

PUBLIC SCHOOL RETIREMENT SYSTEM

OF THE CITY OF ST. LOUIS

A N N U A L R E P O R T

C A L E N D A R Y E A R 1 9 9 8

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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 Retirement System members. 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, 1999, the following individuals served on the Board of Trustees.

Appointed by the Board of Education

Dr. John P. Mahoney

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, Jr.

Mr. James A. Coppedge

Mr. James D. Irwin

Mr. John Miriani

Mr. Charles L. Shelton, Jr.

Administrative Staff

The administrative staff members listed below are employed by the Retirement System. Mr. Caldwell joined the staff on a full-time basis effective March 1, 1999.

Executive Director

Director of Technology

Accounting Specialist

Insurance Benefits Specialist

Member Services Supervisor

Member Services Clerical Assistant

Gail A. Lakin

Lonnie R. Caldwell

Marty Winters

Carolyn M. Feuchtenbeiner

Evelyn E. Gass

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

Investment Advisor

Independent Auditor

Actuary

Larry L. Deskins

Lewis, Rice & Fingersh, L.C.

Doris Ewing

New England Pension Consultants

Thomas Helm

Huber, Ring, Helm & Co.

James S. Rubie, Jr.

W. Alfred Hayes & Company

I. Introduction (continued)

BOARD OF TRUSTEES



Mr. Joseph Clark, Jr.



Mr. Norbert Eisele



Mr. James D. Irwin



Dr. John P. Mahoney



Ms. Marybeth McBryan



Mr. John Miriani

I. Introduction (continued)

BOARD OF TRUSTEES



Ms. Dana Person



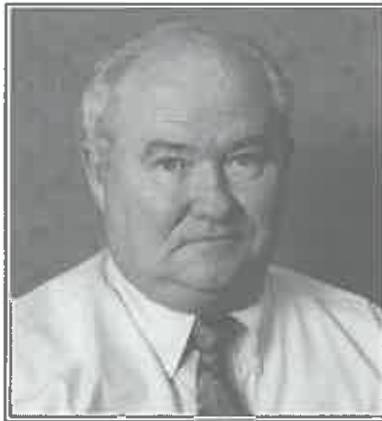
Mr. William Purdy



Mr. Charles L. Shelton, Jr.



Ms. Lois Jean Turner



Mr. James A. Coppedge, Chairman

I. Introduction (continued)

ADMINISTRATIVE STAFF



Lonnie R. Caldwell



Carolyn M. Feuchtenbeiner



Evelyn E. Gass



Rita Thiel



Marty Winters



Gail A. Lakin, Executive Director

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, 1999

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, 1998. 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 rests 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

This has been another busy year for the Retirement System's Board of Trustees and its Administrative Staff.

Evaluating the performance of the portfolio, one asset class at a time, the Board of Trustees continued its restructuring of the Retirement System's investments. Throughout the year, trustees met with and reviewed the relative performance of incumbent managers. They also applied the newly adopted Investment Policies and Guidelines – as well as rigorous, objective standards – in evaluating prospective new managers that demonstrated an ability to add value to the Retirement System's portfolio. The Board is on target to conclude its restructuring project by the end of 1999.

In addition to investment activities, the Board of Trustees initiated the important project of assuring that the Retirement System and its providers, will be prepared to meet the significant technological challenges of the new millennium.

Anticipating that the benefit improvement for active members would generate a larger than usual number of retirements at the end of the 1998–1999 school year, the Administrative Staff conducted five well-attended retirement planning workshops and began gearing up for the retirement processing task.

As many of the interested parties who will read this report know, in May of 1998, the Board of Trustees and the Board of Education approved a Retirement System amendment to provide

- the first material benefit improvement for active members in more than 35 years, and
- a catch-up cost-of-living-adjustment (COLA) for retired members.

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 increased

- 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)

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 the monthly benefit for every eligible retired member reflects an increase equal to at least 65% of the Consumer Price Index for each year since the member retired.

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 in compliance with generally accepted accounting principles.

The Retirement System's financial statements for the year ended December 31, 1998 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 Retirement System's fiscal year ended December 31, 1998 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 12-31-97 \$778,566,930

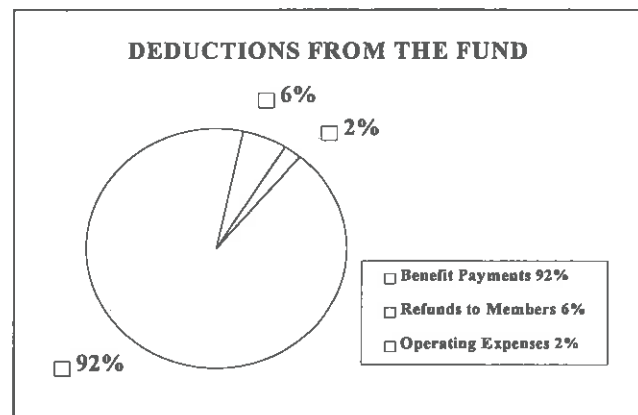
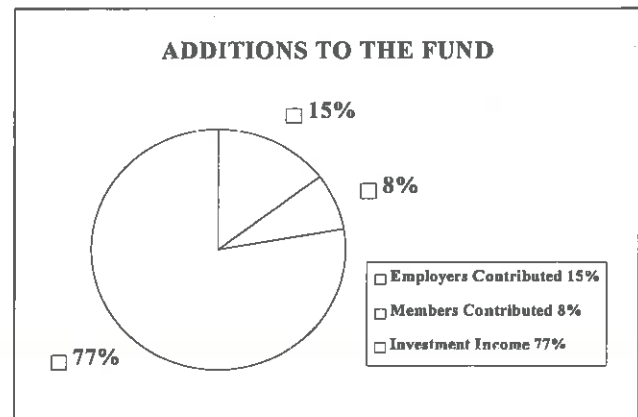
Additions

Employer contributions	17,025,578
Member contributions	8,744,889
Net investment income	90,450,719

Deductions

Benefits paid to members	34,398,718
Refunds paid to members	2,055,711
Operating expenses	812,726
Net assets as of 12-31-98	\$857,520,961

Of particular interest is the fact that the Retirement System's assets increased by almost \$79 million during calendar year 1998, following an increase of more than \$120 million in calendar year 1997.



Investment Performance

One of the most important decisions made by any retirement system's board of trustees is how a fund's investments will be allocated and diversified among different asset classes.

II. Letter of Transmittal (continued)

As of December 31, 1998, the Retirement System's assets were allocated as follows.

Domestic Equities	49%
International Equities	7%
Domestic Fixed Income	28%
Global Bonds	9%
Cash	<u>1%</u>
Financial Composite	94%
Real Estate Investments	2%
Private Investments	<u>4%</u>
Alternative Investments	<u>6%</u>
Total Portfolio	100%

For calendar year 1998, the financial composite of the portfolio earned a return of 13%. For the two year period ending December 31, 1998, the financial composite (publicly traded securities) posted an annualized return of 15.5%. These returns are only slightly less than the median fund, which earned 14.5% for 1998, and 15.9% for the two year period ending December 31, 1998. It is significant that the Retirement System's financial investments earned competitive returns, despite the comprehensive portfolio re-structuring that has been in progress for the past two years.

As of December 31, 1998, the Retirement System's alternative investments, comprised of real estate, mezzanine debt funds and venture capital investments, posted a 10.2% internal rate of return. A return of 10.2% compares favorably with the 7.9% benchmark median 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:

- to measure the relative financial condition of the System, and
- to determine the level of the annual contribution that should be made to the Retirement System during the upcoming year so that sufficient assets are available for benefit payments in the future.

In summary, the System enjoyed favorable actuarial experience for calendar year 1998, resulting in a decrease in the rate of the required contribution from 7.27% to 6.45% of covered payroll. The primary factor contributing to this favorable experience was the fact that the portfolio's net investment return exceeded the actuarially assumed rate of return.

As part of the benefit improvement package that was explained earlier in this Letter of Transmittal, the Board of Education agreed to maintain employer contributions at 8.03% of covered payroll for 1998, 1999, and 2000. Therefore, even though the required contribution rate decreased to 6.45%, employer contributions will increase from \$16,930,707 in 1998 to \$17,312,869 in 1999 to honor that funding commitment.

The actuarial valuation reflected:

- an increase from 6.5% to 8% in the assumed interest rate – to better anticipate higher returns expected from the Retirement System's new investment policy,
- the improved benefit formula for active employees retiring on or after June 30, 1999, and
- an increase from 4.5% to 5% in the member contribution rate effective July 1, 1999.

With respect to its funding status, the Retirement System is 98% funded on an actuarial basis; and 111% funded on a market value basis. Additional detail about the System's funding status is provided on page 42 of this report.

II. Letter of Transmittal (continued)

Briefly, the System's benefit obligations and the assets available to satisfy those obligations are set forth as follows:

Projected Benefit Obligations \$710,948,636

Net Assets Available for Benefits

Actuarial Value of Assets \$694,250,672

Market Value of Assets \$789,406,135

Funding Ratio (Obligation ÷ Assets)

Actuarial Value Funding Ratio 98%

Market Value Funding Ratio 111%

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.

Technology

In the past, the Retirement System has relied on independent contractors for its computer programming needs. However, in mid-1998, when the System began to evaluate its ability to meet the technological challenges of the new millennium, it became apparent that the System needed a full-time computer programmer. In order to address Y2K concerns – as well as to improve the Retirement System's ability to collect and process increasingly more complex financial and member data – a highly qualified individual, Mr. Lonnie Caldwell, was hired as the System's Director of Technology effective March 1, 1999.

Mr. Caldwell has two bachelor's degrees from Park College – one in Business Administration and one in Management/Computer Information Systems. He also has an MBA from the University of Missouri. Mr. Caldwell came to the Retirement System with more than thirty years MIS experience in both the public and private sectors.

Since joining the Retirement System, Mr. Caldwell has completed a thorough inventory and assessment of the System's computer technology and has re-programmed or replaced non-compliant mainframe and microcomputer hardware and software. Mr. Caldwell advises that the testing phase of the Y2K project is on target for completion by the end of September, 1999.

We welcome Mr. Caldwell to the staff. We believe his experience and expertise will result in improved service for our members.

Acknowledgments

The compilation of this report reflects the combined efforts of the Retirement System's administrative staff and professional advisors. This report 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, Evelyn, Carolyn, Marty, and Lonnie – for their enthusiastic assistance, expertise and hard work. The recent successes of the Retirement System have been made possible only through the combined efforts of these and many other individuals.

We hope you find this Annual 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, 1998 AND 1997

III. Financial Statements (continued)

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III. Financial Statements (continued)

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

A PROFESSIONAL CORPORATION
OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Trustees
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
February 3, 1999

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, 1998 AND 1997**

ASSETS		1998	1997
CASH		\$ 2,930,311	\$ 2,708,503
RECEIVABLES			
Accrued interest and dividends			
Dedicated bond portfolio			1,911,747
Other portfolios	2,007,362		1,821,077
Total receivables	2,007,362		3,732,824
INVESTMENTS, at fair value			
Dedicated Bond Portfolio			
Cash equivalents			12,214,934
Bonds			
U.S. Government and agency issues			132,713,845
Corporate			91,054,007
			235,982,786
Other Portfolios			
Cash equivalents	25,067,477		123,514,178
Bonds			
U.S. Government and agency issues	135,939,550		9,926,600
Corporate	93,124,355		6,732,199
Preferred stocks			2,305
Common stocks	395,554,634		313,985,588
Mutual funds	169,085,508		38,348,489
Real estate partnerships - insurance contracts	1,657,237		1,543,081
	820,428,761		494,052,440
	820,428,761		730,035,226
INVESTMENTS, at estimated fair value			
Real estate loans, first mortgages	548,692		769,985
	548,692		769,985
INVESTMENTS, at cost			
Limited partnerships	10,159,928		8,991,542
Real estate partnerships - other	7,525,488		7,257,693
Venture capital partnerships	14,105,054		25,257,008
	31,790,470		41,506,243
Total investments	852,767,923		772,311,454
Total assets	857,705,596		778,752,781
LIABILITIES			
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		184,635	185,851
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
(A schedule of funding progress is presented on page 20)		\$ 857,520,961	\$ 778,566,930

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, 1998 AND 1997**

ADDITIONS	1998	1997
Contributions		
Board of Education - City of St. Louis	\$ 16,901,912	\$ 16,846,507
Employees	8,744,889	8,416,441
Harris-Stowe State College	107,730	51,369
Retirement System Employees	15,936	17,155
	25,770,467	25,331,472
Net appreciation (depreciation) in fair value of investments		
Cash equivalents	3,317,220	2,938,649
Bonds		
U.S. Government and agency issues	17,746,678	13,551,199
Corporate	(4,104,006)	12,344,163
Preferred stock	(2,241)	4,337
Common stock	64,484,878	71,677,632
Mutual funds	12,649,365	17,998,895
Real estate loans	78,615	101,392
Limited partnerships	687,331	916,993
Real estate partnerships	605,373	(6,276,183)
Venture capital partnerships	(1,688,395)	9,058,222
	93,774,818	122,315,299
Less investment expense	3,324,099	2,033,611
Net investment income	90,450,719	120,281,688
Total additions	116,221,186	145,613,160
DEDUCTIONS		
Benefits paid		
Retirement and death benefits	31,117,650	28,806,449
Supplemental payments	3,281,068	3,513,261
	34,398,718	32,319,710
Operating expenses	812,726	866,467
Contribution refunds due to death or resignation	2,055,711	2,079,582
Total deductions	37,267,155	35,265,759
NET INCREASE	78,954,031	110,347,401
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	778,566,930	668,219,529
End of Year	\$ 857,520,961	\$ 778,566,930

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, 1998

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,	
	<u>1998</u>	<u>1997</u>
Active members	5,968	5,942
Inactive members	<u>611</u>	<u>495</u>
Total members not retired	<u>6,579</u>	<u>6,437</u>
Retired members		
Service and survivors	2,999	2,947
Disability	<u>256</u>	<u>261</u>
	<u>3,255</u>	<u>3,208</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 through June 30, 1998, 4.5% effective July 1, 1998) 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 8.75% 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.

Real estate partnerships – insurance contracts

The System has entered into 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 investments 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, 1998 and 1997, investments consisted of the following:

	1998	
	Market Value	Cost
Cash equivalents	\$ 25,067,477	\$ 25,067,477
Bonds		
U.S. Government and agency issues	135,939,550	133,704,481
Corporate	93,124,355	97,540,552
Preferred stocks		419,264
Common Stocks	395,554,634	322,874,055
Mutual Funds	169,085,508	146,982,521
Real estate Partnerships - insurance contracts	1,657,237	2,751,017
	<u>820,428,761</u>	<u>729,339,367</u>
Real estate loans, first mortgages	548,692	548,692
Limited partnerships	10,159,928	10,159,928
Real estate partnerships - other	7,525,488	7,525,488
Venture Capital partnerships	14,105,054	14,105,054
	<u>31,790,470</u>	<u>31,790,470</u>
	<u>\$ 852,767,923</u>	<u>\$ 761,678,529</u>
	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
	<u>235,982,786</u>	<u>224,424,176</u>
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
Mutual Funds	38,348,489	28,727,016
Real estate partnerships - insurance contracts	1,543,081	2,851,667
	<u>494,052,440</u>	<u>411,250,033</u>
Real estate loans, first mortgages	769,985	769,985
Limited partnerships	8,991,542	8,991,542
Real estate partnerships - other	7,257,693	7,257,693
Venture capital partnerships	25,257,008	25,257,008
	<u>41,506,243</u>	<u>41,506,243</u>
	<u>\$ 772,311,454</u>	<u>\$ 677,950,437</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, 1998 and 1997 was \$32,704 and \$32,782, respectively. Approximate future minimum lease payments for the remaining term of the lease are as follows:

<u>Year</u>	<u>Minimum Lease Payments</u>
1999	<u>19,077</u>
	<u><u>\$19,077</u></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 major 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.

NOTE 6 - RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to make them consistent with the 1998 presentation.

III. Financial Statements (continued)

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A PROFESSIONAL CORPORATION
OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report On Supplemental Information

Board of Trustees
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
February 3, 1999

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

SCHEDULE OF FUNDING PROGRESS

(in millions)

DECEMBER 31, 1998

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)
1989	\$322.5	\$364.8	\$42.3
1990	373.3	460.7	87.4
1991	395.7	472.5	76.8
1992	427.8	502.0	74.2
1993	458.3	530.8	72.5
1994	487.4	557.9	70.5
1995	519.1	588.2	69.1
1996	562.2	664.8	102.6
1997	598.6	716.7	118.1
1998	644.4	759.7	115.3

Actuarial Valuation Date January 1,	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1989	88.4%	\$186.4	22.7%
1990	81.0%	194.6	44.9%
1991	83.7%	198.5	38.7%
1992	85.2%	194.2	38.3%
1993	86.3%	194.6	37.3%
1994	87.4%	202.4	34.9%
1995	88.3%	207.1	33.3%
1996	84.6%	206.9	49.6%
1997	83.5%	210.2	56.2%
1998	84.8%	210.8	54.7%

See independent auditor's report on supplemental information.

III. Financial Statements (continued)

**PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 1998
Employer Contributions**

Fiscal Year	Annual Required Contribution	Percent Contributed
1989	\$10,996,581	92.8%
1990	13,147,093	94.0%
1991	14,020,492	94.9%
1992	14,970,746	97.2%
1993	14,098,562	98.4%
1994	15,441,488	99.2%
1995	15,087,519	99.6%
1996	16,619,187	100.1%
1997	16,876,759	100.2%
1998	15,328,067	*

* To be determined at the end of the year.

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, 1998. Additional information per the above actuarial valuation follows:

Actuarial cost method:	Frozen entry age
Rate of investment return:	6.5% per annum, net of expenses
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:	Based on actual experience of the System, assumed to be 4.5% to 6.0%
Asset valuation method:	Prior to January 1, 1998, the System maintained a Dedicated Bond Portfolio which was valued at the discounted projected cash flow of principal and coupon income of those 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 in which 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, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Actuarial services	\$ 132,600	\$ 145,125
Accounting and Auditing Fees	26,850	50,825
Computer programming and consultation	9,923	2,186
Convention, conferences, seminars		
Executive Director	4,284	3,114
Trustees (See Page 23)	22,869	25,935
Dues and subscriptions	3,633	3,372
Executive Director - miscellaneous	990	1,080
Furniture and equipment	13,941	1,395
Insurance - group hospitalization	16,836	15,205
Insurance - casualty and bonding	39,281	25,536
Legal fees and expense	122,394	152,232
Medical fees	289	785
Office repairs and maintenance	3,601	6,037
Office supplies and expense	7,500	10,548
Postage	38,959	44,063
Pension contribution	15,936	17,155
Printing and stationery	27,179	18,800
Rent - office	32,074	33,782
Salaries - administrative and clerical	242,845	239,714
Payroll taxes	18,349	19,515
Telephone	5,911	5,934
Miscellaneous expense	26,482	44,129
	<u>\$ 812,726</u>	<u>\$ 866,467</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, 1998 AND 1997

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>1998</u>	<u>1997</u>
Transportation and registration	\$ 7,417	\$ 7,466
Lodging, meals, and miscellaneous	13,783	15,974
Other	<u>1,669</u>	<u>2,495</u>
Total	<u>\$ 22,869</u>	<u>\$ 25,935</u>

See independent auditor's report on supplemental information.

IV. Investment Information

Portfolio Restructuring Project

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 plan's Target Asset Allocation Policy,
- its Investment Policies and Guidelines, and
- the application of objective procedures for selecting and monitoring individual investment managers.

In early 1997, the Board of Trustees initiated a comprehensive project that will result in the complete re-structuring of the Retirement System's portfolio. The Board tackled this project using a three phase approach incorporating the concepts above.

Target 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 investments should be diversified among various categories and sub-categories of assets. In fact, some pension consultants believe that up to 90% of long-term returns are derived from the Target Asset Allocation Policy – crediting only 10% to the performance of the investment managers selected to invest assets.

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

Using an independent study of the Retirement System's assets and liabilities, the Board of Trustees adopted a Target Asset Allocation Policy for the Retirement System's portfolio in February of 1997.

The Target Policy was designed to accomplish two primary objectives:

- to diversify the investments of the System within and across asset categories at a level of investment risk appropriate for the System's cash flow needs and long-term liabilities, and
- to earn a return that exceeds the rate of return assumed by the Retirement System's actuary for purposes of funding the System.

The Retirement System's Target Asset Allocation Policy is intended to earn a long-term annualized return of 9%.

Investment Policies and Guidelines

After adopting the Target Asset Allocation Policy, the Board of Trustees worked with its investment consulting firm to develop comprehensive Investment Policies and Operating Guidelines.

These documents define the investment-related responsibilities of the Trustees and of the Retirement System's investment managers. These documents also detail the System's investment goals, provide explicit descriptions of permissible and prohibited investments for each 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.

All of the System's investment managers have reviewed the Retirement System's Investment Policies and Guidelines and agreed to manage their investments in accordance with these documents.

Manager Selection and Monitoring

The final step in the three-phase project was the tedious task of bringing the System's portfolio into compliance with its newly adopted strategies.

IV. Investment Information (continued)

➤ *Manager Selection*

Assisted by the System's investment consulting firm, the Board is evaluating every incumbent and numerous prospective investment managers – one asset class at a time.

Manager searches are being performed in several phases that begin with extensive analysis and conclude with personal interviews of at least three investment management firms for each assignment.

The Board expects to finish its restructuring project by the end of 1999.

➤ *Monitoring Procedures*

On a quarterly basis, the System's investment consulting firm reviews a comprehensive investment performance report with the Board. The quarterly report contains a description of current 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 Board 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 Information

Market Environment

Nineteen ninety eight was a year of extreme volatility as worldwide markets responded to Japan's banking problems, emerging market currency crises, political uncertainty in Russia, and the fear of a global credit crunch. In the fourth quarter, global markets rebounded when the United States and Europe lowered interest

rates, Japan approved its bank restructuring, and financial efforts were committed to struggling Latin American countries.

Even with so much negative news, most financial markets – especially large cap domestic stocks and global and high quality domestic bonds – showed strong returns for the year.

Investment Performance

For calendar year 1998, the financial composite of the Retirement System's portfolio (publicly traded securities) earned a return of 13%. For the two year period ending December 31, 1998, the financial composite posted an annualized return of 15.5%. These returns are only slightly less than the median fund, which earned 14.5% for 1998, and 15.9% for the two year period ending December 31, 1998. It is significant that the Retirement System's financial investments earned competitive returns, despite the comprehensive portfolio re-structuring project that has been in progress for the past two years.

As of December 31, 1998, the Retirement System's alternative investments, comprised of real estate, mezzanine debt funds and venture capital investments, posted a 10.2% internal rate of return. A return of 10.2% compares favorably with the 7.9% benchmark median return.

Investment Statistics

The following pages in the Investment Section of this report provide statistical information about the Retirement System's investment managers, securities held in the portfolio, and brokerage fees paid in 1998.

Public School Retirement System of the City of St. Louis
Annual Report • December 31, 1998

IV. Investment Information (continued)

Investments As Of December 31, 1998

(000s omitted)

Manager	Market Value	Percent of Fund	Management Style	Asset Class	Percent of Fund	Target
Buford, Dixon, Sparrow	\$3,444	0.4%	Large Cap Growth Equity			
Daedalus	27,195	3.1%	Large Cap Growth Equity			
Monetary Management	6,534	0.7%	Large Cap Growth Equity			
New Amsterdam	50,021	5.7%	Large Cap Growth Equity			
Weatherfield	21,660	2.5%	Large Cap Growth Equity	Large Cap Growth Domestic Equities	12.5%	10.0%
Conning	30,131	3.5%	Large Cap Core Equity			
DEM-MET Trust	11,915	1.4%	Large Cap Core Equity			
Mississippi Valley Advisors	73,921	8.5%	Large Cap Core Equity			
NCM Captial Management	25,260	2.9%	Large Cap Core Equity			
Progress Trust	13,067	1.5%	Large Cap Core Equity	Large Cap Core Domestic Equities	17.7%	10.0%
The Edgar Lomax Company	7,331	0.8%	Large Cap Value Equity			
Evergreen	21,402	2.5%	Large Cap Value Equity			
TradeStreet	56,349	6.5%	Large Cap Value Equity			
Vuong	6,817	0.8%	Large Cap Value Equity	Large Cap Value Domestic Equities	10.5%	10.0%
Thomson Horstmann	21,646	2.5%	Small Cap Value Equity			
DFA	8,353	1.0%	Micro Cap Equity	Small/Micro Cap Domestic Equities	3.4%	5.0%
New Africa Advisors	4,077	0.5%	Emerging Market Equity			
Putnam	56,736	6.5%	International Equity	International Equities	7.0%	13.0%
Invesco Capital Management	75,813	8.7%	Balanced Fund	Balanced Fund	8.7%	10.0%
Smith Graham	8,391	1.0%	Core Bond Fund			
Abacus	14,483	1.7%	Long Bond Fund			
John Hancock	157,168	18.0%	Long Bond Fund	Core/Long Domestic Bonds	20.6%	20.0%
Credit Suisse	34,668	4.0%	High Yield Bond Fund	High Yield Domestic Bonds	4.0%	5.0%
Delaware International	74,795	8.6%	Global Bond Fund	Global Bonds	8.6%	10.0%
3 Partnerships	8,533	1.0%	Mezanine Debt			
7 Funds	12,476	1.4%	Real Estate			
17 Investments	28,893	3.3%	Venture Capital	Alternative Investments	5.7%	7.0%
Cash	11,171	1.3%	STIF	Cash	1.3%	0%
Total Market Value	\$872,250	100.0%				100.0%

IV. Investment Information (continued)

Equity Investments

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

1998 Return	16.5%
Average Market Capitalization	\$48,249,800,000
P/E Ratio	22.54
Price/Book Ratio	5.20
Five Year Earnings Growth Rate	19.04

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>
Sun Microsystems	\$6,715,533	1.7%	AT&T Corporation	\$5,057,449	1.2%
Microsoft Corporation	6,109,295	1.5%	Schering Plough Corp	4,834,375	1.2%
Compaq Computer Corp	5,906,964	1.5%	Bristol Meyers Squib	4,726,838	1.2%
General Electric	5,770,140	1.4%	Merck & Company Inc	4,675,750	1.2%
Bank One Corportion	5,648,002	1.4%	Philip Morris Companies	4,508,713	1.1%

Ten Best Performing Equity Holdings

<u>Company</u>	<u>Return</u>	<u>Company</u>	<u>Return</u>
Active Apparel Group	781.4%	Brooke Group LTD	377.8%
Westbridge Cap Corp	732.0%	Thurstmaster Inc	374.1%
Skymall Inc	695.2%	Verity Inc	285.5%
Multiple Zones	475.5%	Data Broadcasting	281.3%
Books-A-Million Inc	407.3%	Aware Inc	278.3%

Ten Worst Performing Equity Holdings

<u>Company</u>	<u>Return</u>	<u>Company</u>	<u>Return</u>
Sun Television	-99.5%	Staceys Buffet Inc	-91.3%
USCI Inc	-98.0%	Wilshire Financial Services	-90.0%
PHP Healthcare Corp	-98.0%	Biofield Corp	-88.3%
Brazos Sportsware	-96.8%	Calcomp Technology	-88.3%
Universal Seismic	-91.5%	Hayes Corp	-86.7%

IV. Investment Information (continued)

Bond Investments

The System's domestic bond investments had an overall average maturity of 7.36 years, a duration of 4.65 years, and an average quality rating of 8.74. During 1998, the System's bond portfolio earned 8.2%. A statistical description of the bond investments is shown below.

Bond Portfolio Maturity in Years	Percent of Portfolio
0.0 - 1.0	5.5%
1.0 - 3.0	14.1%
3.0 - 5.0	30.6%
5.0 - 10.0	35.2%
10.0 - 20.0	6.9%
20 +	7.4%

Bond Portfolio Duration in Years	Percent of Portfolio
0.0 - 1.0	5.5%
1.0 - 3.0	31.3%
3.0 - 4.0	17.8%
4.0 - 6.0	23.1%
6.0 - 8.0	8.1%
8.0 +	13.9%

Bond Portfolio Quality Rating	Percent of Portfolio
Government (10)	56.0%
Aaa(10)	4.2%
Aa(9)	3.0%
A(8)	12.8%
Baa(7)	7.6%
Below Baa(6-1)	13.2%
Other	3.1%

IV. Investment Information (continued)

Brokerage Fees Paid in 1998			
A G Edwards	\$15,747	Interstate - Johnson Lane	\$5,315
Abel Noser Corp	732	Investment Technology Grp.	2,671
Advest	1,044	ISI Group Inc	4,347
Alex Brown & Cons	1,940	Jackson Partners	1,500
Autranet	10,148	Jeffries	6,940
Bear Stearns	25,991	Jones Associates	228
Berean Capital Inc	935	Kalb Voorhis Meyer	910
Berstein Sanford C & Co	1,866	Keefe Bruyette	114
BHF Securities Corp	134	Kemper Capital market	14,496
Bridge Trading-Ernst Co	6,784	Legg Mason Wood Walker	108
Broadcourt	594	Lehman Bros	4,076
Buckingham Research Group	336	Lewco Securities	3,339
Cantor Fitzgerald	1,638	Lynch Jones & Ryan	1,887
Capital Institutional Svcs	18,656	Magna Securities	2,273
Chapman Co	366	Malachi	5,220
Chicago Corp	8,997	Merrill Lynch	139,725
County Natwest Securities	719	Morgan Equities Inc	3,528
Cowen & Co.	3,600	Morgan Stanley	7,700
Dain Bosworth	136	Omni Financial	40,570
Dakin Securities	6,380	Oppenheimer	7,031
Dean Witter Reynolds	1,006	Paine Webbedr	6,148
Deutsche Bank Capital	698	Prudential	113,585
Donaldson Lufkin	19,131	Prudential - Ken Neely	3,940
Edward Jones	246	Pryor Mclendon Counts	4,008
ESI Securities	11,501	Q Clearing Corp	3,690
Factset Data Systems	4,468	Regional Operations Group	19,544
First Boston	5,475	Robinson Humphrey	180
Furman Selz Mag Die Etc	1,121	SBCI Swiss Bank	2,016
Gardner Rich & Co	4,438	Second Street Securities	6,883
Goldis Pittsburg Institution	979	Smith Barney Shearson	17,152
Goldman Sachs	2,026	Soundview Financial Group	144
Gordon Haskett	31,677	Spear Leed Kellog	131
Grayson Wayne Capital	47,200	Standard/Poor Securities	48,929
Hoening & Co Inc	7,395	Sterme Agee & Leach Inc	913
Howard Weil	210	Stifel Nicolaus	181,352
IBES	860	Wheat First Securities	9,882
Instinet	27	Williams Capital Group	6,031
		Zions First Bank	3,467
TOTAL			\$925,172

IV. Investment Information (continued)

Market Value of Assets

Investment Category	As of December 31, 1996		As of December 31, 1997		As of December 31, 1998	
	Market Value	% of Total	Market Value	% of Total	Market Value	% of Total
Cash, Receivables and Cash Equivalents	\$55,739,957	8.3%	\$142,170,439	18.3%	\$30,005,150	3.5%
U.S. Bonds, Bills and Mortgages	120,698,861	18.1%	142,640,445	18.3%	135,939,550	15.8%
Corporate Bonds	93,711,622	14.0%	97,786,206	12.6%	93,124,355	10.9%
Preferred Stocks	100,178	0.0%	2,305	0.0%	NA	NA
Common Stocks	261,353,001	39.1%	313,985,588	40.3%	395,554,634	46.1%
Mutual Funds	NA	NA	NA	NA	169,085,508	19.7%
Regulated Investments	89,088,383	13.3%	34,564,011	4.4%	NA	NA
Real Estate - Insurance Contracts	8,040,975	1.2%	5,327,558	0.7%	1,657,237	0.2%
Mortgages	974,660	0.1%	769,985	0.1%	548,692	0.1%
Alternative Investments *	38,511,892	5.8%	41,506,244	5.3%	31,790,470	3.7%
Total	\$668,219,529	100.0%	\$778,752,781	100.0%	\$857,705,596	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, 1999**

June, 1999

V. Actuarial Information (continued)

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 report reflects the increases in benefits and the member contribution rate scheduled effective July 1, 1999. The assumed interest rate was increased from 6.5% to 8% effective January 1, 1999 to better recognize the expected impact of the new investment policy, which should be fully implemented by the end of 1999.

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

This actuarial valuation reflects: (1) the change in the assumed interest rate; (2) the increases in benefits effective July 1, 1999; and (3) the increase in the member contribution rate effective July 1, 1999. These changes combined with favorable actuarial experience for the year ending December 31, 1998 resulted in a decrease in the Annual Required Contribution rate from 7.27% to 6.45%. The primary factor producing the favorable experience was a net investment return in excess of the 6.5% assumed rate of return for 1998. 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 1999 remains unchanged at 8.03% of covered payroll. The dollar amount of the actual contribution increased from \$16,930,707 to \$17,312,869 for 1999.

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

V. Actuarial Information (continued)

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.

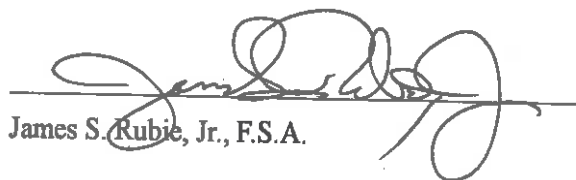
For 1999, the annual normal cost is \$0 or 0.00% of the covered payroll of \$215,602,351, down from 2.31% for 1998.

The actuarial accrued liability contribution is determined as the amount necessary to amortize the remaining Unfunded Frozen Actuarial Accrued Liability (UFAAL) 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. The UFAAL was increased by \$42,056,045 to reflect the net effect of the changes in the assumed interest rate and benefits.

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, 1999**

ANNUAL REQUIRED CONTRIBUTION

	<u>Board of Education</u>	<u>Harris-Stowe State College</u>	<u>Retirement System</u>	<u>Total</u>
<u>1999</u>				
Normal Cost Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Actuarial Accrued Liability Contribution	13,879,615	12,157	14,498	13,906,270
Annual Required Contribution	\$ 13,879,615	\$ 12,157	\$ 14,498	\$ 13,906,270
Covered Payroll	215,189,079	188,489	224,783	215,602,351
ARC as % of Covered Payroll	6.45%	6.45%	6.45%	6.45%
<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%

SYSTEM ASSETS

	<u>January 1, 1998*</u>	<u>January 1, 1999</u>
Expense and Contingency Reserve	\$ 54,991,596	\$ 68,114,826
Market Value, excluding Expense & Contingency Reserve	723,575,334	789,406,135
Actuarial Value	644,429,672	694,250,672

SYSTEM LIABILITIES

Unfunded Actuarial Accrued Liability	\$ 115,258,206	\$ 152,640,034
Actuarial Present Value of Accrued Benefits	572,952,925	363,236,615

* 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

V. Actuarial Information (continued)

utilizing the actuarial assumptions. System provisions and current member data are used to forecast the 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

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, and 20% of the difference is added to the expected actuarial value. The Expense and Contingency Reserve is excluded from the calculation to produce the actuarial value of assets.

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 (UFAAL) 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 UFAAL 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 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

V. Actuarial Information (continued)

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 UFAAL.

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 UFAAL can occur for plan amendments or actuarial assumption changes. Such supplements are determined by computing the change in the 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 UFAAL.

V. Actuarial Information (continued)

SECTION 4

ACTUARIAL ASSUMPTIONS

The following actuarial assumptions were used in the valuation:

Interest - 8% (6.5% for 1998) 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. Illustrative age-related rates are shown in Exhibit A. 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, 1999

ACTUARIAL ASSETS

Actuarial value of present assets	\$ 694,250,672
Actuarial present value of future member contributions	93,888,933
Actuarial present value of future employer contributions for:	
Normal Costs	(2,232,873)
Actuarial Accrued Liability	152,640,034
Total present and future assets	<u>\$ 938,546,766</u>

ACTUARIAL LIABILITIES

Actuarial present value of benefits now payable	\$ 269,478,400
Actuarial present value of benefits payable in the future	
Active members – New Plan	662,008,707
Active members – Old Plan	247,931
Members on leave of absence without pay	305,350
Terminated members	6,506,378
Total payable in the future	<u>669,068,366</u>
Total liabilities for benefits	<u>\$ 938,546,766</u>

V. Actuarial Information (continued)

PROJECTED BENEFIT OBLIGATION FUNDED STATUS

At January 1, 1999, the Projected Benefit Obligation was as follows:

Retired members and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	\$ 276,290,128
Current active members:	
Accumulated member contributions, including interest	130,705,014
Employer-financed vested benefits	301,108,737
Employer-financed non-vested benefits	2,844,757
Total Projected Benefit Obligation	\$ 710,948,636

At January 1, 1999 the Projected Benefit Obligation was funded as follows:

Net assets available for benefits at actuarial value	\$ 694,250,672
Unfunded Projected Benefit Obligation	16,697,664
Actuarial value funding ratio	97.7%
Net assets available for benefits at market value	\$ 789,406,135
Unfunded Projected Benefit Obligation	(78,457,499)
Market value funding ratio	111.0%

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 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
1999	130,705,014	276,290,128	303,953,494	694,250,672	100	100	95

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 10.28% on an actuarial value basis, 3.78% above the assumed rate of return of 6.5% for 1998. 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 12.16%.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial value of assets as of January 1, 1998	\$ 644,429,672
(2)	Member contributions	8,744,889
(3)	Employer contributions	17,025,578
(4)	Benefit payments and expenses, excluding payments from the Dedicated Bond Portfolio	40,591,254
(5)	Investment increment at 6.5%	40,852,922
(6)	Expected actuarial value on January 1, 1999: (1) + (2) + (3) - (4) + (5)	670,461,807
(7)	Market value of assets on January 1, 1999	857,520,961
(8)	Expense and Contingency Reserve on January 1, 1999	68,114,826
(9)	Excess of market value over expected actuarial value: (7) - (8) - (6)	118,944,328
(10)	Market value adjustment: 20% x (9)	23,788,866
(11)	Actuarial Value of Assets as of January 1, 1999: (6) + (10)	694,250,672

V. Actuarial Information (continued)

Membership as of January 1, 1999

	<u>Males</u>	<u>Females</u>	<u>Total</u>
Active Members			
Old Plan	1	6	7
New Plan	<u>1,688</u>	<u>4,426</u>	<u>6,114</u>
Total Active	1,689	4,432	6,121
Inactive Members			
Terminated or Leave of Absence Without Pay	<u>313</u>	<u>253</u>	<u>566</u>
Total Members Not Retired	2,002	4,685	6,687
Retired Members and Beneficiaries			
Retired Members and Contingent Annuity	805	1,939	2,744
Survivors	39	225	264
Disabled Members	<u>74</u>	<u>184</u>	<u>258</u>
Total Retired Members and Beneficiaries	<u>918</u>	<u>2,348</u>	<u>3,266</u>
Total Membership	2,920	7,033	9,953

As Of January 1, 1999

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	2,400	240	264	62	1,883
1	88	9	0	1	61
2	74	1	0	3	52
3	103	5	0	0	65
4	<u>79</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>53</u>
Total	2,744	258	264	66	2,114

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	\$24,763,230	\$1,447,003	\$1,141,639	\$56,441	\$1,574,225
1	948,106	53,985	0	3,034	34,574
2	1,007,834	6,827	0	2,398	33,918
3	1,203,929	33,223	0	0	35,342
4	<u>1,127,034</u>	<u>22,921</u>	<u>0</u>	<u>0</u>	<u>25,169</u>
Total	\$29,050,133	\$1,563,959	\$1,141,639	\$61,873	\$1,703,228

VI. Summary of Benefits (continued)

Background

The Public School Retirement System of the City of St. Louis was established and became 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 eligible for full Social Security benefits in addition to their benefits from the Retirement System.

Retirement System benefits are funded by a combination of 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 as of December 31, 1998 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 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 (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.

> *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.

VI. Summary of Benefits (continued)

➤ *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 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

VI. Summary of Benefits (continued)

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 age 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 elect to receive the member's pension benefit under Benefit Payment Option 1 in lieu of receiving a refund of the member's accumulated contributions and interest thereon.

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

> *Refund*

Upon employment separation, members are entitled to a refund of their accumulated contributions with interest thereon.

> *Rollover*

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.

> *Pension Benefit*

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 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 4.5% 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.

VI. Summary of Benefits (continued)

➤ *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 of the cost for their own coverage, if any, 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.

The surviving spouse of a deceased member is eligible to retain health care insurance after the death of the member.

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%.

VII. General Information

The information presented below shows how member benefit payments have increased and how the assets of the Retirement System have grown over the years as the result of investment income.

