
**EMPLOYEES RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

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EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

The following Management's Discussion and Analysis of the Employees Retirement System of the City of St. Louis (the System) provides an overview of the System's financial activities for the fiscal year ended September 30, 2009. This section should be read in conjunction with the System's financial statements and supplementary information.

Financial Highlights

The System's net assets decreased \$34.5 million to \$556.4 million as the economic crisis continued into a second year. The annual investment return was (-2.21%), but showed signs of improvement in the latter part of the fiscal year. The System's investments returned (-12.1%) for the first quarter, but recovered with an 11.3% return for the last nine months of the fiscal year. All market sectors, except for fixed income, showed negative returns in the first quarter. Returns turned positive in the last three quarters for all investment classes except real estate. Domestic and international equities led the improvement with returns in excess of 20%. The System drew upon employer contributions, short-term investments and proceeds from a partial liquidation of the hedge fund to finance pension and operations.

Employer contributions were \$27.3 million and \$30.4 million in fiscal years 2009 and 2008, respectively. Retirement benefits and operating expenses increased \$3.0 million to \$44.4 million from \$41.4 million. The net investment loss reduced net assets in FY 2009 by \$17.3 million, an improvement of \$69.0 million when compared to the previous year.

Financial Statements

The financial report of the System consists of two financial statements: the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The Statement of Plan Net Assets provides the detail of the System's assets and related liabilities other than benefit obligations. The net assets of the System reflect the resources available for future benefit payments. The Statement of Changes in Plan Net Assets provided the details of the System's activity during the year that lead to the change in plan net assets from the prior year.

In addition to the financial statements, the financial report contains the notes to the financial statements and supplemental information, which provide additional information for use in analyzing the financial statements and actuarial information related to the funded status of the System.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

Financial Analysis

Total assets at September 30, 2009 of \$619.1 million were comprised of cash, investments, securities lending collateral and receivables. Total assets decreased \$80.7 million over the prior year. Investments accounted for \$32.7 million of the decrease. Combined investment and contribution receivables decreased \$1.6 million as the final underpayments in employer contributions from prior years were paid. Securities lending collateral decreased \$46.4 million due to a corresponding change in the amount of securities on loan. The System also instructed its master custodian, State Street Bank and Trust, during the fiscal year, of its intentions to exit the securities lending program in a manner to avoid or minimize losses. To date, the System has not incurred any losses in its exposure in securities lending.

Total liabilities at September 30, 2009 were \$62.7 million and consisted of accounts payable, securities lending collateral and net payable from forward foreign currency exchange contracts. Total liabilities decreased \$46.2 million from the prior year due to the decrease in securities lending collateral liability. A weaker dollar, compared to other major currencies, resulted in a net payable on foreign currency exchange contracts.

Net assets held in trust for pension benefits were \$556.4 million at September 30, 2009, a decrease of \$34.5 million or 5.8% from the prior year.

Condensed Statement of Plan Net Assets

	<u>September 30,</u>		<u>Total Change</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>Percentage</u>
Assets				
Investments	\$ 555,905,954	\$ 588,617,569	\$ (32,711,615)	-5.6%
Cash	214,803	48,611	166,192	341.9%
Receivables	1,105,416	2,720,041	(1,614,625)	-59.4%
Currency Exchange	-	117,784	(117,784)	-100.0%
Securities Lending	61,898,255	108,304,311	(46,406,056)	-42.8%
Total Assets	619,124,428	699,808,316	(80,683,888)	-11.4%
Liabilities				
Accounts Payable	445,355	622,442	(177,087)	-28.5%
Securities Lending	61,898,255	108,304,311	(46,406,056)	-42.8%
Currency Exchange	391,477	-	391,477	n/a
Total Liabilities	62,735,087	108,926,753	(46,191,666)	-42.4%
Net Assets	\$ 556,389,341	\$ 590,881,563	\$ (34,492,222)	-5.8%

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

Revenues – Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the receipt of employer and member contributions and the earnings on investments. Employer contributions decreased \$3.1 million as the actuarial recommended contribution rate changed from 13.12% to 10.95%. Member contributions from employees who became members prior to October 14, 1977 and continue to make voluntary contributions and member purchases of creditable service were only \$501 as many contributing members retire.

Net investment income (loss) resulted in a loss of \$17.3 million in FY 2009 as the System incurred a (-2.2%) return on investment. Net investment income (loss) included deductions for custodial and investment management fees of slightly more than \$2.1 million in the current fiscal year.

Expenses – Deductions from Plan Net Assets

The major expenses of the System include the payment of pension benefits to retirees and beneficiaries and administrative expenses. Other expenses within retirement benefits include refund of contributions and pension service transfer payments to other public retirement plans within the State of Missouri which have a portability agreement with the System. Contribution refunds were \$7,504 in FY 2009. Transfer payments were \$40,546 in FY 2009 and \$50,208 in FY 2008. Administrative expenses decreased \$146,082 in FY 2009 to \$672,098.

Condensed Statements of Changes in Plan Net Assets

	Years Ended September 30,		Total Change	
	2009	2008	Amount	Percentage
Contributions				
Employer contributions	\$ 27,252,035	\$ 30,350,011	\$ (3,097,976)	-10.2%
Member contributions	501	90,934	(90,433)	-99.4%
Total Contributions	27,252,536	30,440,945	(3,188,409)	-10.5%
Investment Activity				
Interest and dividends				
less investments expenses	7,654,518	7,667,432	(12,914)	-0.2%
Net appreciation (depreciation)				
in fair value of investments	(24,996,490)	(93,999,195)	69,002,705	-73.4%
Total Investment Income (Loss)	(17,341,972)	(86,331,763)	68,989,791	-79.9%
Deductions				
Retirement benefits	43,730,688	40,542,025	3,188,663	7.9%
Administrative expenses	672,098	818,180	(146,082)	-17.9%
Total Deductions	44,402,786	41,360,205	3,042,581	7.4%
Changes in Net Assets	\$ (34,492,222)	\$ (97,251,023)	\$ 62,758,801	-64.5%

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

Summary

Net assets decreased for a second consecutive year largely attributable to a net investment loss of \$17.3 million. Employer contributions of \$27.3 million were not sufficient to offset retirement benefits and the net investment loss. The financial markets improved in the last nine months of the fiscal year marked by an investment valuation of \$555.9 million from a low of \$491 million early in the fiscal year. The System remains in a position to meet its current pension obligations, as confirmed by the recent actuarial calculations. The Trustees, working in conjunction with the staff, investment consultant and managers, believe the System is positioned to benefit from the continued improvement in the financial markets.

The System is a qualified governmental plan under Section 401(a) of the Internal Revenue Code.

Requests for Information

This financial report is designed to provide the Board of Trustees, our members and other users of our financial report with a general overview of the System's finances and to demonstrate the System's accountability for its funds. If you have any questions about this report or need additional financial information, contact the Employees Retirement System of the City of St. Louis, 1114 Market Street, Suite 900, St. Louis, MO 63101.



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the **Employees Retirement System of the City of St. Louis**
St. Louis, Missouri

We have audited the accompanying statements of plan net assets of **the Employees Retirement System of the City of St. Louis** (the System), a component unit of the City of St. Louis, Missouri, as of September 30, 2009 and 2008, 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 auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the **Employees Retirement System of the City of St. Louis** as of September 30, 2009 and 2008, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The management discussion and analysis on Pages 1-4, and the supplemental schedules of funding progress and employer contributions, on Pages 19-20 are not a required part of the basic financial statements of the System, but are supplemental information required by the Governmental Accounting Standards Board. For the management discussion and analysis and schedules of funding progress, and employer contributions, we have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information for the years ended September 30, 2009 and 2008. However, we did not audit the information and express no opinion on it. Limited procedures were applied by other auditors to the required supplementary information for the years ended September 30, 2006 and prior years.

Kiefer Bonfanti & Co. LLP

March 18, 2010

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

STATEMENTS OF PLAN NET ASSETS

	Assets	
	September 30,	
	2009	2008
Cash	\$ 214,803	\$ 48,611
Receivables		
Accrued interest receivable	859,828	1,020,546
Accrued dividend receivable	205,693	264,742
Employers contribution receivable	39,895	1,434,753
Receivable under forward foreign currency exchange contracts	-	117,784
Total Receivables	1,105,416	2,837,825
Investments, at Fair Value		
Temporary cash investments	13,886,129	17,792,233
Bonds	82,381,909	82,530,597
Common stocks	217,761,831	229,422,153
Managed international equity funds	134,651,721	114,075,537
Real estate funds	47,906,951	74,835,092
Domestic bond funds	49,290,491	46,180,167
Managed hedge fund of funds	10,026,922	23,781,790
Total Investments	555,905,954	588,617,569
Securities Lending Collateral	61,898,255	108,304,311
Total Assets	619,124,428	699,808,316
	Liabilities	
Accounts Payable	445,355	622,442
Securities Lending Collateral Liability	61,898,255	108,304,311
Payable Under Forward		
Foreign Currency Exchange Contracts	391,477	-
Total Liabilities	62,735,087	108,926,753
Net Assets Held in Trust for Pension Benefits	\$ 556,389,341	\$ 590,881,563

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Years Ended September 30,	
	2009	2008
Contributions		
Employer contributions	\$ 27,252,035	\$ 30,350,011
Member contributions	501	90,934
Total Contributions	27,252,536	30,440,945
Investment Activity		
Interest and dividends	9,839,090	10,895,381
Net depreciation in fair value of investments	(24,996,490)	(93,999,195)
	(15,157,400)	(83,103,814)
Less investment expenses	2,184,572	3,227,949
Net Investment Loss	(17,341,972)	(86,331,763)
Deductions		
Retirement benefits	43,730,688	40,542,025
Administrative	672,098	818,180
Total Deductions	44,402,786	41,360,205
Net Decrease	(34,492,222)	(97,251,023)
Net Assets Held in Trust For		
Pension Benefits		
Beginning of Year	590,881,563	688,132,586
End of Year	\$ 556,389,341	\$ 590,881,563

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008

1. DESCRIPTION OF THE PLAN

General

The System is a cost-sharing, multiple-employer, defined benefit public employee's retirement system for all non-uniformed employees of the City of St. Louis and certain other public entities funded by or providing services to residents of the City of St. Louis. These additional employee groups covered by the System are the employees of the St. Louis Public Library, the Art Museum of St. Louis, the St. Louis Zoological Park, the City of St. Louis Water Division, the Airport Authority, the City Mental Health Board, the Metropolitan Taxicab Commission, the System, and civilian employees of the police department and police and firemen's retirement systems. The System became operative April 1, 1960 by municipal ordinance establishing the System under the authority of Senate Bill No. 329 of the 70th General Assembly of the State of Missouri. Responsibility for operation and administration of the System is vested in its Board of Trustees. The Board of Trustees consists of the Comptroller of the City of St. Louis, two members appointed by the Mayor of the City of St. Louis, two members elected by the membership of the System, and one member elected by the retired members of the System.

Membership

At September 30, 2009 and 2008, membership consisted of the following:

	<u>2009</u>	<u>2008</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving benefits	6,435	6,312
Current employees		
Fully vested	3,876	4,002
Non-vested	1,765	1,754
	<u>12,076</u>	<u>12,068</u>

Benefits

The System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the System after the employee has attained five years of creditable service.

Notes to Financial Statements (Continued)

1. **DESCRIPTION OF THE PLAN (CONTINUED)**

Benefits (Continued)

Employees retire with full retirement benefits after the age of 65 or if an employee's age and creditable service combined equal or exceed 85. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service, age 55 with at least 20 years of creditable service, or any age with 30 years of creditable service. The monthly pension benefits of all retirees or their beneficiaries are adjusted according to the changes in the Consumer Price Index of the U.S. Department of Labor. Increases are limited each year, with total increases to retirees or their beneficiaries limited to 25%.

Contributions

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. The Board of Trustees established the required employer contribution rates, based on active member payroll of 10.92% effective July 1, 2009 and 10.95% effective July 1, 2008.

Employees, who became members of the System prior to October 14, 1977 and continued to make contributions, may make voluntary contributions to the System equal to 3% of their compensation until the compensation equals the maximum annual taxable earnings under the Federal Social Security Act. Thereafter, employees may contribute 6% of their compensation for the remainder of the calendar year.

Funding Policy

The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. If contributions are necessary, level percentage of payroll employer contribution rates are determined using the projected unit credit actuarial cost method.

Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting except that retirement benefits are recorded when due to the beneficiary. Employee contributions are recognized as additions in the period in which employee services are performed.

Administrative deductions are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Tax Status

The System has been determined to be exempt from federal income taxes under Section 115 of the Internal Revenue Code. In 2005, the System became a qualified retirement plan in accordance with Internal Revenue Service regulations.

Investments

A list of allowable investments is included in Note 3. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Security transactions and any resulting realized gains or losses are accounted for on a completed transaction basis. Commingled funds are valued at the unit value quoted by the investee entity based on the underlying asset values. Real estate funds and other managed funds are valued based on valuations of underlying investments as reported by fund managers.

The System participates in a securities lending program administered by State Street Bank and Trust, the custodian. Brokers who borrow the securities provide collateral equal to 102% for domestic securities loaned, resulting in no credit risk for the System. During 2009, the Board of Trustees decided to reduce the amount of securities that can be loaned at one time. At September 30, 2009 and 2008, the term to maturity of the securities on loan is matched with the term to maturity of the investment of the cash collateral. These loans can be terminated on demand by either the lender or borrower. The System cannot pledge or sell non-cash collateral unless the borrower defaults.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

As of September 30, 2009 and 2008, the System had the following securities on loan at market value:

	2009	2008
US Corporate Bond and Equity		
Agency	\$ 123,917	\$ 255,880
Corporate bond	11,088,761	7,731,245
Equity	29,103,107	81,620,443
Total US Corporate Bond and Equity	40,315,785	89,607,568
US Government		
Agency	452,177	1,589,452
Treasury	19,370,928	16,676,621
Total US Government	19,823,105	18,266,073
Non-US Fixed Income	253,459	306,776
Total Securities on Loan	\$ 60,392,349	\$ 108,180,417

Furniture and Equipment

Acquisitions of furniture and equipment are charged to administrative expense.

Derivatives

The System currently retains Payden & Rygel Investment Counsel as a global fixed income investment manager. The System permits Payden & Rygel to utilize financial derivative instruments such as forwards, futures, and options. The use of these financial derivatives is defensive in nature; that is, used only to manage duration and foreign currency exposure and bond exposure. The System's investment policy requires that open currency exposure shall not exceed 10 percent of the global fixed income portfolio.

At September 30, 2009 and 2008, the System had the following amounts under forward foreign currency exchange contracts:

	2009	2008
Receivable under forward foreign currency exchange contracts	\$ 25,034	\$ 6,156
Payable under forward foreign currency exchange contracts	(416,511)	111,628
Net Receivable (Payable) Under Forward Foreign Currency Exchange Contracts	\$ (391,477)	\$ 117,784

Notes to Financial Statements (Continued)

2. CASH AND INVESTMENTS

The System is authorized to invest in:

- U.S. government securities;
- Non-U.S. fixed income securities;
- Common stocks of corporations organized under the laws of the United States;
- Common stocks of foreign corporations through separate accounts as commingled vehicles;
- Publicly-issued corporate bonds, debentures, notes, or other evidences of indebtedness assumed or guaranteed by corporations organized under the laws of the United States with ratings of "A" or better by Moody's Investors Service;
- Short-term securities with a maximum maturity of one year including institutional liquid assets, U.S. Treasury obligations, Federal Agency obligations, discount and interest-bearing notes from corporations, and certificates of deposit;
- Real estate through discretionary commingled vehicles; and
- Hedge funds through either separate or commingled fund of funds vehicles.

The bank balances of the System at September 30, 2009 and 2008 were \$1,558,422 and \$817,472, respectively. These balances were insured by the Federal Deposit Insurance Corporation up to \$250,000. The remaining balances were collateralized by securities held by the pledging financial institution's trust department in the System's name.

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.

All investments at September 30, 2009 and 2008 were held by the System's agent in the System's name.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

At September 30, 2009, the System has the following concentrations, defined as "investments (other than those issued or guaranteed by the U.S. government)" in any one organization, that represent five percent or more of total investments:

State Street Global Advisors		
Passive Bond Market Index Fund	\$ 31,181,839	5.61%
Silchester International Investors		
International Value Equity Group Trust	\$ 82,433,174	14.83%
Walter Scott & Partners Limited		
Group Trust International	\$ 52,218,548	9.39%
Principal Global Investors		
Real Estate Group Annuity Contract	\$ 47,906,952	8.62%

Foreign Currency Risk

The System does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table:

Currency	Short-Term	Debt	Equity	Total
Australian Dollar	\$ 173	\$ -	\$ -	\$ 173
British Pound	68,945	1,065,643	-	1,134,588
Brazilian Real	-	196,072	-	196,072
Canadian Dollar	61,455	598,818	-	660,273
Euros	40,074	10,728,739	-	10,768,813
Mexican Peso	-	1,478	-	1,478
Japanese Yen	18,171	4,429,315	-	4,447,486
	\$ 188,818	\$ 17,020,065	\$ -	\$ 17,208,883

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

3. CASH AND INVESTMENTS (CONTINUED)

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation to the System. Below is a list of fixed income credit quality ratings:

<u>Quality Rating</u>		
Aaa/U.S. Governments	\$	70,859,209
Aa		13,219,141
A		21,952,214
Baa		9,127,483
Below Baa		1,213,407
Total Credit Risk Debt	\$	116,371,454

All temporary cash investments held by the System at September 30, 2009 were unrated.

Interest Rate Risk

The System does not have a formal policy to limit interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price.

<u>Investment</u>	<u>Fair Value</u>	<u>Effective Duration</u>
Payden and Rygel	\$ 30,335,174	5.40 years
Allegiant	56,633,055	5.60 years
SSGA	29,403,225	4.46 years
Total	\$ 116,371,454	

4. PLAN TERMINATION

The System is administered in accordance with the provisions of the Revised Code of the City of St. Louis. There are currently no plans to terminate the System.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

5. DEFERRED RETIREMENT OPTION PLAN

On June 8, 2000, the Mayor of the City of St. Louis approved an ordinance passed by the Board of Aldermen, authorizing a Deferred Retirement Option Plan (DROP), which became effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. Total DROP expense was \$6,133,957 and \$5,288,834 for the years ended September 30, 2009 and 2008, respectively. The DROP account will not be adjusted for cost of living increases.

The DROP account earns interest at the actuarial valuation rate of return and at the 10 year U.S. Treasury Bond yield as of each September 30, for DROP participants enrolling February 1, 2003 and thereafter.

After the members completely terminate employment, they can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan. At September 30, 2009, approximately 698 members have elected to DROP participation and have DROP account balances.

6. FUNDED STATUS AND FUNDING PROGRESS

At September 30, 2009, the report of the System's actuary indicated that the System's funded status was as follows:

Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
\$667,667,205	\$801,703,642	(\$134,036,437)	83.28%	\$240,732,322	55.68%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

Notes to Financial Statements (Continued)

7. ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

VALUATION DATE	October 1, 2009
ACTUARIAL COST METHOD	Projected Unit Credit Cost Method
AMORTIZATION METHOD	Level dollar amount for unfunded liability, open
REMAINING AMORTIZATION PERIOD	30 years remaining as of October 1, 2009
ASSET VALUATION METHOD	The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of market value. The actuarial asset value was initialized as the market value as of October 1, 2005.
SIGNIFICANT ASSUMPTIONS	
Investment rate of return	8.00%
Projected salary increases	Varies by age, ranging from 3.825% to 7.226%.
Cost of living adjustments	5.00% per year; maximum cumulative increase of 25%.

8. COMMITMENTS AND CONTINGENCIES

The Employees Retirement System of the City of St. Louis (the "System") was a party to two pending lawsuits. In the first lawsuit, Zoological Subdistrict, et al. (the Zoo) vs. Darlene Green, et al., St. Louis City Circuit Court Cause No. 0722-CC07132, the Zoo claims the System's trustees violated their fiduciary obligations by failing to provide each employer with a separate employer contribution rate based upon its employees' demographics as opposed to the uniform employer contribution rate approved by the trustees. This claim has been settled in July, 2009 with no admission of liability and no payments from the System. In addition the System's counterclaim against the Zoo for approximately \$1.3 Million in unpaid employer contributions for the City Fiscal Years of 2007 and 2008 has been settled with the Zoo making full payment (but without interest).

The St. Louis Public Library (the Library) has filed a separate petition in the above mentioned lawsuit alleging the System has been improperly administered for several years. The Library is seeking an agent multiple employer plan where each participating employer's assets and liabilities would be administered and accounted for separately. If the Library's request is granted, there would be a significant change in the way the System is administered and the System would need to be reorganized. The System is vigorously defending against the claims asserted by the Library.

The System is the plaintiff in another lawsuit styled Darlene Green, et al., v. Travelers Casualty and Surety Company of America, et al. which is also pending in the St. Louis City Circuit Court. After the Zoo filed its lawsuit, the System made a claim for indemnification and defense under its fiduciary insurance policy with Travelers. Travelers denied coverage and this lawsuit was brought by the System to seek a declaratory judgment that the terms of the policy provide coverage. After the Library filed its separate petition in the Zoo lawsuit, the System re-tendered the defense of the Zoo and Library lawsuit to Travelers. As a result, Travelers has agreed to provide a defense subject to a reservation of rights as of July 2, 2008, the date of the re-tender. The System is vigorously pursuing the lawsuit for payment of defense costs prior to the date of the re-tender. Any adverse decision by the court is not expected to materially affect the System's finances, but will cause the System to pay its costs attributable to the litigation of both cases and possibly reimburse Traveler's for its expenses.

9. SUBSEQUENT EVENTS

The agency has evaluated subsequent events through March 18, 2010, the date which the financial statements were available to be issued, for possible recognition or disclosure in the financial statements

SUPPLEMENTARY INFORMATION

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded)/ Overfunded UAAL	Funded Ratio	Covered Payroll	Overfunded AAL as a % of Covered Payroll	Unfunded AAL as a % of Covered Payroll
9/30/2004	\$ 431,853,406	\$ 602,795,470	\$ (170,942,064)	71.64%	\$ 221,768,791	-	77.08%
9/30/2005	527,733,171	666,182,075	(138,448,904)	79.22%	223,837,003	-	61.85%
9/30/2006	554,065,539	695,889,716	(141,824,177)	79.62%	224,120,314	-	63.28%
9/30/2007	646,569,478	732,576,024	(86,006,546)	88.26%	231,029,237	-	37.23%
9/30/2008	674,016,719	765,842,026	(91,825,307)	88.01%	238,701,628	-	38.47%
9/30/2009	\$ 667,667,205	\$ 801,703,642	\$ (134,036,437)	83.28%	\$ 240,732,322	-	55.68%

EMPLOYEES RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Years Ended September 30,	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
2004	\$ 30,926,604	\$ 15,158,997	49.02%
2005	29,243,453	15,752,497	53.87%
2006	29,478,032	15,756,456	53.45%
2007	29,599,091	71,301,428	240.89%
2008	25,297,801	30,350,011	119.97%
2009	\$ 26,072,575	\$ 27,252,035	104.52%