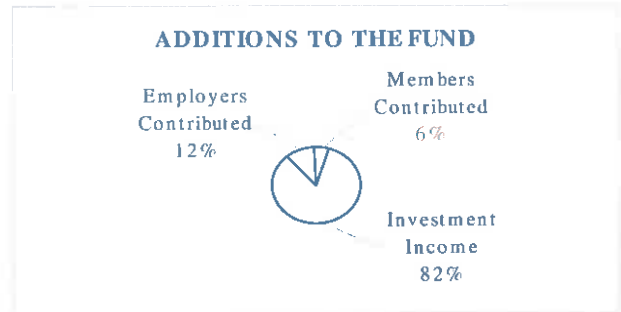
The Administrative Staff, in conjunction with the System's professional advisors, is charged with the responsibility of maintaining appropriate internal accounting and procedural controls. These controls provide reasonable assurance that the System's assets are protected from loss due to unauthorized use or disposition, that financial transactions are executed in accordance with proper authorization, and that transactions are recorded accurately to facilitate the annual preparation of audited financial statements that comply with generally accepted accounting principles.

The Retirement System's financial statements for the year ended December 31, 1997 were audited by Huber, Ring, Helm & Co., an independent accounting firm. No financial irregularities or weaknesses in internal controls were reported during the conduct of the annual audit.

Individuals who wish to review detailed financial information for the fiscal year ended December 31, 1997 are invited to refer to the audit report that is contained in Section III of this Annual Report. Summary financial information is provided below.

Net assets as of 12-31-96	\$668,219,529
Additions	
Employer contributions	16,915,031
Member contributions	8,416,441
Net investment income	120,281,688
Deductions	
Benefits paid to members	32,319,710
Refunds paid to members	2,079,582
Operating expenses	<u>866,467</u>
Net assets as of 12-31-97	\$778,566,930

Of particular interest is the fact that the Retirement System's assets increased by more than \$120 million during calendar year 1997. This compares with an increase of \$62 million in 1996. In addition, from 1996 to 1997, contributions remained stable, while benefit payments and refunds to members increased by approximately \$3 million.



Investment Performance

As of December 31, 1997, the Retirement System's assets were allocated as follows.

Domestic Equities	46%
International Equities	1%
Domestic Fixed Income	33%
Real Estate Investments	2%
Alternative Investments	5%
Cash	<u>13%</u>
Total Portfolio	100%

With respect to the allocation of assets as of December 31, 1997, the portfolio's high cash position warrants explanation. During the

II. Letter of Transmittal (continued)

last two weeks of December, the Retirement System raised sufficient cash to fund a 10% commitment to international equities pursuant to the newly adopted Asset Allocation Policy. On January 2, 1998, more than half of the cash that was on hand at the end of 1997 was used to fund the System's allocation to international equities.

Despite the fact that the System began implementing its long-term asset allocation strategy during calendar year 1997 (which caused significant portfolio restructuring during the fourth quarter), the System's total portfolio posted a return of 18.0% for the calendar year. This return compares favorably with the median fund in the Independent Consultants Cooperative (ICC) Public Total Funds Universe, which also earned an 18.0% return.

Additional information about the System's investments is provided in Section IV of this report.

Actuarial and Funding Summary

Each year, the Retirement System has an independent actuarial valuation conducted. The valuation has two primary purposes: (1) to measure the relative financial condition of the System, and (2) to determine the level of the annual contribution that should be made to the Retirement System during the upcoming year to assure that sufficient assets are available for benefit payments in the future.

In summary, the System's favorable actuarial experience for calendar year 1997 resulted in a decrease in the rate of the Annual Required Contribution from 8.03% to 7.27% of covered payroll. As part of the Benefits Initiative that was explained in the first section of this Letter of Transmittal, however, the Board of Education agreed to maintain its contribution

at 8.03% of covered payroll for 1998, 1999, and 2000. Therefore, even though its required contribution rate decreased, the Board of Education's actual contribution will increase from \$16,876,759 in 1997 to \$16,930,707 in 1998 to honor that commitment.

With respect to the funding status of the System, it is noteworthy that the System is 96% funded on an actuarial basis; and 116% funded on a market value basis. Additional detail on the System's funding status is provided on page 43 of this report. Briefly, the System's benefit obligations and the assets available to satisfy those obligations are set forth as follows:

Projected Benefit Obligations ... \$671,128,569

Net Assets Available for Benefits

Actuarial Value of Assets \$644,429,672

Market Value of Assets \$778,566,930

Funding Ratio (Obligation ÷ Assets)

Actuarial Value Funding Ratio 96%

Market Value Funding Ratio 116%

It is the opinion of the independent actuary that the Retirement System has been and will continue to be funded on a sound actuarial basis provided the required contributions are made as recommended.

Detailed actuarial information is provided in Section V of this report.

Retiree Health Care

Acknowledging that the proliferation of managed care health plans for Medicare recipients has caused health care administration to become increasingly complex, and recognizing the importance of health insurance to the System's retirees, the Trustees approved hiring an additional staff

II. Letter of Transmittal (continued)

member with expertise in retiree health care administration. In April of 1998, the Retirement System was fortunate to acquire an Insurance Benefits Specialist with more than 15 years of health care administration experience. We believe this addition will result in improved member services regarding the medical, dental and vision plans offered by the System. It will also permit a restructuring of other staff responsibilities that should improve the ability of the Member Services Staff to address needs and requests in a more timely and efficient manner.

Acknowledgments

The compilation of this report reflects the combined efforts of the Retirement System's administrative staff and professional advisors. It is intended to provide comprehensive and reliable information as a basis for making management decisions, evaluating statutory compliance, and determining appropriate stewardship for the System's assets.

I want to express my gratitude to the Board of Trustees for their support, their dedication, and the many hours of personal time they devoted to the System during the past year. I also want to recognize the outstanding quality of the services provided by the System's professional advisors. Finally, I want to thank the administrative staff – Rita, Jeanette, Evelyn, Carolyn, and Marty – for their enthusiastic assistance, expertise and hard work. The success story told by this Annual Report has been made possible only through the combined efforts of these and many other individuals.

We hope you find the report informative and useful.

Sincerely,



Gail A. Lakin
Executive Director

III. Financial Statements

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS**

FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND 1996

III. Financial Statements (continued)

INDEX

	<u>Page</u>
Independent Auditor's Report	11
Statements of Plan Net Assets	12
Statements of Changes in Plan Net Assets	13
Notes to Financial Statements	14-19
Independent Auditor's Report on Supplemental Information	20
Schedules of Funding Progress	21
Schedules of Employer Contributions	22
Schedules of Operating Expenses	23-24

III. Financial Statements (continued)

1600 S. Brentwood,
Suite 600
St. Louis, MO 63144

(314) 962-0300
FAX (314) 962-9474



3660 W. Clay
St. Charles, MO 63301

(314) 946-3366
FAX (314) 946-0753

A PROFESSIONAL CORPORATION
OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Trustees
The Public School Retirement System
of the City of St. Louis
St. Louis, Missouri

We have audited the accompanying statements of plan net assets of The Public School Retirement System of the City of St. Louis as of December 31, 1997 and 1996 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, investments in partnerships amounting to \$41,506,244 and \$38,511,892 (5 and 6 percent of plan net assets, respectively) as of December 31, 1997 and 1996 have been valued at cost. Generally accepted accounting principles require these investments to be recorded at fair value. The effect on the financial statements of not applying adequate procedures to determine the fair value of these investments is not determinable.

In our opinion, except for the effects of the procedures used to determine the valuation of investments in partnerships at December 31, 1997 and 1996, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the plan net assets of The Public School Retirement System of the City of St. Louis as of December 31, 1997 and 1996 and changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

Huber, Ring, Helm & Co., P.C.

St. Louis, Missouri
January 30, 1998

MEMBERS OF MISSOURI AND ILLINOIS SOCIETIES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF DFK INTERNATIONAL/OFFICES IN PRINCIPAL CITIES THROUGHOUT THE WORLD
MEMBERS OF THE SEC AND PRIVATE COMPANIES PRACTICE SECTIONS, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 1997 AND 1996**

ASSETS		1997	1996
CASH		\$ 2,708,503	\$ 2,458,546
RECEIVABLES			
Accrued interest and dividends			
Dedicated bond portfolio		1,911,747	2,036,003
Other portfolios		1,821,077	1,839,173
Total receivables		3,732,824	3,875,176
INVESTMENTS, at fair value (Note 3)			
Dedicated Bond Portfolio			
Cash equivalents		12,214,934	7,932,230
Bonds			
U.S. Government and agency issues		132,713,845	116,254,169
Corporate		91,054,007	91,292,545
		235,982,786	215,478,944
Other Portfolios			
Cash equivalents		123,514,178	41,670,675
Bonds			
U.S. Government and agency issues		9,926,600	4,444,692
Corporate		6,732,199	2,419,077
Preferred stocks		2,305	100,178
Common stocks		313,985,588	261,353,001
Regulated investment funds		34,564,011	89,088,383
Investment contracts with insurance companies		5,327,558	8,040,975
		494,052,439	407,116,981
		730,035,225	622,595,925
INVESTMENTS, at estimated fair value (Note 3)			
Real estate loans, first mortgages		769,985	974,660
INVESTMENTS, at cost (Note 3)			
Limited partnerships		12,196,102	8,922,101
Real estate partnerships		5,476,990	6,193,889
Venture capital partnerships		23,833,152	23,395,902
		41,506,244	38,511,892
Total investments		772,311,454	662,082,477
Total assets		778,752,781	668,416,199
LIABILITIES			
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		185,851	196,670
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
(A schedule of funding progress is presented on page 21)		\$778,566,930	\$668,219,529

The accompanying notes are an integral part of these financial statements.

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
STATEMENTS OF CHANGES IN PLAN NET ASSETS
DECEMBER 31, 1997 AND 1996**

ADDITIONS	<u>1997</u>	<u>1996</u>
Contributions		
Board of Education - City of St. Louis	\$ 16,846,507	\$ 16,572,934
Employees	8,416,441	8,251,909
Harris-Stowe State College	51,369	46,984
Retirement System Employees	<u>17,155</u>	<u>16,798</u>
	25,331,472	24,888,625
Net appreciation (depreciation) in fair value of investments		
Dedicated Bond Portfolio		
Cash equivalents	743,037	580,344
Bonds		
U.S. Government and agency issues	12,731,585	(2,883,716)
Corporate	12,349,270	8,639,478
Other Portfolios		
Cash equivalents	2,195,612	2,060,147
Bonds		
U.S. Government and agency issues	819,614	(465,963)
Corporate	(5,107)	490,289
Preferred stock	4,337	(244,131)
Common stock	71,677,632	44,453,100
Regulated investment funds	11,076,258	10,361,870
Investment contracts with insurance companies	772,865	448,860
Real estate loans	101,392	123,331
Limited partnerships	825,023	470,899
Real estate partnerships	(126,411)	585,239
Venture capital partnerships	<u>9,150,192</u>	<u>(1,086,471)</u>
	122,315,299	63,533,276
Less investment expense	<u>2,033,611</u>	<u>1,761,065</u>
Net investment income	<u>120,281,688</u>	<u>61,772,211</u>
Total additions	145,613,160	86,660,836
DEDUCTIONS		
Benefits paid		
Retirement and death benefits	28,806,449	26,356,068
Supplemental payments	<u>3,513,261</u>	<u>3,605,753</u>
	32,319,710	29,961,821
Operating expenses	866,467	789,632
Contribution refunds due to death or resignation	<u>2,079,582</u>	<u>1,323,342</u>
Total deductions	<u>35,265,759</u>	<u>32,074,795</u>
NET INCREASE	110,347,401	54,586,041
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	<u>668,219,529</u>	<u>613,633,488</u>
End of Year	<u>\$778,566,930</u>	<u>\$668,219,529</u>

The accompanying notes are an integral part of these financial statements.

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1997

NOTE 1 - DESCRIPTION OF SYSTEM

General

The Public School Retirement System of the City of St. Louis (System) is a funding agency existing under provisions of the Revised Statutes of the State of Missouri (the Statutes) to provide retirement benefits for all employees of the Board of Education of the City of St. Louis, of the System, and of certain employees of Harris-Stowe State College of St. Louis. The System is a single-employer defined benefit pension plan.

Operations and management of the System are generally prescribed in the Statutes and supervised by the Board of Trustees.

Membership

All persons employed on a full-time permanent basis are members of the System as a condition of employment. Membership statistics, as of the latest actuarial valuations, are as follows:

	January 1,	
	1997	1996
Active members	5,942	5,904
Inactive members	495	407
Total members not retired	<u>6,437</u>	<u>6,311</u>
Retired members		
Service and survivors	2,947	2,915
Disability	261	264
	<u>3,208</u>	<u>3,179</u>

III. Financial Statements (continued)

NOTE 1 - DESCRIPTION OF SYSTEM (CONTINUED)

Benefits

Upon retirement at age 65 (or at any age, if age plus years of creditable service add up to 85 or more), members receive monthly payments for life of yearly benefits equal to years of creditable service multiplied by 1¼% of average final compensation.

Members are eligible, after accumulation of five years of creditable service, for disability benefits. Survivors' benefits are available for beneficiaries of members who die after at least 18 months of active membership.

The System pays a portion of health insurance premiums for retirees under Section 169.476 of the Statutes, as an expense of the System.

In certain circumstances, retirees receive supplemental payments under Sections 169.475 and 169.585 of the Statutes, as an expense of the System.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of plan assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of additions and deletions to plan net assets during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Plan member contributions (4% of salaries) are mandatory and are recognized in the period in which contributions are due. Employer contributions to the plan are also mandatory and are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the term of the plan.

Tax Status

The System has been determined to be exempt from federal income taxes under Section 115 of the Internal Revenue Code.

III. Financial Statements (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Method Used to Value Investments

Unless otherwise noted, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the latest reported sales price at current exchange rates.

The real estate loans have effective interest rates ranging from 6.0% to 17.5% with varying maturities up to 30 years and are stated at the outstanding principal balance, which approximates estimated fair value.

For other investments for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs, therefore, these investments are reported at cost.

Investment Contracts with Insurance Companies

The System has entered into investment contracts with several insurance companies. The accounts are credited with actual earnings on the underlying investments and charged for plan withdrawals and administration expenses charged by the insurance companies. These investment contracts are stated at fair value as determined by the insurance companies.

Net Appreciation (Depreciation) in Fair Value of Investments

Net appreciation (depreciation) in fair value of investment includes: realized gains (losses), unrealized appreciation (depreciation), dividends, interest, and other investment income.

Furniture and Equipment

Acquisitions of furniture and equipment are charged to operating expense. The value of furniture and equipment owned by the System is deemed to be immaterial in relation to the total assets of the System.

III. Financial Statements (continued)

NOTE 3 - INVESTMENTS

At December 31, 1997 and 1996, investments consisted of the following:

	1997	
	Market Value	Cost
Dedicated Bond Portfolio		
Cash equivalents	\$ 12,214,934	\$ 12,214,934
Bonds		
U.S. Government and agency issues	132,713,845	135,777,458
Corporate	91,054,007	76,431,784
	235,982,786	224,424,176
Other Portfolios		
Cash equivalents	123,514,178	123,514,178
Bonds		
U.S. Government and agency issues	9,926,600	9,819,103
Corporate	6,732,199	8,604,681
Preferred stocks	2,305	419,264
Common stocks	313,985,588	237,314,124
Regulated investment funds	34,564,011	27,207,396
Investment contracts with insurance companies	5,327,558	4,371,286
	494,052,439	411,250,032
Real estate loans, first mortgages	769,985	769,985
Limited partnerships	12,196,102	12,196,102
Real estate partnerships	5,476,990	5,476,990
Venture capital partnerships	23,833,152	23,833,152
	41,506,244	41,506,244
	\$772,311,454	\$677,950,437

III. Financial Statements (continued)

NOTE 3 - INVESTMENTS (CONTINUED)

	1996	
	Market Value	Cost
Dedicated Bond Portfolio		
Cash equivalents	\$ 7,932,230	\$ 7,932,230
Bonds		
U.S. Government and agency issues	116,254,169	123,070,820
Corporate	91,292,545	82,822,132
	<u>215,478,944</u>	<u>213,825,182</u>
Other Portfolios		
Cash equivalents	41,670,675	41,670,675
Bonds		
U.S. Government and agency issues	4,444,692	4,685,953
Corporate	2,419,077	4,254,080
Preferred stocks	100,178	499,925
Common stocks	261,353,001	212,670,090
Regulated investment funds	89,088,383	75,802,024
Investment contracts with insurance companies	8,040,975	8,215,551
	<u>407,116,981</u>	<u>347,798,298</u>
Real estate loans, first mortgages	974,660	974,660
Limited partnerships	8,922,101	8,922,101
Real estate partnerships	6,193,889	6,193,889
Venture capital partnerships	23,395,902	23,395,902
	<u>38,511,892</u>	<u>38,511,892</u>
	<u>\$ 662,082,477</u>	<u>\$ 601,110,032</u>

III. Financial Statements (continued)

NOTE 4 - FUTURE MINIMUM LEASE PAYMENTS

The System leases office space under an operating lease expiring in 1999. Rent expense for the years ended December 31, 1997 and 1996 was \$32,704 and \$35,429, respectively. Approximate future minimum lease payments for the remaining term of the lease are as follows:

<u>Year</u>	<u>Minimum Lease Payments</u>
1998	\$ 32,704
1999	<u>19,077</u>
	<u>\$ 51,781</u>

NOTE 5 - CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments that potentially subject the Plan to concentrations of credit risk and market risk consist principally of cash, investments, and marketable securities. The System places its temporary cash investments with high-quality credit financial institutions and attempts to limit the amount of credit exposure. A significant portion of the Plan's net assets are held by Mercantile Bank of St. Louis, N.A.

The System has a significant amount of investments that are subject to market risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable. The other investments are also subject to risk. This risk is the possibility that, upon disposition, the value received may be less than the amount invested.

At December 31, 1997 and 1996, the System had approximately \$136,000,000 and \$50,000,000, respectively, invested in the Arch Money Market Fund at Mercantile Bank of St. Louis, N.A. this represents approximately 17% and 7% of Plan Net Assets. In January 1998, a significant portion of the Arch Money Market Fund was reallocated to other types of investments.

NOTE 6 - RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to make them consistent with the 1997 presentation.

III. Financial Statements (continued)

1600 S. Brentwood,
Suite 600
St. Louis, MO 63144

(314) 962-0300
FAX (314) 962-9474



3660 W. Clay
St. Charles, MO 63301

(314) 946-3366
FAX (314) 946-0753

A PROFESSIONAL CORPORATION
OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report On Supplemental Information

The Board of Trustees
The Public School Retirement System
of the City of St. Louis
St. Louis, Missouri

Our report on our audits of the basic financial statements of The Public School Retirement System of the City of St. Louis for 1997 and 1996 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of funding progress and employer contributions are presented for the purpose of additional analysis and are a required part of the basic financial statements. The supplemental schedules of operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. All of the supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Huber, Ring, Helm + Co., P.C.

St. Louis, Missouri
January 30, 1998

MEMBERS OF MISSOURI AND ILLINOIS SOCIETIES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF DFK INTERNATIONAL/OFFICES IN PRINCIPAL CITIES THROUGHOUT THE WORLD
MEMBERS OF THE SEC AND PRIVATE COMPANIES PRACTICE SECTIONS, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
SCHEDULES OF FUNDING PROGRESS**

(in millions)

DECEMBER 31, 1997

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)
1996	\$562.2	\$664.8	\$102.6
1997	598.6	716.7	118.1

Actuarial Valuation Date January 1,	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1996	84.6%	\$206.9	49.6%
1997	83.5	210.2	56.2

See independent auditor's report on supplemental information.

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 1997**

Employer Contributions

Fiscal Year	Annual Required Contribution	Percent Contributed
1996	\$ 16,637,000	100%
1997	16,916,000	100%

The information presented in the required supplemental schedules was determined as part of the actuarial valuation prepared by W. Alfred Hayes and Company at January 1, 1997. Additional information per the above actuarial valuation follows:

Actuarial cost method:	Frozen entry age
Rate of investment return:	6.50%
Turnover or withdrawal rates:	Various by age and year of membership based on actual experience of the System
Mortality or death rates:	1983 Group Annuity Mortality Tables for males and females is used for active members and the same table with ages set up one year for retired members and beneficiaries
Disability rates:	Various by age of active members based on actual experience of the System
Rates of retirement between ages of 55 and 70:	Various based on actual experience of the System
Rate of salary increases:	4.5% to 6.0%
Asset valuation method:	Dedicated Bond Portfolio - discounted projected cash flow of the principal and coupon income of the assets. All Other Assets - the assumed yield method of valuing assets, less the expense and contingency reserve.

The unfunded actuarial accrued liability as of January 1, 1981 is amortized over the period ending October 13, 2011, while subsequent supplements are amortized over a period of 50 years from the year created.

See independent auditor's report on supplemental information.

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS**

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
Actuarial services	\$145,125	\$166,435
Auditing fees	20,350	19,200
Accounting fees	30,475	60,433
Computer programming and consultation	2,186	7,950
Convention, conferences, seminars		
Executive Director	3,114	3,055
Trustees (Page 24)	25,935	27,836
Dues and subscriptions	3,372	3,513
Executive Director - miscellaneous	1,080	1,025
Furniture and equipment	1,395	9,288
Insurance - group hospitalization	15,205	15,872
Insurance - casualty and bonding	25,536	26,088
Legal fees and expense	152,232	91,375
Medical fees	785	800
Office repairs and maintenance	6,037	5,240
Office supplies and expense	10,548	9,147
Postage	44,063	32,304
Pension contribution	17,155	16,798
Printing and stationery	18,800	18,045
Rent - office	33,782	35,695
Salaries - administrative and clerical	239,714	205,930
Payroll taxes	19,515	14,484
Telephone	5,934	4,872
Miscellaneous expense	44,129	14,247
	<u>\$866,467</u>	<u>\$789,632</u>

See independent auditor's report on supplemental information.

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS**

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 1997 AND 1996

Trustees Expenses

The trustees attended conferences and business meetings in connection with business of the System. The Trustees received no salaries but were allowed expenses relating to their attendance at such events as follows:

	<u>1997</u>	<u>1996</u>
Transportation and registration	\$ 7,466	\$10,012
Lodging, meals, and miscellaneous	15,974	16,124
Other	<u>2,495</u>	<u>1,700</u>
Total	<u>\$25,935</u>	<u>\$27,836</u>

See independent auditor's report on supplemental information.

IV. Investment Information

One of the most important responsibilities of the Board of Trustees is investment of the Retirement System's assets. With respect to institutional investing, three central concepts are critical to long-term success: (a) a plan's Asset Allocation Policy, (b) its Investment Policies and Guidelines, and (c) the procedures adopted for selecting and monitoring individual investment managers.

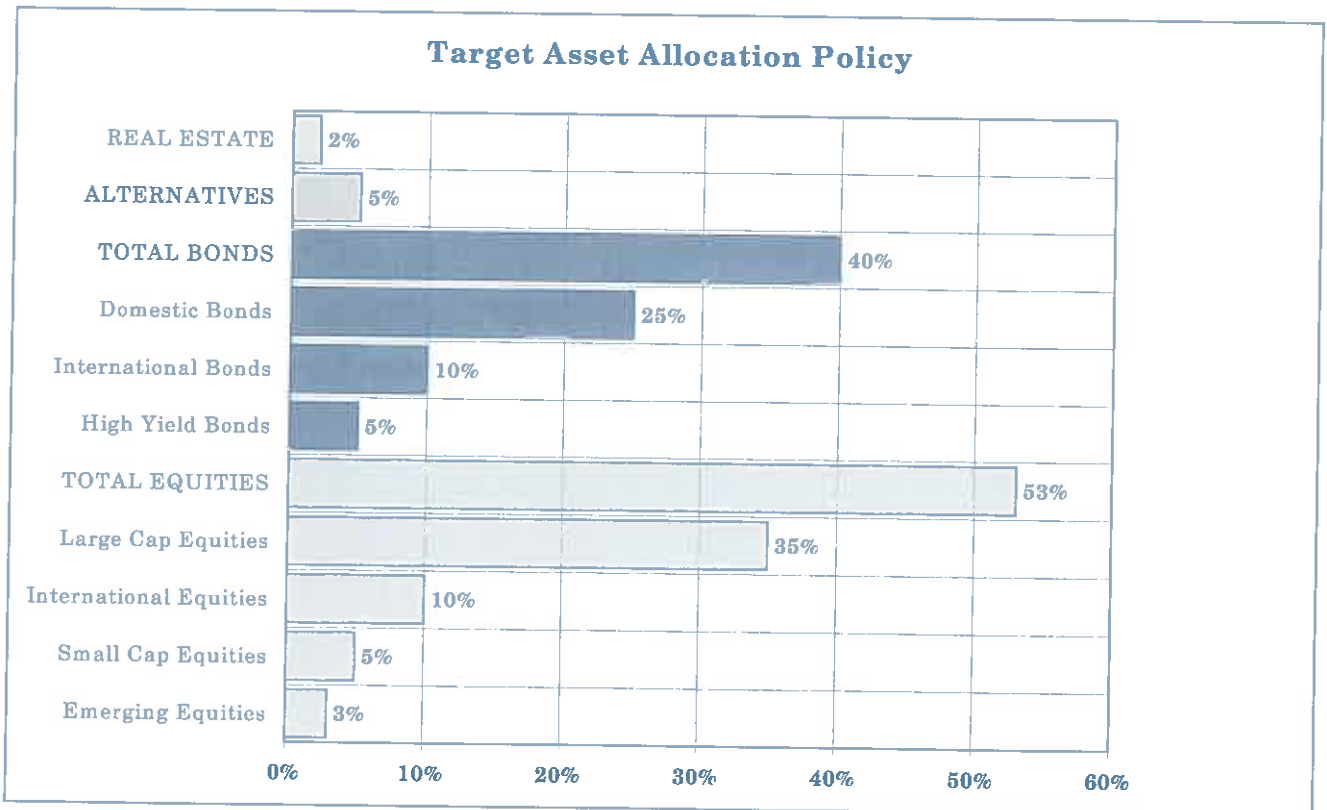
Asset Allocation Policy

Based on a retirement system's demographics, cash flow needs, funding policy, and general financial condition, it is important to define how a plan's investment funds should be apportioned among various categories and sub-categories of assets. In fact, some pension consultants believe that up to 90% of a retirement system's returns are derived from its Asset Allocation Policy – crediting only 10% to the performance of individual managers selected to invest assets.

Assuming a long-term investment horizon, a retirement system's Asset Allocation Policy should define an asset mix that will be appropriate for the system in both up and down markets, achieving the best overall returns while mitigating risk and volatility.

In late 1996, through an RFP and interview process, the Board of Trustees retained a well respected consulting firm, New England Pension Consultants, to conduct an asset-liability study and recommend an Asset Allocation Policy appropriate for the Retirement System.

The Target Asset Allocation Policy that was adopted by the Board of Trustees in February of 1997 is shown graphically below. It was designed to diversify the investments of the Retirement System within and across asset categories at a level of investment risk appropriate for the cash flow needs and long-term liabilities of the System.



IV. Investment Information (continued)

Investment Policies and Guidelines

After adopting the Target Asset Allocation Policy, New England Pension Consultants worked with the Board of Trustees to develop comprehensive Investment Policies and Operating Guidelines. These documents define the investment-related responsibilities of the Trustees and of the investment managers the Trustees retain to manage the assets of the System.

The documents also detail the System's investment goals, provide explicit descriptions of permissible and prohibited investments by asset category, outline reporting requirements, and articulate objective standards of performance by which each investment manager must agree to be monitored and measured over reasonable periods of time.

Selection and Monitoring Procedures

➤ *Manager Selection*

Once the Asset Allocation Policy and the Investment Policies and Guidelines were in place, the Trustees initiated the tedious task of bringing the System's portfolio into compliance with its newly adopted strategies.

The portfolio restructuring process began with fixed income. The Trustees conducted an extensive evaluation of incumbent managers to identify those who should be retained. They also conducted numerous searches to select new managers for fixed income investment assignments.

Each manager search was performed in several phases. Initially, New England Pension Consultants prepared a comprehensive report containing profiles of the most qualified managers for a given assignment. After evaluating these

profiles, the Board of Trustees invited at least three managers to make presentations. Following presentations, New England Pension Consultants was directed to negotiate "best and final" fee arrangements with the manager deemed most capable of meeting the System's needs. Finally, the successful candidate was required to execute an Investment Management Agreement wherein the manager acknowledged his/her ability and willingness to comply with the System's Investment Policies and Guidelines.

During 1998, the Trustees initiated the same process for restructuring components of the System's equity investments. It is expected that restructuring of the Retirement's entire portfolio will be completed by the end of the year.

➤ *Monitoring Procedures*

On a quarterly basis, New England Pension Consultants delivers to and reviews with the Trustees a thorough report. The quarterly report contains a description of market conditions, an analysis of the overall performance of the System's portfolio, and evaluations of each investment manager relative to the benchmarks by which the manager has agreed to be monitored. This framework for routine reporting and regular, constructive communication between the Retirement System and its managers permits the Trustees to take prompt remedial action when appropriate and assures that the System's portfolio remains in compliance with its investment strategies on an ongoing basis.

Investment Performance

As mentioned in the Transmittal Letter section of this Annual Report, despite the extensive restructuring that took place

IV. Investment Information (continued)

during 1997, the System's assets increased by more than \$120 million. In terms of investment performance, the portfolio posted a return of 18.0%. This return compares favorably with the median fund in the Independent Consultants Cooperative (ICC) Public Total Funds Universe, which also earned an 18.0% return.

Investment Statistics

Below and on the following three pages are statistics regarding the Retirement System's investment managers, securities held in the portfolio, and brokerage fees paid in 1997.

Investment Managers as of December 31, 1997 (000s Omitted)

Investment Manager	Asset Class	Market Value of Assets Under Management *
DEM-MET	Equities - Domestic	\$10,101
Progress Trust	Equities - Domestic	10,543
General American	Equities - Large Cap Core	23,326
Mississippi Valley Advisers	Equities - Large Cap Core	86,533
NCM Capital Management	Equities - Large Cap Core	21,718
New Amsterdam	Equities - Large Cap Core	30,773
Buford, Dixon & Sparrow	Equities - Large Cap Growth	875
Daedalus	Equities - Large Cap Growth	19,179
Mark Twain	Equities - Large Cap Growth	24,380
Monetary Management	Equities - Large Cap Growth	4,459
Weatherfield	Equities - Large Cap Growth	17,226
Edgar Lomax	Equities - Large Cap Value	6,550
NationsBank	Equities - Large Cap Value	48,863
Vuong	Equities - Large Cap Value	5,882
Woodford Gayed	Equities - Large Cap Value	7,981
Stifel Nicolaus	Equities - Medium Cap Core	11,487
Evergreen	Equities - Medium Cap Value	21,304
Dimensional Fund Advisers	Equities - Small Cap	9,145
Thomson Horstmann	Equities - Small Cap Value	25,609
New Africa Advisers	Equities - International	4,613
Putnam **	Equities - International	50,085
Abacus Financial	Fixed Income	4,024
General American	Fixed Income	3,784
John Hancock	Fixed Income	238,614
Smith Graham	Fixed Income	7,738
Stifel Nicolaus	Fixed Income	6,915
Alternative Investments ***		41,506
Cash		35,354
TOTAL		\$778,567

* Market Value of Assets Under Management includes uninvested cash.

** Putnam was added January 2, 1998.

*** Alternative Investments are carried at cost.

IV. Investment Information (continued)

Equity Investments

On an overall basis, the System's equity investments are reflected by the following statistics:

1997 Return	25.7%
Average Market Capitalization	\$29,336,100,000
P/E Ratio	20.36
Price/Book Ratio	4.91
Five Year Earnings Growth Rate	20.0

Ten Largest Equity Holdings

<u>Company</u>	<u>Dollar Value</u>	<u>Percent of Portfolio</u>	<u>Company</u>	<u>Dollar Value</u>	<u>Percent of Portfolio</u>
Philip Morris	\$4,719,575	1.5%	Sun Microsystems	\$3,704,852	1.2%
SmithKline Beecham	4,495,856	1.4%	Compaq Computer	3,562,325	1.1%
Merck & Co.	3,975,000	1.2%	Hewlett Packard	3,424,662	1.1%
Bristol Myers Squibb	3,955,534	1.2%	Wal Mart Stores	3,356,344	1.0%
General Electric	3,903,816	1.2%	Pepsico	3,327,025	1.0%

Ten Best Performing Equity Holdings

<u>Company</u>	<u>Dollar Value</u>	<u>Return</u>	<u>Company</u>	<u>Dollar Value</u>	<u>Return</u>
Filenet Corp	\$430,788	94.4%	AT&T Corp.	\$2,691,641	39.3%
ACC Corp.	202,000	53.6%	Gulf South Med Supply	506,600	39.3%
Handy & Harman	165,600	51.2%	TeleCommunications	1,773,057	36.3%
Best Buy Inc.	39,646	49.4%	Albertsons Inc.	1,861,650	36.1%
MCI Communications	2,059,305	45.8%	Analysts International	558,900	33.9%

Ten Worst Performing Equity Holdings

<u>Company</u>	<u>Dollar Value</u>	<u>Return</u>	<u>Company</u>	<u>Dollar Value</u>	<u>Return</u>
Pegasus Gold Inc.	\$22,375	-88.9%	Seagate Technology	\$716,100	-46.9%
Zoltek Companies Inc.	1,672,500	-56.2%	Freeport-McMoran	14,175	-44.9%
Cabletron Systems Inc.	12,000	-53.1%	Green Tree	959,555	-44.1%
United Companies Final	236,468	-50.6%	New VY Corp.	283	-42.9%
Carrizo Oil & Gas Inc.	91,350	-47.5%	Frontier Insurance Group	91,500	-39.6%

IV. Investment Information (continued)

Bond Investments

The System's bond investments have an overall average maturity of 11.88 years, a duration of 6.89 years, and an average quality rating of 9.36. During 1997, the System's bond portfolio earned 10.4%. A statistical description of the bond investments is shown below.

Bond Portfolio Maturity in Years	Percent of Portfolio
0.0 - 1.0	11.5%
1.0 - 3.0	13.5%
3.0 - 5.0	11.5%
5.0 - 10.0	22.5%
10.0 - 20.0	21.5%
20 +	17.3%

Bond Portfolio Duration in Years	Percent of Portfolio
0.0 - 1.0	11.7%
1.0 - 3.0	15.8%
3.0 - 4.0	6.9%
4.0 - 6.0	10.7%
6.0 - 8.0	17.5%
8.0 +	35.1%

Bond Portfolio Quality Rating	Percent of Portfolio
Government (10)	44.1%
Aaa(10)	19.2%
Aa(9)	7.0%
A(8)	20.1%
Baa(7)	3.6%
Below Baa(6-1)	0.7%
Other	5.2%

IV. Investment Information (continued)

Brokerage Fees Paid in 1997			
A. G. Edwards	\$18,803.27	Investment Technology Grp.	207.48
Abel Noser Corp.	90.00	J. A. Glynn	3,755.50
Advest	780.00	Jackson Partners	102.00
Alex Brown & Sons	2,270.46	Jeffries	2,161.00
Autranet Inc.	3,102.00	Kemper Capital Market	1,470.00
Bear Stearns	2,934.00	Lewco Securities	1,564.80
Bridge Trading - Ernst Co.	5,034.00	Lynch, Jones & Ryan	1,080.00
Brooks Investment Corp.	108.00	McDonald & Co.	750.00
Cantor Fitzgerald	612.00	Merrill Lynch	36,889.44
Capital Institutional Svcs.	14,518.38	Morgan Equities Inc.	686.52
Chapman Co.	2,057.70	Morgan Stanley	1,160.40
Correspondent Svcs Co.	988.84	Oppenheimer	4,784.10
Cowen & Co.	84.00	Paine Webber	235.14
Dain Bosworth	1,530.00	Prudential - Ken Neely	33,584.66
Dean Witter Reynolds	557.40	Prudential - Daedalus	34,902.00
Donaldson Lufkin	4,460.50	Prudential	47,322.34
Edward Jones	1,950.00	Rauscher Pierce Refsnes	11,929.74
Eppler Guerin & Turneer	1,356.00	Salomon Brothers, Inc.	47.84
First Boston	198.00	SBK - Brooks Invest Corp.	90.00
Gardner Rich & Co.	7,452.00	Second Street Securities	982.56
Goldman Sachs	1,068.00	Smith Barney Shearson	6,489.88
Grayson Wayne Capital	6,125.00	Standard/Poor Securities	6,329.34
Instinet	1,284.61	Stifel Nicolaus	475,074.20
Internal Transaction	90.00	UBS Securities	48.00
Interstate - Johnson Lane	5,889.40	Weiss Peck & Greer	144.00
		Williams Capital Group	264.84
TOTAL			\$755,399.34

V. Investment Information (continued)

Market Value of Assets

Investment Category	As of December 31, 1995		As of December 31, 1996		As of December 31, 1997	
	Market Value	% of Total	Market Value	% of Total	Market Value	% of Total
Cash, Receivables and Cash Equivalents	\$45,708,066	7.4%	\$55,739,957	8.3%	\$141,984,588	18.2%
U.S. Bonds, Bills and Mortgages	111,418,731	18.2%	120,698,861	18.1%	142,640,445	18.3%
Corporate Bonds	92,688,139	15.1%	93,711,622	14.0%	97,786,206	12.6%
Preferred Stocks	2,820,430	0.5%	100,178	0.0%	2,305	0.0%
Common Stocks	256,329,557	41.8%	261,353,001	39.1%	313,985,588	40.3%
Regulated Investments	68,267,595	11.1%	89,088,383	13.3%	34,564,011	4.4%
Contracts with Life Insurance Companies	7,592,115	1.2%	8,040,975	1.2%	5,327,558	0.7%
Mortgages	1,265,709	0.2%	974,660	0.1%	769,985	0.1%
Alternative Investments *	27,543,146	4.5%	38,511,892	5.8%	41,506,244	5.3%
Total	\$613,633,488	100.0%	\$668,219,529	100.0%	\$778,566,930	100.0%

* Carried at Cost Value

V. Actuarial Information

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS**

**ACTUARIAL VALUATION
AS OF
JANUARY 1, 1998**

AUGUST, 1998

V. Actuarial Information

SECTION 1

REPORT OF THE ACTUARY

PURPOSE OF THE REPORT

This report is submitted in accordance with Section 169.450-15 Revised Statutes of Missouri (R.S. Mo.) 1997 and amendments which require the actuary to make an annual valuation of the assets and liabilities of the System. The purpose of the actuarial valuation is twofold: (1) to determine the required annual contributions from the Board of Education, the Retirement System and Harris-Stowe State College (or the State of Missouri); and (2) to develop information to measure the relative financial condition of the System.

The required contribution to the Retirement System from the Board of Education, the Retirement System and Harris-Stowe State College (or the State of Missouri) is computed in accordance with Section 169.490 R.S. Mo. 1997. The amount of the required contribution is stated in Section 2 of this report. A description of the actuarial cost method and assumptions appears in Section 3.

This actuarial valuation report reflects the changes in actuarial assumptions and the actuarial asset valuation method adopted by the Board of Trustees, following the five-year experience analysis for the period ending December 31, 1994. It also reflects the change in Rule XI regarding the determination of the Expense and Contingency Reserve adopted effective with the January 1, 1996 actuarial valuation. It does not reflect the benefit increases scheduled to take effect July 1, 1999, nor does it reflect the increases in the member contribution rate scheduled to take effect July 1, 1998.

Information concerning the financial condition and factors affecting it will be found throughout the report. There is no generally accepted single measure or standard for determining whether or

not a retirement system is "actuarially sound." The financial health of a retirement system is measured best on a relative basis. Results are compared over a period of years to determine whether adequate progress is being made in the funding of the system's liabilities. Another relative measure is the stability of the contribution rate, with recognition for changes in funding requirements due to changes in benefit provisions. The actuarial balance sheet also provides an indication of the relative financial condition of the plan.

COMMENTS

Actuarial experience for the year ending December 31, 1997 was favorable, resulting in a decrease in the Annual Required Contribution rate from 8.03% to 7.27%. The primary factor producing the favorable experience was a net investment return in excess of the 6.5% assumed rate of return. Net experience from other sources was also favorable and contributed to the lower than expected contribution rate.

Pursuant to Section 169.471 R.S. Mo. 1997, the Board of Education has adopted an increase in benefits and the Member contribution rate. In addition, as part of the package to increase benefits, the Board of Education has agreed to fix the employer contribution at 8.03% for 1998, 1999 and 2000. Therefore, the actual contribution rate for 1998 remains unchanged at 8.03% of covered payroll, excluding the House Bill 610 contribution from Harris-Stowe State College. The dollar amount of the actual contribution increased to \$16,930,707 from \$16,876,759 for 1997.

Under the actuarial funding method used to determine the contribution, actuarial gains (or losses) result in a decrease (or increase) in the

V. Actuarial Information (continued)

normal cost rate. Actuarial gains (or losses) result from differences between the actual experience of the System and the expected experience projected by the actuarial assumptions. The assumptions are based on the long-term expected experience of the System. Actuarial gains (or losses) reflect short-term deviations between actual and expected experience. Since the normal cost is redetermined on an annual basis, the normal cost will usually fluctuate from year to year.

For 1998, the annual normal cost is \$4,859,578 or 2.31% of the covered payroll of \$210,843,186, down from 3.05% for 1997.

The actuarial accrued liability contribution is determined as the amount necessary to amortize the remaining Unfunded Frozen Actuarial Accrued Liability over a specified period of years. This portion of the contribution only changes to reflect changes in benefits or changes in actuarial assumptions and methods

In our opinion, the Retirement System has been and will continue to be funded on a sound actuarial basis provided the required contributions are made as recommended in this report.

Respectfully submitted,



James S. Rubie, Jr., F.S.A.

V. Actuarial Information (continued)

SECTION 2

**SUMMARY OF PRINCIPAL RESULTS OF THE
ACTUARIAL VALUATION AS OF JANUARY 1, 1998**

ANNUAL REQUIRED CONTRIBUTION

	Board of Education	Harris-Stowe State College	Retirement System	Total
<u>1998</u>				
Normal Cost Contribution	\$ 4,851,313	\$ 3,691	\$ 4,574	\$ 4,859,578
Actuarial Accrued Liability Contribution	10,450,685	7,951	9,853	10,468,489
Annual Required Contribution	\$ 15,301,998	\$ 11,642	\$ 14,427	\$ 15,328,067
Covered Payroll	210,484,589	160,137	198,460	210,843,186
ARC as % of Covered Payroll	7.27%	7.27%	7.27%	7.27%
<u>1997*</u>				
Normal Cost Contribution	\$ 6,396,783	\$ 4,973	\$ 6,514	\$ 6,408,270
Actuarial Accrued Liability Contribution	10,449,724	8,124	10,641	10,468,489
Annual Required Contribution	\$ 16,846,507	\$ 13,097	\$ 17,155	\$ 16,876,759
Covered Payroll	209,851,443	163,149	213,696	210,228,288
ARC as % of Covered Payroll	8.03%	8.03%	8.03%	8.03%

SYSTEM ASSETS

	January 1, 1997*	January 1, 1998
Book Value	\$ 607,247,084	\$ 684,205,913
Market Value	668,219,529	778,566,930
Actuarial Value	598,638,356	644,429,672

SYSTEM LIABILITIES

Unfunded Actuarial Accrued Liability	\$ 118,089,171	\$ 115,258,206
Actuarial Present Value of Accrued Benefits	544,052,399	572,952,925

* Prior year shown for comparison purposes only.

V. Actuarial Information (continued)

SECTION 3

ACTUARIAL METHODOLOGY

INTRODUCTION

The actuarial valuation of a defined benefit retirement system is comprised of two separate processes.

First, the actuarial present value, as of the valuation date, of both current and projected benefits to be paid under the plan is determined. In determining the actuarial present value of these benefits, actuarial assumptions must be made as to the number of participants eventually receiving benefits, the amount of benefits to be paid, and the portion of the benefit obligation to be covered by future investment earnings.

Second, the financing of these benefit obligations on an advance basis is established. An actuarial cost method is applied to establish the NORMAL COST, which is the rate at which future costs will accrue annually after the valuation date. The actuarial cost method is applied to determine the ACTUARIAL ACCRUED LIABILITY, which is the amount of cost that has accrued as of the valuation date.

ACTUARIAL ASSUMPTIONS

The true cost of a member's retirement benefit is not known until he or his beneficiary has received the final benefit payment. Consequently, the exact cost of system benefits for the current employee group will not be determinable for 50 to 75 years. Since provisions for this cost must be made prior to the exact determination, a model is established that will estimate the future cost of system benefits. The model utilizes parameters that require assumptions as to the future occurrences of various events affecting the demographic profile of the employee group and the assets of the system. Such actuarial assumptions include death, retirement, termination, disability, salary increases and investment return. Current and long-term economic factors, the nature of the employer's

business and significant features of the system must be considered in the selection of a set of actuarial assumptions to assure the reasonableness of the results predicted by the assumptions.

While care is taken in the selection of actuarial assumptions, actual experience is expected to deviate from these assumptions over the short term. The suitability of actuarial assumptions is measured by how closely the experience of the system, on a long-term basis, conforms to projected results. Deviations from projected results are called actuarial gains and losses. Periodic actuarial valuations measure the extent of these gains and losses as of a valuation date. If either actuarial gains or losses predominate, then it is possible that one or more of the actuarial assumptions is no longer appropriate. Thus, actuarial assumptions must be continually monitored for reasonableness and subsequent cost estimates may be modified accordingly. While individual assumptions are intended to be representative, it is the aggregate effect of all actuarial assumptions working together that determines their appropriateness.

An analysis of the experience of the Retirement System for the five-year period ending December 31, 1994 was performed. On the basis of that analysis, several actuarial assumptions were changed effective with the January 1, 1996 valuation. The next scheduled experience analysis is for the five-year period ending December 31, 1999.

ACTUARIAL LIABILITIES

Actuarial liabilities include the actuarial present value of all future benefits and expenses. To determine the actuarial present value of all future benefits, the probability of future events that establish benefit payments is forecast utilizing the actuarial assumptions. System provisions and current member data are used to forecast the

V. Actuarial Information (continued)

amount of benefits to be paid. Assumptions for survival among retired members and beneficiaries are used to estimate the duration of these benefit payments. Each probable benefit payment is then discounted to the valuation date using the actuarial assumption for investment return. These discounted payments are then summed to arrive at the total actuarial present value of benefits.

ACTUARIAL ASSETS

The actuarial assets at any time are equal to the sum of present assets, valued on an actuarial basis, plus future assets. Future assets will result from future contributions and future investment return on all assets.

ASSET VALUATION METHOD

Prior to January 1, 1998, the System maintained a Dedicated Bond Portfolio (DBP), which was valued by a different methodology than the other assets of the System. The actuarial value of assets of the DBP is the discounted projected cash flow of the principal and coupon income of those assets. The rate of discount used to value the DBP is the same as the actuarial assumption of the rate of investment return used to value the system's liabilities.

The actuarial value of other assets is determined using the assumed yield method of valuing assets, less the Expense and Contingency Reserve. Under the assumed yield asset valuation method, the prior year's actuarial value is increased at the assumed rate of return with appropriate adjustments for contributions and disbursements to produce an expected actuarial value of assets at the end of the year. The expected actuarial value is compared to the market value of assets, other than those assets in the DBP, and 20% of the difference is added to the expected actuarial value. The Expense and Contingency Reserve is excluded from the result to produce the actuarial value of assets other than the DBP.

ACTUARIAL BALANCE SHEET

The actuarial balance sheet of a retirement system displays the fundamental financial status of the system on the valuation date. As stated previously, the system liabilities are the sum of the actuarial present values of all future projected benefit payments to current active and inactive plan members and beneficiaries. Current assets, valued on an actuarial basis, plus the actuarial present value of future employer and employee contributions comprise the total actuarial assets of the system.

The actuarial present value of future employer contributions is the only item on the balance sheet that is not directly determined by the system provisions, current assets, member data and actuarial assumptions. In fact, the actuarial present value of future employer contributions is the balancing item and reflects the future employer funding requirements based on the existing member population.

ACTUARIAL COST METHOD

To determine the funding requirements of the system, it is necessary to employ an actuarial cost method. The choice of the cost method does not affect the balance sheet financial status, which is a function only of the system provisions, actuarial assumptions, member data and assets. However, the actuarial cost method has a direct impact on the incidence of the funding requirements. The actuarial cost method allocates the actuarial present value of future employer contributions between the past and future, and thus establishes the Unfunded Actuarial Accrued Liability and the Normal Cost. The actuarial cost method is specified in Section 169.490 of the statutes.

The funding requirements for each plan year is the sum of the "normal cost contribution" (equal to the normal cost for that year), plus the "actuarial accrued liability contribution." The unfunded actuarial accrued liability as of January 1, 1981 is

V. Actuarial Information (continued)

amortized over the period ending October 13, 2011, while subsequent "supplements" are amortized over a period of 50 years from the year in which created. The "actuarial accrued liability contribution" is the sum of these amortization payments.

The actuarial cost method is the "frozen entry age actuarial cost method." Entry age is determined at the date each member would have entered the system. On the initial actuarial valuation date for which the cost method is used, in this case January 1, 1981, the annual cost accruals (individual normal costs for each member) are determined as a level percentage of pay for each year from entry age until retirement or termination. The sum of these individual normal costs for all active members whose attained ages are under the assumed retirement age is the normal cost for the initial plan year. The excess of all normal costs falling due prior to the initial actuarial valuation date, accumulated with interest, over the plan assets represents the initial unfunded frozen actuarial accrued liability.

In subsequent years, the unfunded actuarial accrued liability is frozen, that is, it increases only because of the accrual of interest and additional normal costs, and decreases only as a result of contributions. Supplements to the unfunded frozen actuarial accrued liability can occur for plan amendments or actuarial assumption changes. Such supplements are determined by computing the change in the initial unfunded actuarial accrued liability as of the valuation date coincident with or next following the change.

Subsequent normal costs are calculated as the level percentage of pay required to fund the excess of the actuarial present value of future benefits over the sum of the actuarial value of assets and the remaining unfunded frozen actuarial accrued liability.

V. Actuarial Information (continued)

SECTION 4

ACTUARIAL ASSUMPTIONS

The following actuarial assumptions were used in the valuation:

Interest - 6-1/2% per annum, net of expenses.

Salary Scale - Salaries are assumed to increase at rates based on the actual experience of the Retirement System. The rates used are shown in Exhibit A.

Mortality - The 1983 Group Annuity Mortality Table for males and females is used for active members and the same table with ages set up one year for retired members and beneficiaries. Rates used are shown in Exhibits A and B.

Disability Mortality - Disability mortality rates are based on the actual experience of the Retirement System. The rates used are shown in Exhibit B.

Disability - Disabilities are assumed to occur at rates based on the actual experience of the Retirement System.

Withdrawal - Select and ultimate rates based on actual experience of the Retirement System are used. During the first three years of membership, the rates are:

<u>Year of Membership</u>	<u>Withdrawal Rate</u>	
	<u>Males</u>	<u>Females</u>
1	17.5%	12.5%
2	15.0%	10.0%
3	10.0%	7.5%

Retirement - Retirements are assumed to occur at rates based on the actual experience of the Retirement System. For those eligible to retire under the Rule of 85, it is assumed that 10% will retire when first eligible for unreduced benefits unless the age-related rate is greater, but not prior to age 55.

Family Structure - The probability of a member being married and the probable number of children are based on a table constructed by the Social Security Administration, modified to reflect the experience of the Retirement System.

V. Actuarial Information (continued)

Exhibit A

ACTIVE MEMBER RATES OF DECREMENT AND SALARY INCREASE

Attained Age	<u>Withdrawal Rates</u>		<u>Disability Rates</u>		Retirement Rate	Rate of Salary Increase
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>		
20	15.00%	10.00%	0.00%	0.00%	0.00%	6.00%
25	12.50%	7.50%	0.00%	0.00%	0.00%	6.00%
30	9.00%	6.00%	0.08%	0.07%	0.00%	5.50%
35	7.00%	4.50%	0.08%	0.07%	0.00%	5.00%
40	4.50%	3.00%	0.16%	0.15%	0.00%	4.80%
45	3.00%	2.00%	0.30%	0.20%	0.00%	4.70%
50	2.00%	1.50%	0.40%	0.30%	0.00%	4.50%
55	1.50%	1.20%	0.90%	0.50%	5.00%	4.50%
60	1.00%	1.00%	1.10%	0.65%	7.50%	4.50%
65	0.00%	0.00%	0.00%	0.00%	35.00%	4.50%
70	0.00%	0.00%	0.00%	0.00%	100.00%	4.50%

ACTIVE LIFE MORTALITY RATES

<u>Death Rate</u>			<u>Death Rate</u>		
<u>Male</u>	<u>Age</u>	<u>Female</u>	<u>Male</u>	<u>Age</u>	<u>Female</u>
.000377	20	.000189	.015592	65	.007064
.000464	25	.000253	.027530	70	.012385
.000607	30	.000342	.044597	75	.023992
.000860	35	.000476	.074070	80	.042945
.001238	40	.000665	.114836	85	.069918
.002183	45	.001010	.166307	90	.111750
.003909	50	.001647	.234086	95	.182419
.006131	55	.002541	.319185	100	.295187
.009158	60	.004241	.469531	105	.487816
			1.000000	110	1.000000

V. Actuarial Information (continued)

Exhibit B

RETIRED LIFE MORTALITY RATES
(SERVICE PENSIONERS AND BENEFICIARIES)

<u>Death Rate</u>			<u>Death Rate</u>		
<u>Male</u>	<u>Age</u>	<u>Female</u>	<u>Male</u>	<u>Age</u>	<u>Female</u>
.006618	55	.002803	.124170	85	.076570
.010064	60	.004702	.178214	90	.123076
.017579	65	.007817	.248436	95	.201757
.030354	70	.014128	.341086	100	.325225
.049388	75	.027184	.521945	105	.545886
.081484	80	.047655	1.000000	109	1.000000

DISABLED LIFE MORTALITY RATES
(PER 1,000 DISABLED PENSIONERS)

<u>Death Rate</u>			<u>Death Rate</u>		
<u>Male</u>	<u>Age</u>	<u>Female</u>	<u>Male</u>	<u>Age</u>	<u>Female</u>
48.7	40	51.0	96.1	75	73.5
44.8	45	48.0	131.5	80	96.1
43.2	50	44.0	180.9	85	131.5
43.1	55	43.0	252.9	90	180.9
48.7	60	43.0	348.1	95	252.9
59.8	65	48.0	785.7	100	348.1
73.5	70	59.0	1000.0	101	1000.0

V. Actuarial Information (continued)

ACTUARIAL BALANCE SHEET AS OF
JANUARY 1, 1998

ACTUARIAL ASSETS

Actuarial value of present assets	\$ 644,429,672
Actuarial present value of future member contributions	82,527,123
Actuarial present value of future employer contributions for:	
Normal Costs	44,650,243
Actuarial Accrued Liability	<u>115,258,206</u>
Total present and future assets	\$ 886,865,244

ACTUARIAL LIABILITIES

Actuarial present value of benefits now payable	\$ 285,001,760
Actuarial present value of benefits payable in the future	
Active members -- New Plan	590,165,655
Active members -- Old Plan	243,942
Members on leave of absence without pay	239,659
Terminated members	<u>11,214,228</u>
Total payable in the future	<u>601,863,484</u>
Total liabilities for benefits	\$ 886,865,244

V. Actuarial Information (continued)

PROJECTED BENEFIT OBLIGATION FUNDED STATUS

At January 1, 1998, the Projected Benefit Obligation was as follows:

Retired members and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	\$ 296,455,647
Current active members:	
Accumulated member contributions, including interest	122,227,173
Employer-financed vested benefits	250,639,040
Employer-financed non-vested benefits	1,806,709
Total Projected Benefit Obligation	\$ 671,128,569

At January 1, 1998 the Projected Benefit Obligation was funded as follows:

Net assets available for benefits at actuarial value	\$ 644,429,672
Unfunded Projected Benefit Obligation	26,698,897
Actuarial value funding ratio	96.0%
Net assets available for benefits at market value	\$ 778,566,930
Unfunded Projected Benefit Obligation	(107,438,361)
Market value funding ratio	116.0%

V. Actuarial Information (continued)

PRIORITIZED SOLVENCY TEST

The funding objective of the Retirement System is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percentage of covered Compensation. If the contributions are level in concept and realistically determined, the System will pay all benefits when due -- the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is an additional means of checking a system's progress under its funding program. In a prioritized solvency test, the plan's present assets (cash and investments) are compared with:

- active member contributions, accumulated with interest;
- the liabilities for future benefits to present inactive members and beneficiaries; and

-- the liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member accumulated contributions (liability 1) and the liabilities for future benefits to inactive members and beneficiaries (liability 2) will be fully covered by assets (except in unusual circumstances). In addition, the liabilities for service already rendered by active members (liability 3) are normally partially covered by the remainder of the present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded does not necessarily result from level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the system and is indicative of the system following the discipline of level percent of compensation funding.

Actuarial Present Value of Credited Projected Benefits

Valuation Date	(1)	(2)	(3)	Actuarial Value of Assets	Percent of Present Value Covered by Valuation Assets		
	Active Members' Accumulated Contributions	Retirants, Inactive Members & Beneficiaries	Active Members (Employer-Financed)		(1)	(2)	(3)
January 1 1988	64,665,246	99,821,300	149,896,447	295,544,521	100	100	87
1989	69,364,863	111,728,581	157,729,129	322,462,660	100	100	90
1990	75,499,264	132,381,291	203,485,341	373,300,585	100	100	81
1991	81,666,231	149,239,594	201,521,149	395,749,015	100	100	82
1992	88,975,156	163,137,064	214,404,373	427,706,455	100	100	82
1993	96,350,532	176,391,424	216,680,909	458,279,727	100	100	86
1994	104,202,541	189,651,537	222,503,913	487,385,302	100	100	87
1995	108,933,074	204,234,143	226,947,717	519,088,399	100	100	91
1996	114,061,708	236,007,330	250,659,986	562,177,274	100	100	85
1997	118,041,749	272,393,748	251,827,653	598,638,356	100	100	83
1998	122,227,173	296,455,647	252,445,749	644,429,672	100	100	90

V. Actuarial Information (continued)

VALUATION OF THE SYSTEM'S ASSETS

This section of the report shows the development of the actuarial value of the assets of the System and provides information regarding the Expense and Contingency Reserve, investment results and the various assets of the System.

The amount of assets used in the actuarial valuation is known as the "actuarial value of assets." The method is discussed in Section 3 and the development of the actuarial value of assets is shown below. An important element in the development of the actuarial value of assets is the Expense and Contingency Reserve (called the Expense Fund prior to 1988). The amount of the Reserve is determined pursuant to a policy adopted by the Board of Trustees.

The fund had a rate of return of 9.89% on an actuarial value basis, 3.39% above the assumed rate of return of 6.5% for 1997. The rate of return on an actuarial value basis is intended to be a stable rate of return and fluctuate less than rates of return on book or market value basis. Thus, the rate of return on an actuarial basis is not always a fair measure of the investment performance of the fund. Another indicator of actual performance during the year is the rate of return on a market value basis of 18.47.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial value of assets as of January 1, 1997	\$ 598,638,356
(2)	Actuarial value of the Dedicated Bond Portfolio	211,243,053
(3)	Actuarial value of other assets: (1) - (2)	387,395,303
(4)	Member contributions	8,416,441
(5)	Employer contributions	16,915,031
(6)	Benefit payments and expenses, excluding payments from the Dedicated Bond Portfolio	37,299,370
(7)	Transfer from the Dedicated Bond Portfolio to other assets	211,243,053
(8)	Investment increment at 6.5%	37,972,798
(9)	Expected actuarial value on January 1, 1998: (3) + (4) + (5) - (6) + (7) + (8)	624,643,256
(10)	Market value of assets on January 1, 1998	778,566,930
(11)	Market value of Dedicated Bond Portfolio	0
(12)	Expense and Contingency Reserve on January 1, 1998	54,991,596
(13)	Market value of other assets: (10) - (11) - (12)	723,575,334
(14)	Excess of market value over expected actuarial value: (13) - (9)	98,932,078
(15)	Market value adjustment: 20% x (14)	19,786,416
(16)	Actuarial value of the Dedicated Bond Portfolio	0
(17)	Actuarial Value of Assets as of January 1, 1998: (9) + (15) + (16)	644,429,672

V. Actuarial Information (continued)

Membership as of January 1, 1998

	<u>Males</u>	<u>Females</u>	<u>Total</u>
Active Members			
Old Plan	1	6	7
New Plan	<u>1,630</u>	<u>4,331</u>	<u>5,961</u>
<i>Total Active</i>	1,631	4,337	5,968
Inactive Members			
Terminated or Leave of Absence Without Pay	<u>201</u>	<u>410</u>	<u>611</u>
<i>Total Members Not Retired</i>	1,832	4,747	6,579
Retired Members and Beneficiaries			
Retired Members and Contingent Annuitants	814	1,928	2,742
Survivors	38	219	257
Disabled Members	<u>74</u>	<u>182</u>	<u>256</u>
<i>Total Retired Members and Beneficiaries</i>	<u>926</u>	<u>229</u>	<u>3,255</u>
Total Membership	2,758	7,076	9,834

Retired Members and Beneficiaries As Of January 1, 1998

TABLE 1

Number of Members and Beneficiaries

<u>Option</u>	<u>Service Benefit</u>	<u>Disability Benefit</u>	<u>Survivor Benefit</u>	<u>TSA Benefit</u>	<u>COLA & Supplements</u>
0	2,406	240	257	67	2,299
1	85	10	0	2	77
2	73	0	0	3	62
3	101	4	0	0	88
4	<u>77</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>67</u>
Total	2,742	256	257	72	2,593

TABLE 2

Amount of Annual Benefit

<u>Option</u>	<u>Service Benefit</u>	<u>Disability Benefit</u>	<u>Survivor Benefit</u>	<u>TSA Benefit</u>	<u>COLA & Supplements</u>
0	\$23,222,842	\$1,373,546	\$1,020,924	\$59,019	\$2,282,524
1	878,723	59,257	0	3,863	59,316
2	942,223	0	0	2,398	55,690
3	1,111,912	26,256	0	0	64,218
4	<u>1,074,491</u>	<u>16,672</u>	<u>0</u>	<u>0</u>	<u>50,661</u>
Total	\$27,230,191	\$1,475,731	\$1,020,924	\$65,280	\$2,512,409

VI. Summary of Benefits

Background

The Public School Retirement System of the City of St. Louis was established effective January 1, 1944. It provides retirement, disability, death, and survivor benefits for eligible employees of the St. Louis Public School District, employees of the Retirement System, and certain employees of Harris-Stowe State College. Members of the Retirement System are also covered by Social Security, and are, therefore, eligible for full Social Security benefits in addition to their benefits from the Retirement System.

Retirement System benefits are funded by member contributions, employer contributions, and investment earnings on the System's assets. Eligible employees of the School District and the Retirement System are required to participate.

A summary of the primary benefit provisions of the Retirement System follows. These provisions apply for all but a few active members who elected to remain under provisions of the law as of October 13, 1961.

Actual benefits and eligibility for benefits are described in detail in statutes of the State of Missouri and the Retirement System's Rules and Regulations. In any circumstance where there appears to be a discrepancy between this summary and actual statutes or the Retirement System's Rules and Regulations, the law and the Retirement System's Rules and Regulations will govern.

Eligibility for Retirement Benefits

➤ *Normal Pension*

Members become eligible for Normal Pension when they attain age 65 or when the sum of their years of Creditable

Service plus their age equals at least 85 (commonly known as the Rule of 85).

➤ *Early Pension*

Members at least age 60 with five or more years Creditable Service who do not satisfy the eligibility requirements for a Normal Pension may elect a reduced Early Pension.

➤ *Disability Pension*

Members unable to perform their job duties due to physical or mental incapacity who are not eligible for Normal Pension will qualify for Disability Pension if: (a) they have at least five years Creditable Service, and (b) they are recommended for Disability Pension by the Medical Board, and (c) their Disability Pension is approved by the Board of Trustees.

Benefit Amounts

Benefit calculations require determining a member's:

Average Final Compensation – defined as the average of a member's Compensation for the highest consecutive three years out of the last ten years of service,

Compensation – includes a member's "regular" pay and employer contributions for a member's fringe benefits, but does not include overtime pay or pay for such services as extracurricular activities and summer school, and

Creditable Service – defined as membership service plus any service that a member has purchased pursuant to state statutes. In addition, unused sick leave at the time of retirement is added to a member's age and years of Creditable Service.

VI. Summary of Benefits (continued)

➤ *Normal Pension*

A Normal Pension is a lifetime monthly benefit equal to 1.25% of a member's Average Final Compensation multiplied by the member's years of Creditable Service; however, members retiring at or after attaining age 65 with at least five years of Creditable Service will be entitled to a minimum monthly benefit equal to \$10 for each year of Creditable Service up to 15 years.

➤ *Early Pension*

An Early Pension is a lifetime monthly benefit calculated in the same manner as a Normal Pension; however, an Early Pension is reduced by 5/9 of 1% for each month by which a member's Early Pension date precedes the date on which the member would become eligible for a Normal Pension.

➤ *Disability Pension*

A Disability Pension is a lifetime monthly benefit (subject to verification of continued disability and certain earnings limitations) that is the greater of (a) a benefit calculated in the same manner as a Normal Pension as if the member were age 65, or (b) one-fourth (1/4) of a member's Average Final Compensation; however, a Disability Pension cannot exceed what a member's Normal Pension would have been if the member had continued to work until he/she became eligible for Normal Pension.

Benefit Payment Options

Members may elect an optional form of payment under which their monthly pension benefits are reduced so that payments can continue to their Option Beneficiaries after their deaths. The amount of the reduction is

determined by the difference in age between a member and his/her Option Beneficiary.

Four Benefit Payment Options are available.

- *Option 1* provides that upon a member's death, the member's monthly benefit will continue to the member's Option Beneficiary for the Option Beneficiary's lifetime.
- *Option 2* provides that upon a member's death, one-half (1/2) of the member's monthly benefit will continue to the member's Option Beneficiary for the Option Beneficiary's lifetime.
- *Option 3* is like Option 1, except that if the Option Beneficiary predeceases the member, the member's monthly benefit will increase to what it would have been if the member had not elected a Benefit Payment Option.
- *Option 4* is like Option 2, except that if the Option Beneficiary predeceases the member, the member's monthly benefit will increase to what it would have been if the member had not elected a Benefit Payment Option.

Death and Survivor Benefits

Upon the death of an active member, the member's beneficiary(ies) is entitled to a refund of the member's accumulated contributions plus interest thereon.

Upon the death of an active member with at least 18 months of Creditable Service, or upon the death of a member on Disability Pension, an eligible beneficiary(ies), (or if there is no surviving beneficiary, the unmarried dependent child(ren) of the member who are under age 22) may elect one of the survivor benefits set forth below in

VI. Summary of Benefits (continued)

lieu of a refund of the member's accumulated contributions.

In the context of discussing survivor benefits:

An "eligible beneficiary" is the surviving spouse, an unmarried dependent child(ren) under age 22, or a dependent parent(s) of the member, if designated as beneficiary.

A "dependent" is an individual(s) who was receiving at least one-half of his/her support from the member at the member's death.

1. A surviving spouse who was married to the member for at least one year, and who is at least age 62 (or upon attaining age 62), may elect to receive \$60 per month.
2. A surviving spouse who cares for an unmarried dependent child(ren) of the deceased member who is under the age of 22 may elect to receive \$60 per month plus \$60 per month per dependent child up to a maximum of \$240 per month.

If the surviving spouse is under the age of 62 when the youngest eligible child reaches the age of 22, the benefit will cease, but will resume when the surviving spouse attains age 62.
3. If no benefits are payable under 2 above, an unmarried, dependent child(ren) under age 22 may receive \$60 per month. If there are more than three eligible children, \$180 per month will be shared equally.
4. If no benefits are payable at any time under 1, 2, or 3 above, upon attaining age 62, a dependent parent who has not remarried may receive \$60 per month, or if two dependent parents are eligible, \$60 per month will be shared between them.

Upon the death of an active member with at least five years of Creditable Service, if the member designated an eligible beneficiary, the beneficiary may, in lieu of receiving a refund of the member's accumulated contributions and interest thereon, elect to receive the member's pension benefit under Benefit Payment Option 1. If the deceased member was less than age 60 at the time of death, the Option 1 payment due the eligible beneficiary will be computed as if the deceased member had attained age 60 and retired under Option 1 as of the date of his/her death.

In addition, if a beneficiary who is eligible for Option 1 benefit payments is the surviving spouse of the deceased member, such surviving spouse shall receive \$60 per month for each unmarried dependent child of the deceased member who is under age 22 and is under the care of the surviving spouse. If there are more than three eligible children, \$180 per month will be shared equally.

Termination of Employment

Upon employment separation, members are entitled to a refund of their accumulated contributions with interest thereon. At a member's election, that portion of a refund that is eligible for rollover treatment may be transferred to a member's IRA to preserve its tax-deferred status.

In lieu of a refund, members with five or more years of Creditable Service may elect to leave their contributions with the Retirement System and receive a Normal or Early Pension upon becoming eligible.

The benefit paid to a terminated, vested member is based on the member's Creditable Service, Average Final Compensation, and

VI. Summary of Benefits (continued)

benefit provisions in effect at the time of the member's employment termination.

Retirement System Funding

The Retirement System is funded from the following sources:

➤ *Member Contributions*

Except members employed by Harris-Stowe State College, active members are required to contribute 4% of their Compensation. Member contributions are withheld from members' pay on a tax-deferred basis.

➤ *Employer Contributions*

An actuarial valuation of the Retirement System that determines the required contribution is conducted annually. Based on the valuation report, employer contributions are equal to the actuarially required contribution less the portion that members contribute.

➤ *Investment Income*

The assets of the Retirement System are invested and generate income that is used to fund benefits and pay expenses.

Health Insurance for Retired Members

The Retirement System makes a variety of medical, dental, and vision insurance plans available to retired members, their spouses, and eligible dependent children. The System pays a portion of the premiums for retired members. Retired members pay the remainder, if any, of the cost for their own coverage and all the cost of any dependent coverage they elect. On an annual basis, retired members are permitted to make changes to their medical, dental, and vision insurance.

Supplements and COLAs

Supplements

Over the years, retired members have received ad hoc increases, called supplements. Supplements were granted in 1993, 1990, 1989, 1988, 1986, 1984, 1981, and 1975.

COLAs

Effective January 1, 1997, members who retired with at least 15 years of Creditable Service began receiving annual cost-of-living adjustments based on the Consumer Price Index (CPI). COLA adjustments are equal to any increase of 1% or greater in the CPI, subject to an annual maximum of 3% and a cumulative maximum increase of 10%.