2006

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006

Public School & Education Employee
PSRS/PEERS
Retirement Systems of Missouri

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006

Public School & Education Employee
PSRS/PEERS
Retirement Systems of Missouri

M. Steve Yoakum
Executive Director

Prepared by:
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mission statement

The Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (PSRS and PEERS) work in partnership with the member school districts of this state to provide eligible employees and their beneficiaries with a significant source of income based on the employee's length of service and compensation in order to enhance retirement, disability and death benefits received from other sources.

It is the fiduciary responsibility of those charged with administration of PSRS and PEERS to:

- effectively collect contributions,
- prudently invest the assets to obtain optimum returns,
- equitably provide benefits, and
- impartially and in accordance with applicable law administer the benefit programs.

The Board of Trustees and staff are committed to providing services to the members and beneficiaries professionally, promptly, courteously, and efficiently.

mission statement principles

- We will conduct the business of the Retirement Systems in accordance with the mission statement.
- We will act as fiduciaries in the management of all funds for the exclusive benefit of our members.
- We will adhere to our investment policy to ensure the highest possible investment return consistent with the prudent investment of plan assets.
- We will have as our goal the replacement of 80% of a member's final average salary after a 30-year career through the combination of income from public pensions and, where applicable, the federal Social Security system.
- We shall have as our goal the retention of purchasing power of the initial retirement benefit through the retirement years.
- We will maintain an independent retirement system that retains the power of the trustees to set actuarial assumptions, appoint consultants, employ staff, establish a budget and conduct all business of the retirement systems.
- We will prepare and distribute an annual financial report that adheres to generally accepted accounting principles.
- We will provide prompt, courteous and accurate service to our members.
- We will provide clear and complete information to the members and the districts through the use of a summary plan document, newsletters, an annual member account statement and any other documents deemed necessary.
- We will adhere to the highest standards of ethical conduct.

table of contents

introductory section

financial section

investment section

table of contents

actuarial section

statistical section

introductory section

Board of Trustees

June 30, 2006

Pictured from left to right: Richard Franklin, Appointed Retired PSRS Member; Peggy Preston, Chair, Elected PSRS Member; Tina Zubeck, Elected PEERS Member; Phil Wright, Elected PSRS Member; Cheryl Boggess, Vice Chair, Elected PSRS Member; Joncee Nodler, Appointed Member and James O'Donnell, Appointed Member.

introductory section

Public School & Education Employee
PSRS/PEERS
Retirement Systems of Missouri

December 1, 2006

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

I am pleased to present the Comprehensive Annual Financial Report of the Public School Retirement System of Missouri (PSRS) and Public Education Employee Retirement System of Missouri (PEERS) for the fiscal year ended June 30, 2006. The management and staff of the Systems are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. To the best of our knowledge, the information presented is a fair and accurate portrayal of the financial position and operations of PSRS and PEERS as of June 30, 2006.

Report Contents

This report is presented in five sections:

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

Overview of the Retirement Systems

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

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

Financial Information

The Systems' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB). A system of internal controls is in place to help monitor and safeguard assets and promote efficient operations. An independent certified public accounting firm selected by the Board of Trustees performs a financial audit each year. In addition, the Systems employ an internal auditor who performs operational reviews to ensure that the internal controls are functioning effectively.

Please refer to the Management's Discussion and Analysis on pages 20 through 24 for an overview of additions to and deductions from the plans for the fiscal year.

Address: P.O. Box 268, 3210 West Truman Blvd., Jefferson City, MO 65102; **Telephone Number:** (573) 634-5290; **Toll Free:** (800) 392-6848
FAX Numbers: Membership (573) 634-7934; Investments (573) 634-6248; Employer Services (573) 634-7911; Administration (573) 634-5375

www.psrs-peers.org

Investment Activities

The overall investment return for the fiscal year was 9.8% for the Public School Retirement System (PSRS) and 9.8% for the Public Education Employee Retirement System (PEERS). The total investment return exceeded the policy benchmark return of 8.7% and resulted in $293 million of additional value to the Systems. Our relatively conservative asset allocation provided returns that exceeded our assumed rate of return of 8%, but trailed our peers of large institutional pension systems that employed a more aggressive asset allocation. However, the PSRS/PEERS' investment returns were generated while taking less risk than a large majority of other public pension funds in the nation.

The Board of Trustees governs the investment process by adopting investment policies and objectives, which define the Systems' strategic investment initiatives, and by monitoring performance to measure the results. The PSRS/PEERS Investment Policy, adopted by the Board and amended as needed, has specific guidelines for performance expectations, eligible holdings and portfolio characteristics. The key to determining investment strategy is asset allocation, a crucial decision made by the Board after consideration of expected returns for asset classes within the context of risk tolerance for the Systems. Internal staff, with the advice of outside consultants, is responsible for implementing and monitoring this strategy. To increase expected returns, the Systems recently made changes to the asset allocation strategy to focus on assets with higher expected returns and more active management.

Additional detailed information regarding the PSRS and PEERS investments can be found in the Investment Section of this report.

Funding Status

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

To determine the relative health of the Systems, the actuarial accrued liability is compared to the actuarial value of assets to arrive at a funded percentage. As of June 30, 2006, PSRS was 82.6% funded, while PEERS was 80.5% funded. This is a slight decrease from the June 30, 2005 funded ratios of 82.7% for PSRS and 83.3% for PEERS.

The actuarial value of assets was determined using a "smoothing" method that requires all gains (earnings in excess of 8%) and losses (earnings below 8%) to be recognized over a five-year period. Because of this methodology, only one-fifth of the 2006 gains in excess of 8% have been recognized as of June 30, 2006.

During the 2006 fiscal year, the contribution rates collected by the systems were insufficient to fund the normal costs of the systems plus amortize the unfunded actuarial accrued liability within a 30-year period. The annual required contribution rates for 2006 were 27.78% for PSRS and 12.60% for PEERS. The contribution rates collected were 23% for PSRS and 11.0% for PEERS.

Based upon the June 30, 2006 actuarial valuations, the annual required contribution rates for fiscal year 2007 were determined to be 28.39% for PSRS and 13.22% for PEERS. The Board of Trustees set the fiscal year 2007 contribution rates at 24% for PSRS and 11.5% for PEERS. The approved rates were set in accordance with the annual contribution rate increase limits set forth in state statute. The fiscal year 2008 rates have been set at 25% for PSRS and 12.0% for PEERS. The contribution rates will continue to rise each year until the rates collected are equal to the annual required contributions as determined by the actuary.

Legislative Changes During 2005-2006

There were no legislative changes pertaining to the Systems during the 2006 legislative session.

introductory section

Awards

Certificate of Achievement for Excellence in Financial Reporting
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSRS and PEERS for the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to GFOA for consideration again this year.

Public Pension Coordinating Council (PPCC), Public Pension Standards Award
The Systems also received the PPCC, Public Pension Standards Award in 2006 in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Professional Services

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

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

Acknowledgements

We would like to express our thanks and gratitude to the Board of Trustees, staff, and consultants who have worked diligently to produce this report and to ensure the successful operation of the Systems.

Respectfully submitted,

M. Steve Yoakum
Executive Director

Lori Woratzeck, CPA
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Public School and the Non-Teacher School Employee Retirement Systems of Missouri

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Public School Retirement System of Missouri

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

PPCC

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Public Education Employee Retirement System of Missouri

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

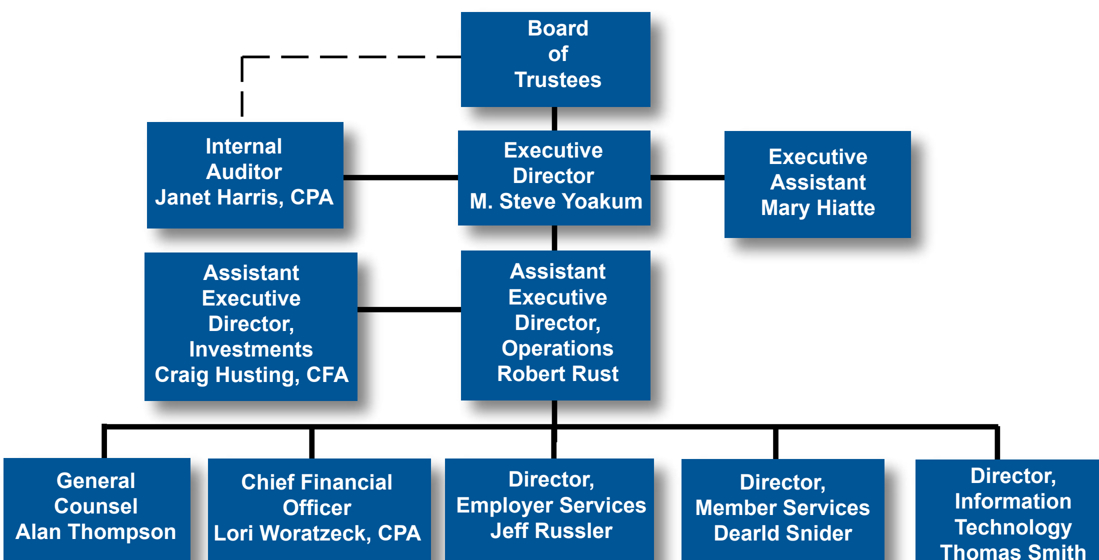
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Administrative Organization

June 30, 2006

Pictured seated from left to right: Dearld Snider, Director, Member Services; Jeff Russler, Director, Employer Services; Janet Harris, Internal Auditor; Steve Yoakum, Executive Director and Tom Smith, Director, Information Technology. Standing from left to right: Lori Woratzeck, Chief Financial Officer; Craig Husting, Assistant Executive Director, Investments; Robert Rust, Assistant Executive Director, Operations; Mary Hiatte, Executive Assistant and Alan Thompson, General Counsel.



Professional Services

June 30, 2006

Actuary

Gabriel, Roeder, Smith & Co.
Actuaries and Consultants
Norman S. Losk, F.S.A.
William B. Fornia, F.S.A.
Alex Rivera, F.S.A.
Chicago, Illinois

Auditor

Williams Keepers, LLC
Michael J. Oldelehr, CPA
Anita Brand, CPA
Jefferson City, Missouri

Computer Consultants

Conqwest, Inc.
Michelle Drolet
Holliston, Massachusetts

eVisory
Dan Elam
Richmond, Virginia

Huber & Associates
James Huber
Jefferson City, Missouri

ICON Integration
Michael Thibault
Lenexa, Kansas

Integrated Solutions Group
Roger Rudkin
Columbia, Missouri

Information Technology Group
Patti Brown
Kansas City, Missouri

Levi, Ray and Shoup
Crystal Matthiesen
Springfield, Illinois

Total Network Integration
Kirt Dunwoody
Jefferson City, Missouri

World Wide Technologies
Molly Jones
St. Louis, Missouri

Insurance Consultant

Charlesworth & Associates
Bob Charlesworth
Overland Park, Kansas

Wallstreet Insurance Group
Lee Wilbers
Jefferson City, Missouri

Legal Counsel

Ice Miller, LLP
Doreen Gridley
Indianapolis, Indiana

Pillsbury, Winthrop, Shaw, Pittman, LLP
Dulcie Brand
Los Angeles, California

Thompson Coburn
Attorneys at Law
Allen Allred
St. Louis, Missouri

Legislative Consultant

Jack Pierce
Jefferson City, Missouri

Medical Advisor

Andrew Matera
Columbia, Missouri

Investment Management Consultants*

Albourne Partners
John Claisse
David Harmston
San Francisco, California

Pathway Capital Management
Doug LeBon
Curt Gerlach
Irvine, California

Russell Investment Group
Michael Hall
Rachel Carroll
Tacoma, Washington

The Townsend Group
Terry Ahern
Linda Assante
Cleveland, Ohio

Master Trustee/Custodian*

State Street Bank and Trust Company
R. Scott Paton
Steve Davies
Boston, Massachusetts

Investment Advisors*

AllianceBernstein Institutional
Investment Management
Scott Wallace
Giulio Martini
Elizabeth Smith
New York, New York

Analytic Investors, Inc.
Harindra de Silva
Katie W. Koehler
Los Angeles, California

AQR Capital Management
Robert Krail
David Kabiller
Greenwich, Connecticut

Aronson & Johnson & Ortiz, LP
Ted Aronson
Martha Ortiz
Philadelphia, Pennsylvania

Arrowstreet Capital
Bruce Clarke
Peter Rathjens
Cambridge, Massachusetts

BlackRock Financial Management
Andy Phillips
Robert Capaldi
New York, New York

(continued on page 16)

(continued from page 15)

Bridgewater Associates
Raymond Dalio
Tom Bachner
Westport, Connecticut

Chartwell Investment Partners
Edward Antoian
David Dalrymple
Timothy Riddle
Berwyn, Pennsylvania

Delaware Investments
Jeff Van Harte
Ed Grant
San Francisco, California

Duncan-Hurst Capital Management
Robert Marren
Frank Hurst
San Diego, California

Goldman Sachs Asset Management, L.P.
Robert Jones
Doug Angstrom
New York, New York

INVESCO Global Asset Management
Erik Granade
Lori Lefkowitz
Atlanta, Georgia

Jacobs Levy Equity Management
Bruce Jacobs
Jeffrey Braemer
Florham Park, New Jersey

JP Morgan Investment Management, Inc.
Ann Pfeiffer
Michael O'Brien
New York, New York

Julius Baer Investment Management
Riad Younes
Brigid Flanagan
New York, New York

Legg Mason Capital Management
Bill Miller
Kyle Prechtl Legg
Baltimore, Maryland

Legg Mason International Equities
Aquico Wen
Jim Kandunias
London, England

Martingale Asset Management
William Jacques
Samuel Nathans
Boston, Massachusetts

McKinley Capital Management
Robert Gilliam
Sheila Borer
Anchorage, Alaska

MFS Investment Management
David Mannheim
Steve Ng
Boston, Massachusetts

Morgan Stanley Real Estate Advisor, Inc.
Scott Brown
Joyce Frater
Atlanta, Georgia

New Amsterdam Partners
Michelle Clayman
David Lubell
New York, New York

Next Century Growth Investors
Tom Press
Kelly McNulty
Minneapolis, Minnesota

NISA Investment Advisors
Jess Yawitz
Robert Krebs
St. Louis, Missouri

Pacific Investment Management Company (PIMCO)
William Gross
George Wood
Newport Beach, California

Payden & Rygel
Brian Matthews
Michael Salvay
Los Angeles, California

Prudential Real Estate Investors
J. Allen Smith
Les Lockwood
Parsippany, New Jersey

RREEF America LLC
Kevin Howley
Laura Gaylord
Chicago, Illinois

Seix Investment Advisors
Christina Seix
Michael McEachern
Woodcliff Lake, New Jersey

State Street Global Advisors
Michael Feehily
John Kirby
Mary Guy
Boston, Massachusetts

Systematic Financial Management
Kevin McCreesh
James Wallerius
Teaneck, New Jersey

Thomson, Horstmann & Bryant, Inc.
Richard Horstmann
Al Thomson
Saddle Brook, New Jersey

Trust Company of the West (TCW)
Craig C. Blum
Stephen A. Burlingame
Los Angeles, California

UBS Global Asset Management
John Leonard
Steven E. Wilde
Chicago, Illinois

Urdang Securities Management
Todd Briddell
Dean Frankel
Plymouth Meeting, Pennsylvania

Wellington Management Company
Joe Marvan
Alexander Grant
Boston, Massachusetts

Westwood Management Corporation
Susan Byrne
Patricia Fraze
Dallas, Texas

Zevenbergen Capital, Inc.
Nancy Zevenbergen
Lisa Foley
Seattle, Washington

**Information on investment management and consulting fees can be found in the Schedule of Investment Expenses on page 76.*

financial section

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
3220 West Edgewood, Suite E • Jefferson City, MO 65109 • 573/635-6196 • 573/635-8394 fax

JEFFERSON CITY
COLUMBIA
MEXICO

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
Public School and Public Education Employee Retirement Systems of Missouri

We have audited the accompanying statements of plan net assets of the Public School and Public Education Employee Retirement Systems of Missouri (the Systems) as of June 30, 2006 and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 audit provides 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 Public School and Public Education Employee Retirement Systems of Missouri at June 30, 2006 and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 20 through 24 and the schedules of funding progress and employer contributions on pages 41 and 42 are not a required part of the basic financial statements of the System, but are supplementary information required by the Governmental Accounting Standards Board (GASB). The required supplementary information is the responsibility of management of the Systems. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on pages 43 through 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Systems. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams-Keepers LLC

September 8, 2006

financial section

Management's Discussion and Analysis

June 30, 2006

This discussion and analysis of the financial position of the Public School Retirement System and the Public Education Employee Retirement System (collectively referred to as the Systems) provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2006. We encourage you to consider the information presented here in conjunction with additional information presented in the financial statements and required supplementary information.

Financial Highlights

The following highlights are explained in more detail for each System later in this discussion.

The combined net assets of the Systems at June 30, 2006 were $27.9 billion. The net assets were up $2.1 billion from June 30, 2005. This increase was primarily due to the increase in the fair value of investments.

The overall investment return was 9.8% for the Public School Retirement System (PSRS) and 9.8% for the Public Education Employee Retirement System (PEERS). Our relatively conservative asset allocation provided returns that exceeded our assumed rate of return of 8%, but trailed our peers of large institutional pension systems that took more risk with more aggressive asset allocations and larger equity exposures.

The Systems' funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding shall be carried out in such a way to ensure that the burden of paying retirement costs shall be shared equitably by present and succeeding generations of members and taxpayers.

As of June 30, 2006, the funded ratios were 82.6% for PSRS and 80.5% for PEERS. As of June 30, 2005, the funded ratios were 82.7% for PSRS and 83.3% for PEERS. To arrive at the actuarial value of assets as of June 30, 2006, we used an asset smoothing method by which investment returns above or below 8% are recognized over a five-year period.

Revenues for the year were $3.5 billion. This figure is comprised primarily of contribution revenue of $1.0 billion and investment income of $2.4 billion.

Expenses increased 9.4% over the prior year from $1.3 billion to $1.4 billion. Most of this increase represented increased retirement benefits paid to members. Approximately $42.7 million was paid to retirees electing the Partial Lump Sum Option (PLSO). This cost was up $8.7 million from the $34 million paid during fiscal year 2005. This option allows eligible retirees to elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time payment at retirement equal to 12, 24, or 36 times the Option 1, Single-Life benefit amount.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of the Systems. The financial report consists of: The basic financial statements, comprised of the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets; the notes to the basic financial statements; and the required and other supplementary information.

The Statements of Plan Net Assets (page 25) present information on the assets and liabilities of the Systems, with the difference between the two reported as net assets. The net assets of the Systems reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Systems' financial position is improving or deteriorating.

The Statements of Changes in Plan Net Assets (page 26) present information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a district, even though not yet paid by year end, will be reflected as revenue. Earned vacation accruals will be reflected as an expense, even though they have not been paid to employees.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 27 through 40. The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedules of Funding Progress (page 41) include historical trend information about the actuarially funded status of each plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedules of Employer Contributions (page 42) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

Other supplementary schedules are also included. The Schedule of Administrative Expenses (page 43) presents the overall cost of administering the Systems. The Schedule of Professional/Consultant Fees (page 45) further details this category of administrative expense.

The Schedule of Investment Expenses (page 44) shows the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statement of Changes in Plan Net Assets.

Financial Analysis of the Public School Retirement System

The Public School Retirement System (PSRS) is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 11.5% of their annual covered salary during 2006. The employer was required to match that amount. Most PSRS members do not contribute to Social Security, except for employees hired after 1986 who contribute to Medicare only.

Assets

Total assets of PSRS as of June 30, 2006 were $32.9 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $1.1 billion or 3.4% from the prior year primarily due to investment earnings.

Liabilities

Total liabilities as of June 30, 2006 were $7.3 billion and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities decreased by $.8 billion. This decrease was primarily due to decreased payables from the purchase of investments.

Net Assets

System assets exceeded liabilities at June 30, 2006 by $25.6 billion. This was up from 2005 net assets of $23.7 billion by $1.9 billion. This increase was a result of investment earnings that totaled $2.2 billion for the year. Benefit payments and other expenses exceeded contribution revenue by $0.4 billion. This trend is a natural progression in a mature defined benefit plan.

Public School Retirement System
Plan Net Assets (000's)

	2006	2005	Change
Cash & investments	$ 29,803,145	$ 27,688,259	$ 2,114,886
Receivables	3,042,185	4,086,297	(1,044,112)
Other	12,008	11,271	737
Total assets	32,857,338	31,785,827	1,071,511
Total liabilities	7,253,809	8,046,970	(793,161)
Plan net assets	$ 25,603,529	$ 23,738,857	$ 1,864,672

Public School Retirement System
Changes in Plan Net Assets (000's)

	2006	2005	Change
Additions			
Member contributions	$ 502,980	$ 432,500	$ 70,480
Employer contributions	429,579	389,416	40,163
Investment income	2,235,836	1,958,622	277,214
Other	264	476	(212)
Total additions	3,168,659	2,781,014	387,645
Deductions			
Monthly benefits	1,260,839	1,152,578	108,261
Refunds of contributions	36,394	34,346	2,048
Administrative expenses	6,750	5,566	1,184
Other	4	48	(44)
Total deductions	1,303,987	1,192,538	111,449
Change in plan net assets	$ 1,864,672	$ 1,588,476	$ 276,196

Revenues – Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contributions for the year increased by $110.6 million to $932.6 million. This was a 13.5% increase over the prior year. Retirement contributions were calculated at 11.5% of retirement salary for each member during fiscal year 2006. The employer matched this amount. Contribution rate increases accounted for 4.5% of the increase. In addition to contributions on salary, members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit.

The net investment gain was $2.2 billion as compared to a net investment gain of $2.0 billion in 2005. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets

The primary expenses of PSRS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2006 were $1.3 billion, an increase of 9.3% over fiscal year 2005.

Benefit expenses increased by $108.3 million. This was a result of cost-of-living increases applied to the benefits of current retirees, increased PLSO payments and the addition of 2,474 new service and disability retirees. There were no changes to the benefit formula during 2006. Refunds of contributions increased by $2.0 million to $36.4 million.

Administrative expenses increased by $1.2 million to $6.8 million. This was a 21.3% increase. This increase is attributable to providing a 3.44% COLA increase for staff members and the addition of one staff member in Member Services and three staff members in Information Technology. In addition a plan was implemented allowing the partial payout of sick leave upon termination. This increased the compensated absence expense by $0.4 million. The cost of these items was charged 60% to PSRS and 40% to PEERS. Because our Board continually strives to manage the System in a cost effective manner, our costs remain below that of comparable public funds. The total cost (including all investment expenses) to administer the Systems in fiscal year 2006 was approximately 0.24%.

Financial Analysis of the Public Education Employee Retirement System

The Public Education Employee Retirement System (PEERS) is a mandatory cost-sharing multiple employer retirement system for non-certificated employees and certain part-time certificated employees of participating employers. PEERS members were required to contribute 5.5% of their annual covered salary during 2006. The employer was required to match that amount. PEERS members also contribute to Social Security.

Assets

Total assets of PEERS as of June 30, 2006 were $3.0 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $0.2 billion or 7.2% from the prior year primarily due to investment earnings and increased investment receivables.

Liabilities

Total liabilities as of June 30, 2006 were $678.3 million and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities decreased by $20.4 million. This decrease was primarily due to decreased payables from the purchase of investments.

Net Assets

PEERS assets exceeded liabilities at the close of fiscal year 2006 by $2.3 billion. This was up from 2005 net assets by $0.2 billion. This increase was a result of investment earnings that totaled $197.6 million for the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $20.7 million.

Public Education Employee Retirement System
Plan Net Assets (000's)

	2006	2005	Change
Cash & investments	$ 2,685,708	$ 2,402,168	$ 283,540
Receivables	279,526	365,118	(85,592)
Total assets	2,965,234	2,767,286	197,948
Total liabilities	678,254	698,639	(20,385)
Plan net assets	$ 2,286,980	$ 2,068,647	$ 218,333

Public Education Employee Retirement System
Changes in Plan Net Assets (000's)

	2006	2005	Change
Additions			
Member contributions	$ 68,018	$ 55,699	$ 12,319
Employer contributions	61,746	53,110	8,636
Investment income	197,629	170,922	26,707
Other	3	8	(5)
Total additions	327,396	279,739	47,657
Deductions			
Monthly benefits	92,661	83,906	8,755
Refunds of contributions	12,044	11,892	152
Administrative expenses	4,358	3,564	794
Total deductions	109,063	99,362	9,701
Change in plan net assets	$ 218,333	$ 180,377	$ 37,956

Revenues – Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contributions for the year increased by $21 million to $129.8 million. This was a 19.3% increase over the prior year. Retirement contributions were calculated at 5.5% of retirement salary for each member during fiscal year 2006. The employer matched this amount. Contribution rate increases accounted for 4.76% of the increase. In addition to contributions on salary, members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit.

The net investment gain was $197.6 million as compared to a net investment gain of $170.9 million in 2005. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets

The primary expenses of PEERS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2006 were $109.1 million, an increase of 9.8% over fiscal year 2005.

Benefit expenses increased by $8.8 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 1,120 new service and disability retirees. There were no changes to the benefit formula during 2006. Refunds of contributions increased by $.2 million to $12 million.

Administrative expenses increased by $0.8 million to $4.3 million. This was a 22.2% increase. This increase is attributable to providing a 3.44% COLA increase for staff members and the addition of one staff member in Member Services and three staff members in Information Technology. In addition a plan was implemented allowing the partial payout of sick leave upon termination. This increased the compensated absence expense by $0.4 million. The cost of these items was charged 60% to PSRS and 40% to PEERS. Because our Board continually strives to manage the System in a cost effective manner, our costs remain below that of comparable public funds. The total cost (including all investment expenses) to administer the Systems in fiscal year 2006 was approximately 0.24%.

Summary

Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Although our earnings exceeded the 8% return assumption in 2006, our long-term financial concerns remain. The current contribution rates are still below the annual required contribution rates of 28.39% for PSRS and 13.22% for PEERS. Unless our investment returns greatly exceed our assumptions and expectations, we can expect contribution rate increases over the next several years. In addition, management will continue to strive to improve the financial position of the Systems through a prudent investment program and long-term strategic planning.

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 Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public School and Public Education Employee Retirement Systems, P.O. Box 268, Jefferson City, MO 65102.

Statements of Plan Net Assets

As of June 30, 2006 with comparative totals for June 30, 2005

	PSRS	PEERS	Totals June 30, 2006	Totals June 30, 2005
ASSETS				
Cash	$ 45,707,391	$ 5,546,787	$ 51,254,178	$ 60,085,449
Receivables				
Contributions	140,577,696	13,563,050	154,140,746	148,871,552
Accrued interest and dividends	88,574,543	7,395,963	95,970,506	101,936,177
Investment sales	2,812,218,210	258,554,784	3,070,772,994	4,200,281,557
Due from PEERS	691,452	-	691,452	191,530
Other	122,943	12,229	135,172	134,117
Total receivables	3,042,184,844	279,526,026	3,321,710,870	4,451,414,933
Investments, at fair value				
Fixed income	9,097,766,807	818,510,300	9,916,277,107	10,097,833,831
Domestic stocks	9,775,841,016	883,991,071	10,659,832,087	10,188,929,297
International equities	5,101,638,511	453,834,408	5,555,472,919	4,431,980,327
Short term investments	944,248,474	86,901,396	1,031,149,870	1,214,653,920
Private equity	130,627,885	9,999,148	140,627,033	29,607,351
Real estate	773,951,566	68,699,978	842,651,544	175,659,642
Total investments	25,824,074,259	2,321,936,301	28,146,010,560	26,138,664,368
Invested securities lending collateral	3,933,363,237	358,224,593	4,291,587,830	3,891,677,353
Prepaid expenses	157,716	-	157,716	266,537
Capital assets, net of accumulated depreciation	11,850,530	-	11,850,530	11,004,354
Total assets	32,857,337,977	2,965,233,707	35,822,571,684	34,553,112,994
LIABILITIES				
Accounts payable	20,420,200	1,820,994	22,241,194	12,727,508
Interest payable	5,473,444	469,831	5,943,275	2,059,047
Securities lending collateral	3,933,363,237	358,224,593	4,291,587,830	3,891,677,353
Investment purchases	3,294,051,028	316,720,766	3,610,771,794	4,838,569,064
Due to PSRS	-	691,452	691,452	191,530
Compensated absences	501,417	326,233	827,650	385,030
Total liabilities	7,253,809,326	678,253,869	7,932,063,195	8,745,609,532
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 25,603,528,651	$ 2,286,979,838	$ 27,890,508,489	$ 25,807,503,462

(Schedules of Funding Progress for the plans are presented on page 41)

See accompanying Notes to the Financial Statements

Statements of Changes in Plan Net Assets

For the year ended June 30, 2006 with comparative totals for the year ended June 30, 2005

	PSRS	PEERS	Combined Totals 2006	Combined Totals 2005
ADDITIONS				
Contributions				
Employer	$ 429,578,911	$ 61,745,505	$ 491,324,416	$ 442,525,684
Member	502,980,175	68,017,547	570,997,722	488,199,616
Total contributions	932,559,086	129,763,052	1,062,322,138	930,725,300
Investment income				
From investment activities:				
Net appreciation in fair value of investments	1,678,183,445	148,370,007	1,826,553,452	1,602,358,380
Interest from investments	354,592,311	31,552,593	386,144,904	337,107,866
Interest from bank deposits	371,447	67,674	439,121	231,050
Dividends	239,862,760	21,148,993	261,011,753	221,149,752
Total investment income	2,273,009,963	201,139,267	2,474,149,230	2,160,847,048
Less investment expenses	49,224,397	4,527,227	53,751,624	43,184,370
Net income from investment activities	2,223,785,566	196,612,040	2,420,397,606	2,117,662,678
From security lending activities:				
Security lending gross income	163,529,569	13,970,103	177,499,672	91,632,298
Less security lending activity expenses:				
Agent fees	12,556,014	996,009	13,552,023	2,442,789
Broker rebates	138,923,003	11,957,021	150,880,024	77,308,662
Total security lending expenses	151,479,017	12,953,030	164,432,047	79,751,451
Net income from security lending activity	12,050,552	1,017,073	13,067,625	11,880,847
Total net investment income	2,235,836,118	197,629,113	2,433,465,231	2,129,543,525
Other income				
PEERS capital asset charge	251,764	-	251,764	306,345
Miscellaneous income	12,143	3,396	15,539	178,119
Total other income	263,907	3,396	267,303	484,464
Total additions	3,168,659,111	327,395,561	3,496,054,672	3,060,753,289
DEDUCTIONS				
Monthly benefits	1,260,838,465	92,660,848	1,353,499,313	1,236,484,041
Refunds of contributions	36,394,064	12,043,611	48,437,675	46,237,965
Administrative expenses	6,750,205	4,358,443	11,108,648	9,130,104
Other expenses	4,022	(13)	4,009	47,536
Total deductions	1,303,986,756	109,062,889	1,413,049,645	1,291,899,646
Net increase	1,864,672,355	218,332,672	2,083,005,027	1,768,853,643
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	23,738,856,296	2,068,647,166	25,807,503,462	24,038,649,819
End of year	$ 25,603,528,651	$ 2,286,979,838	$ 27,890,508,489	$ 25,807,503,462

See accompanying Notes to the Financial Statements

Notes to the Financial Statements

June 30, 2006 (with comparative information for June 30, 2005)

Note 1 – Plan Descriptions

The Board of Trustees of the Public School Retirement System administers two separate retirement systems, the Public School Retirement System (PSRS) and the Public Education Employee Retirement System (PEERS). The Board of Trustees consists of seven members, three of whom are elected PSRS active members, one an elected active member of PEERS and three persons appointed by the Governor, one of whom must be a retired member of either PSRS or PEERS. Note: The name of the Non-Teacher School Employee Retirement System of Missouri was changed to the Public Education Employee Retirement System of Missouri (PEERS) effective August 28, 2005.

The funds of the two Systems are invested in conjunction with each other but each System retains title to its own investments. Each System's assets may be used only for the payment of benefits to the members of the separate System in accordance with the statutes governing that System as well as expenses required to administer the System.

The Public School Retirement System

The Public School Retirement System of Missouri (PSRS) is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. The System also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the state of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989.

PSRS was established as an independent trust fund by an Act of the Missouri General Assembly effective August 1, 1945. Statutes governing the retirement system are found in Sections 169.010-169.141 and Section 169.560-169.595 RSMo. It is a defined benefit plan providing service retirement, death and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of creditable service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service credit and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% formula factor. Beginning July 1, 2001, and ending July 1, 2008, a 2.55% formula factor is used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with five to 24.9 years of service at age 55 or with 25 years of service (if not yet age 55). Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of credit may retire with a lesser benefit formula factor during a window that will close July 1, 2008. Members who are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Option 1, Single-Life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional retirement plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PSRS members were required to contribute 11.5% of their annual covered salary during 2005-2006 and 11.0% during 2004-2005. The employing districts were required to match the contributions made by employees. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. Administrative costs are financed through investment earnings. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

Members – The number of PSRS membership and benefit recipients served by the System at June 30 was:

		2006		2005	
Retirees and beneficiaries receiving benefits			38,110		36,321
Inactive members entitled to, but not yet receiving benefits			6,197		5,741
Active members:	Vested	54,511		53,426	
	Non-vested	21,028		20,424	
Total active members			75,539		73,850
Other inactive members			5,556		5,951
Total			125,402		121,863

Employers – PSRS had 545 contributing employers during both years.

financial section

The Public Education Employee Retirement System

The Public Education Employee Retirement System of Missouri (PEERS) is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri teaching certificates also contribute to PEERS.

PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the retirement system are found in Sections 169.600-169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Trustees of the Public School Retirement System.

PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of creditable service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service credit and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% formula factor. Members qualifying for "Rule of 80" or "30-and-Out" are entitled to a temporary .8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are less than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of credit may retire with a lesser benefit formula factor during a window that will close July 1, 2008. Members who are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Option 1, Single-Life benefit amount. Annual cost-of-living adjustments (COLAs) up to a lifetime maximum of 80% of the original benefit amount are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional retirement plans.

Contributions – PEERS members were required to contribute 5.5% of their annual covered salary during 2005-2006 and 5.25% during 2004-2005. The employing districts were required to match the contributions made by their employees. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. Administrative costs proportional to its membership size are reimbursed by PEERS to the Public School Retirement System and are financed through investment earnings.

Members – The number of PEERS membership and benefit recipients served by the System at June 30 was:

		2006		2005	
Retirees and beneficiaries receiving benefits			16,760		16,142
Inactive members entitled to, but not yet receiving benefits			3,831		3,516
Active members:	Vested	25,163		23,907	
	Non-vested	23,025		22,691	
Total active members			48,188		46,598
Other inactive members			14,093		14,855
Total			82,872		81,111

Employers – PEERS had 536 contributing employers during both years.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of both Systems were prepared using the accrual basis of accounting. For both Systems, member and employer contributions are recognized when due, pursuant to formal commitments and statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the statutes governing the Systems. Expenses are recognized when the liability is incurred, regardless of when payment is made. Administrative expenses are funded through investment earnings.

Cash – Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables – Receivables consist primarily of contributions owed and yet to be remitted by the employing districts, pending investment trades and interest and dividends payable to the Systems as of the end of each fiscal year.

Method Used to Value Investments – Investments are reported at fair value on a trade date basis. Securities traded on international exchanges are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The value of real estate investments are provided by the general partner and compared to independent appraisals. The value of private equity investments, that do not have an established market, are determined based upon the values of the underlying companies as determined by the general partner.

Capital Assets – The building and most other capital assets are owned by PSRS and are stated at cost less depreciation accumulated since acquisition. The stated value does not purport to represent replacement or realized value. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from three to 40 years in the following major classes: computers and software, three years; vehicles, five years; equipment, five years; building and land improvements, 15 years; building, 40 years.

PEERS owns office equipment purchased before 1997 and follows the same guidelines for depreciation. As of June 30, 2006 this equipment was fully depreciated. PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. The amount of this reimbursement was $251,764 in 2006 and $306,345 in 2005.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2006. Actual results could differ from those estimates.

Total Columns – The financial statements include total column information for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with both Systems' financial statements for the year ended June 30, 2005, from which the information was derived.

Note 3 – Designations of Net Assets Held in Trust for Pension Benefits

The Systems designate the net assets held in trust for pension benefits for the following specific purposes:

PSRS	2006	2005
Designated for Member Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 5,467,066,813	$ 5,131,544,079
Designated for the Payment of Benefits to Present Retirees – Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	15,370,196,978	13,975,797,438
Designated for Additional Deposit Annuities – Accumulation of the additional deposits over and above the contributions required by law. Defined contribution annuity payments are made to current retirees from this reserve.	1,081,659	1,103,965
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.	4,765,183,201	4,630,410,814
Net Assets Held In Trust For Pension Benefits	$ 25,603,528,651	$ 23,738,856,296

PEERS	2006	2005
Designated for Member Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 527,336,720	$ 469,042,825
Designated for the Payment of Benefits to Present Retirees – Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	1,020,485,817	904,292,420
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.	739,157,301	695,311,921
Net Assets Held In Trust For Pension Benefits	$ 2,286,979,838	$ 2,068,647,166

Note 4 – Deposits, Investments and Securities Lending Program

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Systems will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Systems would not be able to recover the value of investment or collateral securties that are in the possession of an outside party. To mitigate custodial credit risk, the Systems require that all deposits be 100% collateralized with securities held in the Systems' name and held by a third party agent.

Deposits – Cash balances include short-term securities held by the custodial bank in a pooled short-term investment fund and operating balances held by the depository banks.

At June 30, 2006, the PSRS carrying amount of deposits at the depository bank was $12,796,887 and the bank balance was $14,067,357. Of the bank balance, $100,000 was covered by federal depository insurance. The remaining $13,967,357 was collateralized with securities held by a third-party institution in the System's name. An additional $1,349,335 was held in overnight repurchase agreements with a book value of $1,349,335.

At June 30, 2006, the PEERS carrying amount of deposits at the depository bank was ($328,780) and the bank balance was $0. Since the bank balance was $0, no amount was required to be collateralized. To maximize investment income, the float caused by outstanding checks was invested in overnight repurchase agreements, thus causing the negative book balance. The overnight repurchase agreement balance at June 30, 2006 was $2,798,893 with a book value of $2,470,113.

The following Agency securities were pledged as collateral for overnight repurchase agreements as of June 30, 2006:

PSRS

Agency	Maturity Date	Market Value
GLPC	05/25/17	$ 1,349,335
Total		$ 1,349,335

PEERS

Agency	Maturity Date	Market Value
FHLB	07/30/08	$ 4,637,960
FHLB	01/28/08	1,390,273
FHLMC	08/25/06	497,830
FNMA	02/28/08	546,392
Total		$ 7,072,455

The following Agency securities were pledged as collateral for deposits as of June 30, 2006:

PSRS

Agency	Maturity Date	Market Value
GLPC	11/25/25	$ 502,829
GLPC	02/25/18	939,616
GLPC	12/25/18	1,023,109
GLPC	05/25/17	1,380,136
GLPC	09/25/18	3,850,243
GLPC	05/25/07	25,441
FNMA	12/11/09	460,800
FHLB	08/14/09	2,590,653
FNMV	02/17/09	968,300
FHLV	02/20/07	556,998
FNMV	09/29/09	2,940,600
FHLB	10/03/08	2,928,600
Total		$ 18,167,328

PEERS

Agency	Maturity Date	Market Value
Not applicable		

Investments – Funds for both Systems that are in excess of a safe operating balance are invested by the investment agents under policies and procedures established by the Board of Trustees. Chapter 169.040 RSMo as amended effective August 13, 1984, authorizes any investment which a prudent person acting in a like capacity and familiar with similar matters would use in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibility with respect to the retirement Systems is covered by this "prudent person" rule.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Systems' investment in a single issue. To mitigate this risk, the Systems' investment policy prohibits investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. securities. At June 30, 2006, the Systems did not have more than 5% of total investments in a single issue except for U.S. securities.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Systems do not have a single investment policy that restricts duration as a means of managing its exposure to fair value losses arising from increased interest rates; however, each manager must follow guidelines established relative to the duration of its benchmark. The portfolios are continually monitored to ensure compliance with these guidelines. The following table includes collateral pledged for deposits and repurchase agreements but does not include security lending collateral held in a pooled investment fund. The maturities of all debt securities are presented below:

PSRS

Security Type	Market Value at June 30, 2006	<1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. treasuries	$ 2,238,170,571	$ 18,992,354	$ 847,706,888	$ 915,873,748	$ 455,597,581
Government guaranteed mortgages	124,783,324	-	25,763,364	12,891,244	86,128,716
Agencies	2,217,482,478	22,137,338	699,484,937	63,620,719	1,432,239,484
Collateralized mortgage obligations	473,464,906	-	11,167,935	-	462,296,971
Asset backed securities	465,665,908	193,875	286,622,885	32,547,465	146,301,683
Corporate bonds	1,481,288,791	190,513,671	667,239,295	406,804,099	216,731,726
Sovereign	53,270,645	7,216,891	10,477,968	12,995,308	22,580,478
Municipals	48,741,749	-	3,085,299	4,521,975	41,134,475
Commingled funds (see note)					
SSGA TIPS	574,940,043	-	-	574,940,043	-
SSGA STIF	728,398,310	728,398,310	-	-	-
Bridgewater Short Term II	25,414,452	25,414,452	-	-	-
SSGA Lehmann Aggregate	1,466,901,580	-	1,466,901,580	-	-
PIMCO Emerging Markets	4,761,191	-	-	4,761,191	-
PIMCO International	34,313,589	-	34,313,589	-	-
SEIX High Income Fund	62,266,434	-	62,266,434	-	-
Currency	98,897,228	98,897,228	-	-	-
Total	$ 10,098,761,199	$ 1,091,764,119	$ 4,115,030,174	$ 2,028,955,792	$ 2,863,011,114
Percentage of total fixed income	100%	11%	41%	20%	28%

Note: Commingled Funds are presented at the weighted average maturity. These funds do not have a single maturity date; however, the underlying securities have maturity dates. To more accurately reflect the interest rate risk of the Systems, these weighted averages were displayed.

PEERS

Security Type	Market Value at June 30, 2006	<1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. treasuries	$ 199,207,249	$ 2,802,198	$ 71,530,891	$ 84,302,441	$ 40,571,719
Government guaranteed mortgages	10,419,039	-	2,297,344	394,180	7,727,515
Agencies	215,210,011	4,396,700	90,449,073	6,140,896	114,223,342
Collateralized mortgage obligations	42,166,307	-	701,459	-	41,464,848
Asset backed securities	40,676,049	16,519	26,226,124	2,736,414	11,696,992
Corporate bonds	147,321,344	33,940,668	58,206,602	35,105,170	20,068,904
Sovereign	3,836,949	689,653	880,698	1,037,039	1,229,559
Municipals	4,680,956	-	263,218	398,564	4,019,174
Commingled funds (see note)					
SSGA TIPS	52,265,095	-	-	52,265,095	-
SSGA STIF	49,066,770	49,066,770	-	-	-
Bridgewater Short Term II	2,108,736	2,108,736	-	-	-
SSGA Lehmann Aggregate	132,815,357	-	132,815,357	-	-
PIMCO Emerging Markets	419,006	-	-	419,006	-
PIMCO International	2,885,124	-	2,885,124	-	-
Seix High Income Fund	5,280,563	-	5,280,563	-	-
Currency	7,864,637	7,864,637	-	-	-
Total	$ 916,223,192	$ 100,885,881	$ 391,536,453	$ 182,798,805	$ 241,002,053
Percentage of total fixed income	100%	11%	43%	20%	26%

Note: Commingled Funds are presented at the weighted average maturity. These funds do not have a single maturity date; however, the underlying securities have maturity dates. To more accurately reflect the interest rate risk of the Systems, these weighted averages were displayed.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Systems do not have a single investment policy designating the minimum allowable credit rating; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The following table includes collateral pledged for deposits and repurchase agreements but does not include security lending collateral held in a pooled investment fund. The Systems' debt investments by credit rating category as of June 30, 2006 are presented in the following tables.

PSRS

Security Type	Market Value at June 30, 2006	Percent-age	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$ 2,238,170,571	22%	$2,238,170,571	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	124,783,324	1%	124,783,324	-	-	-	-	-	-	-
Agencies	2,217,482,478	22%	2,217,482,478	-	-	-	-	-	-	-
Collateralized mortgage obligations	473,464,906	5%	470,021,258	3,443,648	-	-	-	-	-	-
Asset backed securities	465,665,908	5%	427,377,545	3,001,875	5,348,391	9,808,171	8,600,395	1,374,450	-	10,155,081
Corporate bonds	1,481,288,791	15%	77,564,455	191,614,003	369,333,786	397,037,630	185,075,265	150,569,244	1,429,613	108,664,795
Sovereign	53,270,645	0%	11,397,701	5,096,021	6,741,253	22,087,209	558,300	-	-	7,390,161
Municipals	48,741,749	0%	35,406,935	4,998,704	425,480	7,910,630	-	-	-	-
Commingled Funds (see note)										
SSGA TIPS	574,940,043	6%	574,940,043	-	-	-	-	-	-	-
SSGA STIF	728,398,310	7%	-	-	728,398,310	-	-	-	-	-
Bridgewater Short Term II	25,414,452	0%	-	-	25,414,452	-	-	-	-	-
SSGA Lehmann Agg	1,466,901,580	15%	-	1,466,901,580	-	-	-	-	-	-
PIMCO Emerging Markets	4,761,191	0%	-	-	-	4,761,191	-	-	-	-
PIMCO International	34,313,589	0%	-	34,313,589	-	-	-	-	-	-
Seix High Income Fd	62,266,434	1%	-	-	-	-	62,266,434	-	-	-
Currency	98,897,228	1%	-	-	-	-	-	-	-	98,897,228
Total	$10,098,761,199	100%	$6,177,144,310	$1,709,369,420	$1,135,661,672	$441,604,831	$256,500,394	$151,943,694	$1,429,613	$225,107,265
Percentage of total fixed income	100%		61%	17%	11%	4%	3%	2%	0%	2%

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves; however, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages were displayed.

PEERS

Security Type	Market Value at June 30, 2006	Percent-age	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$199,207,249	22%	$199,207,249	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	10,419,039	1%	10,419,039	-	-	-	-	-	-	-
Agencies	215,210,011	23%	215,210,011	-	-	-	-	-	-	-
Collateralized mortgage obligations	42,166,307	5%	41,867,543	298,764	-	-	-	-	-	-
Asset backed securities	40,676,049	4%	37,594,809	-	630,931	851,563	579,205	-	-	1,019,541
Corporate bonds	147,321,344	16%	6,822,460	16,301,288	36,345,671	34,348,314	16,010,645	13,120,387	142,900	24,229,679
Sovereign	3,836,949	0%	313,866	449,649	554,691	1,818,112	-	-	-	700,631
Municipals	4,680,956	1%	2,837,363	1,119,834	70,051	653,708	-	-	-	-
Commingled Funds (see note)										
SSGA TIPS	52,265,095	6%	52,265,095	-	-	-	-	-	-	-
SSGA STIF	49,066,770	5%	-	-	49,066,770	-	-	-	-	-
Bridgewater Short Term II	2,108,736	0%	-	-	2,108,736	-	-	-	-	-
SSGA Lehmann Agg	132,815,357	14%	-	132,815,357	-	-	-	-	-	-
PIMCO Emerging Markets	419,006	0%	-	-	-	419,006	-	-	-	-
PIMCO International	2,885,124	1%	-	2,885,124	-	-	-	-	-	-
Seix High Income Fd	5,280,563	1%	-	-	-	-	5,280,563	-	-	
Currency	7,864,637	1%	-	-	-	-	-	-	-	7,864,637
Total	$916,223,192	100%	$566,537,435	$153,870,016	$88,776,850	$38,090,703	$21,870,413	$13,120,387	$142,900	$33,814,488
Percentage of total fixed income	100%		62%	17%	10%	4%	2%	1%	0%	4%

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves; however, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages were displayed.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Systems do not have a single investment policy designating the allowable exposure to foreign currency; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The Systems' exposure to foreign currency risk at June 30, 2006 is presented on the following tables:

PSRS

Currency	Debt	Equity	Currency/ Short Term	Total
Australian Dollar	$ -	$ 100,586,448	$ 4,258,642	$ 104,845,090
Brazilian Real	-	51,067,982	304,250	51,372,232
Canadian Dollar	(155,849)	121,139,831	335,485	121,319,467
Chilean Peso	-	1,259,520	23,527	1,283,047
Czech Koruna	-	9,473,192	617,122	10,090,314
Danish Krone	157,719	20,718,809	199,602	21,076,130
Euro Currency	16,794,916	1,596,257,291	6,157,979	1,619,210,186
Hong Kong Dollar	574,334	98,283,013	3,767,414	102,624,761
Hungarian Forint	-	12,605,435	118,370	12,723,805
Indian Rupee	-	7,509,578	127,944	7,637,522
Indonesian Rupiah	-	11,508,105	241,286	11,749,391
Israeli Shekel	-	12,301,590	(309,979)	11,991,611
Japanese Yen	-	806,843,927	33,769,892	840,613,819
Malaysian Ringgit	-	4,484,630	242,131	4,726,761
Mexican Peso	173,270	21,032,667	611,086	21,817,023
New Bulgaria Lev	-	288,967	-	288,967
New Russian Ruble	-	-	(64)	(64)
New Taiwan Dollar	-	46,880,046	282,075	47,162,121
New Turkish Lira	-	19,103,315	93,304	19,196,619
New Zealand Dollar	-	2,964,857	15,609	2,980,466
Norwegian Krone	1,572,606	73,919,209	6,549,025	82,040,840
Pakistan Rupee	-	378,414	-	378,414
Philippine Peso	-	2,052,948	101,815	2,154,763
Polish Zloty	-	34,262,557	5,641	34,268,198
Pound Sterling	(8,870)	854,432,604	6,424,924	860,848,658
Singapore Dollar	-	16,314,084	1,259,380	17,573,464
South African Rand	-	27,339,747	44,343	27,384,090
South Korean Won	-	107,036,318	56,056	107,092,374
Swedish Krona	-	84,876,726	2,568,526	87,445,252
Swiss Franc	-	329,866,629	1,830,749	331,697,378
Thailand Baht	-	23,928,852	30	23,928,882
Yuan Renminbi	-	-	54,286	54,286
Total	$ 19,108,126	$ 4,498,717,291	$ 69,750,450	$ 4,587,575,867

PEERS

Currency	Debt	Equity	Currency/ Short Term	Total
Australian Dollar	$ -	$ 8,931,609	$ 377,364	$ 9,308,973
Brazilian Real	-	4,398,951	33,600	4,432,551
Canadian Dollar	(598,169)	10,373,430	46,650	9,821,911
Chilean Peso	-	117,625	2,172	119,797
Czech Koruna	-	842,965	54,914	897,879
Danish Krone	15,564	1,840,174	24,838	1,880,576
Euro Currency	1,405,351	140,451,511	663,318	142,520,180
Hong Kong Dollar	54,599	9,297,040	250,091	9,601,730
Hungarian Forint	-	1,111,045	10,547	1,121,592
Indian Rupee	-	691,253	11,942	703,195
Indonesian Rupiah	-	1,057,664	18,467	1,076,131
Israeli Shekel	-	1,024,678	(31,644)	993,034
Japanese Yen	-	71,503,338	2,935,965	74,439,303
Malaysian Ringgit	-	416,963	22,355	439,318
Mexican Peso	10,979	1,923,621	59,658	1,994,258
New Bulgaria Lev	-	26,159	-	26,159
New Russian Ruble	-	-	(334)	(334)
New Taiwan Dollar	-	4,345,106	59,845	4,404,951
New Turkish Lira	-	1,763,046	28,289	1,791,335
New Zealand Dollar	-	237,287	4,113	241,400
Norwegian Krone	145,834	6,550,211	577,941	7,273,986
Pakistan Rupee	-	9,847	-	9,847
Philippine Peso	-	182,561	12,318	194,879
Polish Zloty	-	3,056,957	7,172	3,064,129
Pound Sterling	(10,593)	75,381,306	56,467	75,427,180
Singapore Dollar	-	1,729,170	115,697	1,844,867
South African Rand	-	2,860,574	8,158	2,868,732
South Korean Won	-	9,800,839	5,264	9,806,103
Swedish Krona	-	7,325,485	260,666	7,586,151
Swiss Franc	-	29,252,989	112,296	29,365,285
Thailand Baht	-	2,220,006	-	2,220,006
Total	$ 1,023,565	$ 398,723,410	$ 5,728,129	$ 405,475,104

Derivatives – The Systems are parties to certain financial investments with off-balance sheet risk used in the normal course of business to generate earnings and reduce exposure to fluctuations in market conditions. Derivatives are reported at fair value on the Statements of Plan Net Assets.

International security managers are authorized to engage in forward contracts to exchange different currencies at a specified date and rate. These forward contracts involve elements of custodial and market risk in excess of the amount recognized in the Statements of Plan Net Assets. The forward exchange contracts activity (purchases and sales) during fiscal years 2006 and 2005 are shown below.

2006	Purchase Value	Fair Value
PSRS	$ 2,058,261,171	$ 2,052,279,597
PEERS	186,100,757	185,499,509

2005	Purchase Value	Fair Value
PSRS	$ 1,062,699,880	$ 1,069,233,879
PEERS	93,946,587	94,519,080

The "Net appreciation (depreciation) in fair value of investments" found on the Statements of Changes in Plan Net Assets includes for PSRS a net loss on forward contracts and currency disposal of $16,209,283 during 2005-2006, and a gain of $11,883,857 during 2004-2005. PEERS had a similar net loss of $1,454,583 during 2005-2006 and a gain of $1,237,270 in 2004-2005.

Certain managers are authorized to enter into contractual commitments involving other financial instruments with off-balance-sheet risk. During the year, the Systems held equity futures, Treasury futures, options, forwards and swaps. These are used to minimize the expenses and volatility of the portfolio.

The following derivatives were held by the Systems at June 30, 2006:

Type	PSRS Notional Value	PEERS Notional Value
Equity futures	$ 155,611,588	$ 9,041,578
Treasury futures	25,318,859	(2,442,828)
Currency futures	1,420,763,686	119,208,851
Cash futures	41,585,993	4,605,004
Total	$ 1,643,280,127	$ 130,412,605

Security Lending Activity – Under the "prudent person" authority of the governing statutes and in accordance with the policies set by the Board of Trustees, the Systems lend securities to broker-dealers and banks pursuant to a form of loan agreement. The Systems' custodial bank is authorized to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the Systems lent securities and received cash (both U.S. and foreign currency), securities issued or guaranteed by the U.S. government or its agencies, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The Systems did not have the ability to pledge or sell noncash collateral absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the United States, or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

The Systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the year. There were no losses during the year resulting from a default of the borrowers or the custodial bank.

The Systems and borrowers each maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other qualified tax-exempt plan lenders in a collective investment pool. The average duration of such investment pool as of June 30, 2006 was 58 days and an average weighted maturity of 479 days. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. On June 30, 2006 the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The collateral held (including both cash collateral recognized in the "Statements of Plan Net Assets" and non-cash collateral) and the fair values of securities on loan for PSRS were $4,145,455,453 and $4,069,555,366 at June 30, 2006 and $3,753,757,500 and $3,661,039,721 at June 30, 2005. Net security lending income was $12,050,552 for the 2005-2006 fiscal year and $10,930,013 for the 2004-2005 fiscal year.

The collateral held (including both cash collateral recognized in the "Statements of Plan Net Assets" and non-cash collateral) and the fair values of securities on loan for PEERS were $369,165,286 and $361,416,439 at June 30, 2006 and $308,691,069 and $301,486,721 at June 30, 2005. Net security lending income was $1,017,073 for the 2005-2006 fiscal year and $950,834 for the 2004-2005 fiscal year.

The collective investment pool in which the collateral received from security lending loans is invested has the following characteristics. The fair value of the investments held by the pooled fund is based upon valuations provided by a recognized pricing service. Because the pooled fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, the fund's investments are valued at fair market value for reporting purposes. The pooled fund is not registered with the Securities and Exchange Commission.

The custodial bank and, consequently, the investment vehicles it sponsors (including the pooled fund) are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Systems' position in the pooled fund is not the same as the value of the fund shares. The Systems had no involuntary participation in an external investment pool through this fund and no income from one fund was assigned to another fund by the custodial bank during either fiscal year.

Note 5 – Additional Deposits Program

Section 169.035, RSMo provides for an additional deposits program for PSRS members. Members may make payments above the required defined benefit contribution amount to the retirement system in order to provide a monthly annuity at retirement based on the total of the deposits and interest.

This annuity is in addition to the defined benefit allowance provided by the System. Contributions to the program are tax-sheltered. As of September 1, 1996 new deposits to the program were limited to members currently with deposits in the program. No additional deposits were made during 2005-2006. The deposits and interest of the one member who has not yet retired totaled $1,646 as of June 30, 2006.

The deposits to the program are included in the investment program of the PSRS defined benefit plan. The additional deposits program's basis of accounting and the asset valuation are identical to the defined benefit plan.

Note 6 – Retirement Plans

Section 401 (a) Defined Benefit Plan – All full-time retirement system employees holding a valid Missouri teaching certificate are covered by PSRS. All other eligible employees are members of PEERS. Both Systems provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 169 RSMo contains the statutory provisions of both Systems.

PSRS members were required to contribute 11.5% of their annual covered salary during 2005-2006 and 11.0% during 2004-2005. PSRS, as the employer, was required to match that amount. The contribution rate is established and may be amended by the Board of Trustees. Employer contributions to PSRS totaled $29,899 for the 2005-2006 fiscal year and $25,854 for 2004-2005. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 5.5% of their annual covered salary during 2005-2006 and 5.25% during 2004-2005. PSRS, as the employer, was required to match that amount. The contribution rate is established and may be amended by the Board of Trustees. Employer contributions to PEERS totaled $281,877 for the 2005-2006 fiscal year and $244,539 for 2004-2005. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan – A voluntary Section 457 deferred compensation plan is administered to provide additional retirement benefits for employees. The plan provides for employer-matching contributions up to a set maximum. The total contributions are subject to the limitations established in IRC Section 457. The Board of Trustees has authority to establish the employer contribution levels. For employees that are members of PSRS, the System will match up to $50 per month. For employees that are members of PEERS, the System will match $50 plus 0.52% of salary per month. For certain employees, the System will make employer-paid contributions of $1,167 per month. This is governed by individual employment contracts as approved by the Board of Trustees.

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled $70,796 for the 2005-2006 fiscal year and $64,679 for the 2004-2005 fiscal year. Employer-paid contributions totaled $28,000 for the 2005-2006 fiscal year and $26,000 for the 2004-2005 fiscal year. Employee contributions totaled $169,349 for the 2005-2006 fiscal year and $135,975 for the 2004-2005 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian. Total contributions are sent directly to the third party administrator by the employer. Employees can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Because the System does not hold the plan's assets and does not have significant administrative responsibilities, the plan's assets and changes in net assets are not reported in the Systems' financial statements.

Post-Employment Health Plan – During fiscal year 2006, PSRS implemented a Post-Employment Health Plan ("PEHP") for employees. Upon termination, an employee will receive payment at the rate of one day of pay for each two days of accrued sick leave, up to 100 days of accrued sick leave (50 days paid). Any days above 100 will be forfeited. All payments under the PEHP will be transferred into a PEHP account which can be used to pay medical premiums for the employee or a dependent at any time in the future. If an employee is retiring, the payments can be transferred back to PSRS on a monthly basis to cover the cost of medical insurance for the retiree. The amount paid into the PEHP for 2006 was $23,145 for four employees (three retirees and one termination). The cost was charged 60% to PSRS and 40% to PEERS.

Note 7 – Risk Management

The Retirement Systems are exposed to various risks of loss related to natural disasters, errors and omissions, loss of assets, torts, etc. The Systems have chosen to cover such losses through the purchase of commercial insurance. There have been no material insurance claims filed or paid during the past three years.

The Systems have a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations.

Note 8 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of $3,294,051,028 on June 30, 2006 and to the future purchase of $4,432,914,634 in investments on June 30, 2005. PEERS had investment commitments of $316,720,766 on June 30, 2006 and $405,654,430 on June 30, 2005.

Certain legal proceedings are pending against PSRS and PEERS arising from normal activities. Although unable to predict the outcome of these matters, the Systems believe the final outcome of these actions will not have a material adverse effect on the Systems' financial statements.

PSRS has entered into a contract with a consultant to provide and implement the software and training of an automated pension administration system at a cost of approximately $8,200,000. As of June 30, 2006, no payments had been made pursuant to this contract.

Schedules of Funding Progress

Required Supplementary Information

Public School Retirement System

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2001	$ 21,146,294	$ 21,282,203[1]	$ 135,909	99.4%	$ 2,982,051	4.6%
6/30/2002	22,236,105	23,333,937[2]	1,097,832	95.3	3,213,461	34.2
6/30/2003	20,047,982	24,719,450[3]	4,671,468	81.1	3,373,058	138.5
6/30/2004	21,501,572	26,225,259[4]	4,723,687	82.0	3,408,230	138.6
6/30/2005	23,049,441	27,881,513[5]	4,832,072	82.7	3,540,649	136.5
6/30/2006	24,801,644	30,037,130[6]	5,235,486	82.6	3,775,752	138.7

[1]Legislative improvements to the benefit formula and ad hoc benefit increases for retirees added $630.3 million to the AAL. Actuarial assumptions were also revised.
[2]There were no legislative changes in fiscal year 2002.
[3]The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.
[4]There were no legislative changes in fiscal year 2004.
[5]There were no legislative changes in fiscal year 2005.
[6]There were no legislative changes in fiscal year 2006.

Public Education Employee Retirement System

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2001	$ 1,686,242	$ 1,636,076[1]	$ (50,166)	103.1%	$ 814,158	(6.2)%
6/30/2002	1,810,619	1,855,982[2]	45,363	97.6	895,420	5.1
6/30/2003	1,677,770	2,049,716[3]	371,946	81.9	971,177	38.3
6/30/2004	1,837,308	2,221,210[4]	383,902	82.7	984,866	39.0
6/30/2005	2,011,566	2,414,494[5]	402,928	83.3	1,055,204	38.2
6/30/2006	2,218,638	2,756.833[6]	538,195	80.5	1,190,994	45.2

[1]Legislative improvements to the benefit formula and ad hoc benefit increases for retirees added $126.4 million to the AAL. Actuarial assumptions were also revised.
[2]There were no legislative changes in fiscal year 2002.
[3]The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.
[4]There were no legislative changes in fiscal year 2004.
[5]There were no legislative changes in fiscal year 2005.
[6]There were no legislative changes in fiscal year 2006.

See accompanying Independent Auditors' Report

Schedules of Employer Contributions

Required Supplementary Information

Public School Retirement System

Year Ended June 30	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed
2001	$ 324,525,673	$ 324,525,673	100.0 %
2002	340,000,556	340,000,556	100.0
2003	376,659,713	355,979,027	94.5
2004	475,400,520	359,762,556	75.7
2005	593,328,374	389,415,997	65.6
2006	608,134,319	429,578,911	70.6

Public Education Employee Retirement System

Year Ended June 30	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed
2001	$ 37,500,243	$ 37,500,243	100.0 %
2002	45,773,119	45,773,119	100.0
2003	52,847,992	48,933,326	92.6
2004	62,315,910	49,976,898	80.2
2005	73,948,917	53,109,687	71.8
2006	79,707,834	61,745,505	77.5

Notes to the Schedules of Trend Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, Open
Remaining amortization period	
PSRS	30 years (1)
PEERS	30 years (2)
Asset valuation method	5-year smoothed market
	Marked to Market as of June 30, 2003
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	5.0 - 10.25%
PEERS	5.0 - 10.0%
*Includes inflation at	3.25%
Cost-of-living adjustments	3.25%

1) 30 year amortization assumes an ARC rate of 28.39% for fiscal year 2007. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established by actuarial valuation.

2) 30 year amortization assumes an ARC rate of 13.22% for fiscal year 2007. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Contribution rates will be established by actuarial valuation.

See accompanying Independent Auditors' Report

Schedule of Administrative Expenses

For the year ended June 30, 2006

	PSRS	PEERS	TOTAL
Personal services	$ 3,789,314	$ 2,523,585	$ 6,312,899
Professional services			
Actuarial	67,526	61,893	129,419
Audit	30,000	20,000	50,000
Computer consultants	556,439	393,534	949,973
Insurance consultant	3,600	2,400	6,000
Legislative consultant	19,200	12,800	32,000
Other consultants	34,370	22,913	57,283
Legal expenses	56,975	37,965	94,940
Total professional services	768,110	551,505	1,319,615
Communications			
Information and publicity	608,789	434,745	1,043,534
Postage	57,107	38,072	95,179
Staff field	44,892	31,063	75,955
Telephone	60,621	40,447	101,068
Total communications	771,409	544,327	1,315,736
Miscellaneous			
Building and utilities	95,212	63,475	158,687
Insurance	65,794	43,862	109,656
Office	349,857	238,907	588,764
Staff development	146,797	100,065	246,862
Miscellaneous	120,605	40,953	161,558
Total miscellaneous	778,265	487,262	1,265,527
Charge for use of capital assets	-	251,764	251,764
Depreciation expense	643,107	-	643,107
Total administrative expenses	$ 6,750,205	$ 4,358,443	$ 11,108,648

See accompanying Independent Auditors' Report

Schedule of Investment Expenses

For the year ended June 30, 2006

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. equity	$ 18,923,281	$ 1,622,779	$ 20,546,060
Global equity	15,238,165	1,343,676	16,581,841
Fixed income	7,112,591	607,012	7,719,603
Real estate	1,173,386	105,967	1,279,353
Private equity	2,150,124	161,837	2,311,961
Total investment management expenses	44,597,547	3,841,271	48,438,818
Investment consultant fees	1,080,385	125,039	1,205,424
Custodial bank fees	4,414,433	358,889	4,773,322
Investment staff expenses	465,532	310,342	775,874
Commission recapture income	(1,333,500)	(108,314)	(1,441,814)
Total investment income expenses	$ 49,224,397	$ 4,527,227	$ 53,751,624
Security lending expenses			
Agent fees	$ 12,556,014	$ 996,009	$ 13,552,023
Broker rebates	138,923,003	11,957,021	150,880,024
Total security lending expenses	$ 151,479,017	$ 12,953,030	$ 164,432,047

See accompanying Independent Auditors' Report

Schedule of Professional/Consultant Fees

For the year ended June 30, 2006

	PSRS	PEERS	Combined Totals
Actuarial services	$ 67,526	$ 61,893	$ 129,419
Legal counsel	56,975	37,965	94,940
Financial audit	30,000	20,000	50,000
Legislative consulting	19,200	12,800	32,000
Technology consulting	556,439	393,534	949,973
Insurance consulting	3,600	2,400	6,000
Other consulting	34,370	22,913	57,283
Total fees	$ 768,110	$ 551,505	$ 1,319,615

See accompanying Independent Auditors' Report

investment section

Russell Investment Group
909 A Street
Tacoma, Washington 98402-5120
253-439-4243
Fax: 253-439-2491

December 20, 2006

To the Members of the Board:

In addition to the Federal Reserve's rate hikes and skyrocketing commodities prices, oil in particular, there were many moving parts to the economy in fiscal year 2006. Strong employment, U.S. dollar fluctuations, rising gold prices, natural disasters, and ongoing geopolitical concerns caused markets to oscillate up and down during the year.

In the summer of 2005, the U.S. Gulf Coast was devastated by hurricanes Katrina and Rita, significantly impacting U.S. oil production and natural gas output. Energy became the theme of the market as the hurricanes, rising oil prices, and Fed hikes dampened investor optimism. U.S. stocks then rallied from November 2005 through April 2006, but the last two months of the fiscal year saw stocks decline over ongoing uncertainty surrounding commodity prices, inflation and interest rates.

The Total Fund return for the fiscal year ended June 30, 2006 was 9.8% for both PSRS and PEERS, ahead of the policy benchmark return of 8.7%. U.S. Equity results were positive for the year, in both absolute (10.7%) and relative (110 basis points over benchmark) terms. Global equity had a very strong year, up 29.2% versus a benchmark return of 27.6%. Returns for bonds declined in the fiscal year as the Treasury yield curve shifted upward across the entire maturity spectrum. The PSRS and PEERS fixed income composite ended the fiscal period down 0.27% percent, ahead of the benchmark at -0.53%. The Real Return Pool delivered -0.3%, ahead of the benchmark return of -1.6%, but below its long-term absolute return objective. As stated in last year's letter, the Real Return Pool is shorter in duration than the Lehman Tips Index and is structured to outperform in rising rate environments. As rates rose this year, the Real Return Pool outperformed.

The Systems began to see early signs that efforts to more broadly diversify the portfolio are a success, delivering higher returns at a marginal increase in volatility relative to the legacy policy. The strong public market equity returns were augmented by strong performance of real estate and private equity, and increased exposure to active management (alpha).

We at Russell have enjoyed another productive year working with Missouri PSRS/PEERS, and are looking forward to the coming year.

Regards,

Michael M. Hall, ASA, EA, CFA
Director - Research and Strategy
Senior Consultant

Russell

investment section

December 21, 2006

To the Members of the Systems:

On behalf of the PSRS and PEERS internal investment staff, I am pleased to present the following reports on the Systems' investments for the fiscal year ending June 30, 2006.

Fiscal year 2006 was the third consecutive year of strong investment returns for the combined Retirement Systems as both PSRS and PEERS achieved a 9.8% return. The three-year cumulative return for each System of just over 34% drove the market value of the total assets to $27.7 billion at June 30, 2006. Investment performance is calculated using a time-weighted rate of return based on market values. The combined Systems ended the year as one of the 50 largest defined benefit plans in the United States.

As I have referenced in each of the last two annual reports, significant changes to the asset allocation and investment structure for PSRS and PEERS have occurred over the last several years. While a segment of the target asset allocation is still being implemented, many of the adopted changes have directly contributed to the recent solid returns for the Systems. Furthermore, those changes, in conjunction with asset allocation adjustments approved by the Board in October 2006, have laid the foundation for a strong investment program for PSRS/PEERS for many years to come.

I will spend a portion of this year's letter discussing the recent performance of the Systems with a focus on fiscal year 2006. The remaining portion of the letter will highlight the Systems' future asset allocation.

Historical Review

The total annualized fund performance for the five-year period ending June 30, 2006 was 6.5% for both PSRS and PEERS. The Systems' basic investment objective is to achieve a total return that exceeds the actuarial assumption of 8.0% over rolling five-year periods. Thus, while PSRS and PEERS exceeded the 8.0% assumption this past year, the objective was not achieved over the most recent five-year period due to the lingering effects of the stock downturn in 2001 and 2002. Over longer time periods (10 years), the Systems' annual investment return remains above the 8.0% objective. The total annualized fund performance for the 10-year period was 8.5% for both PSRS and PEERS and exceeded the policy benchmark of 7.8%. Thus, over the 10-year period, the 70 basis points of value added over the policy benchmark through active management is equivalent to approximately $1.6 billion in additional assets in the Systems' investment portfolios. Investment performance throughout this report is calculated using a time-weighted rate of return based on market values.

Fiscal Year 2006 Review

The strong investment performance in 2006 was a result of a well-diversified asset mix (including positive changes to the asset allocation) coupled with significant value added through active management within every asset category.

The Systems have systematically lowered the allocation to core bonds over the last four years and increased the allocation to other asset classes. Specifically, the Board approved an allocation to real estate and increased the allocation to global equities, including a direct allocation to emerging market equities. Each of these allocations were drawn from core bonds and contributed strongly to the Systems' returns in 2006. For example, the Systems' broad real estate portfolio produced a return of 12% in the fiscal year, developed international equities increased 27% and emerging market equities returned 36%. In contrast, the Systems fixed income portfolio declined 0.3% in fiscal year 2006. Thus, the asset allocation changes proved particularly beneficial in a year when the fixed income markets lagged.

On top of the favorable returns from the underlying markets, the strong performance of individual investment managers enabled PSRS/PEERS to exceed the policy benchmark in each asset class. For example, the Systems' global equity portfolios returned 29.2% and 29.4% respectively, relative to the global policy benchmark of 27.6% during the fiscal year. In total, the Systems' investment return of 9.8% exceeded the policy benchmark of 8.7%. This resulted in $293 million of additional value added over the policy benchmark in fiscal year 2006. Finally, the PSRS/PEERS investment returns were generated while taking less risk than a large majority of other public pension funds in the nation.

Changing Asset Allocation

The Board began making significant changes to the historical asset allocation in January 2002 with the decision to allocate 3.0% of total assets to private equity and 5.0% to real return assets. Since that time, the Board has followed a long-term strategic plan to further diversify the asset allocation, primarily with the addition of non-traditional (e.g., private) assets. To that end, the Board adopted another phase of the long-term strategic asset allocation in October 2006. The following table indicates the target asset allocation in 2001, as of June 30, 2006 and the newly adopted target allocation as of October 31, 2006.

Asset Class	Asset Allocation June 30, 2001	Asset Allocation June 30, 2006	Asset Allocation October 31, 2006
Public Equity	53.0%	53.0%	53.0%
U.S. Equity	38.0%	33.5%	33.5%
Global Equity	15.0%	19.5%	19.5%
Public Debt	47.0%	37.0%	25.0%
Core Fixed Income	47.0%	25.0%	20.0%
High Yield	0.0%	2.0%	2.0%
TIPS (Real Return)	0.0%	10.0%	3.0%
Alternatives	0.0%	10.0%	22.0%
Private Equity	0.0%	5.0%	7.5%
Real Estate	0.0%	5.0%	7.5%
Absolute Return	0.0%	0.0%	7.0%
Total	100.0%	100.0%	100.0%

How is the Current Asset Allocation different?

The asset allocation chart can be reviewed for what has changed, and what will remain the same:

- **The 53% allocation to public equities has not changed.** The long-term strategic goal embraced by the Board in 2002 was to improve expected returns, diversify any one particular risk (e.g., stocks) and contribute greater stability to the overall portfolio. Thus, the allocation to public equities has remained constant.
- **The target core bond allocation will systematically decline from 47% to 20% over time.** Again, in keeping with the Board's objective to improve expected returns, the allocation to a low-returning asset class must decrease. The five-year return for the PSRS/PEERS fixed income portfolio has been just over 5.0%. Additionally, we have moved into a lower yielding environment. Thus, the expectation for fixed income (bond) returns over the next several years has declined accordingly. For example, when the yield on the 10-year Treasury bond was 8.0% (as it was for much of the late 1980's and early 1990's), one could argue that the expected long-term return on bonds would be centered around 8.0%. However, when the yield on the 10-year bond is close to 4.5% (as it is today), the range of expected bond returns by definition must be significantly lower.
- **Establish a 15% target allocation to private markets.** The private investments satisfy many of the Board's objectives by offering greater expected returns than fixed income, greater long-term stability to the total portfolio and significant diversification benefits because the private investment return patterns are different than stocks and bonds. Additionally, private assets bear an illiquidity premium (e.g., investors are paid for holding illiquid assets). Most institutional investors, including PSRS/PEERS, can afford to have a portion of their investment portfolio in illiquid investments because of the generally long time horizon of the plan liabilities.
- **Establish a 7% target allocation to absolute return assets.** The absolute return pool is expected to produce consistent and absolute returns in a fashion different than the Total Fund (i.e., absent a high correlation to stocks and bonds); thus, providing meaningful diversification. We expect that the absolute return pool will include investments in both private investments and hedge funds.

Implementation of Private Assets

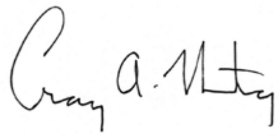
As can be noted on the following pages of the Investment Section, the target allocations to private assets have not been fully implemented. Significant progress was made toward funding the real estate and private equity mandates in fiscal year 2006 and, as of June 30, PSRS and PEERS had committed $1.9 billion to private equity and real estate funds and invested just over $1 billion. This area continues to be a major focus for the Systems as the Board, staff and consultants work prudently toward the target allocation. To that end, by the publication date for this report (December 21, 2006), the Systems had committed over $2.2 billion to real estate and private equity with total investments of almost $1.2 billion.

Implementation and Results

The asset allocation adopted by the Board of Trustees in October will provide the Systems with a greater opportunity to more consistently meet and exceed the investment objective of 8.0% on an annual basis. In total, we believe that the asset allocation can achieve the targeted returns with investment risk similar to the previous allocation. However, the targeted asset allocation does introduce other risks to the Systems associated with private assets and hedge fund investments; specifically, higher investment management fees, illiquidity and operational complexities. Accordingly, the Board of Trustees has begun to develop an internal investment infrastructure to manage the changing and more intricate investment structure. We have already improved the investment management structure and staff composition to place skilled and experienced investment professionals within every major asset class.

I am confident that the asset allocation recently adopted by the Board will provide the Systems with an excellent opportunity to achieve solid investment returns over various future economic and capital market environments. As always, we will ensure that the asset allocation is implemented in an appropriate manner and that the assets are prudently monitored. In conclusion, the Board of Trustees and the Investment Staff believe that the investment structure will provide long-term financial stability for all members of both PSRS and PEERS.

Sincerely,



Craig A. Husting, CFA
Chief Investment Officer

Investment Highlights

As of June 30, 2006

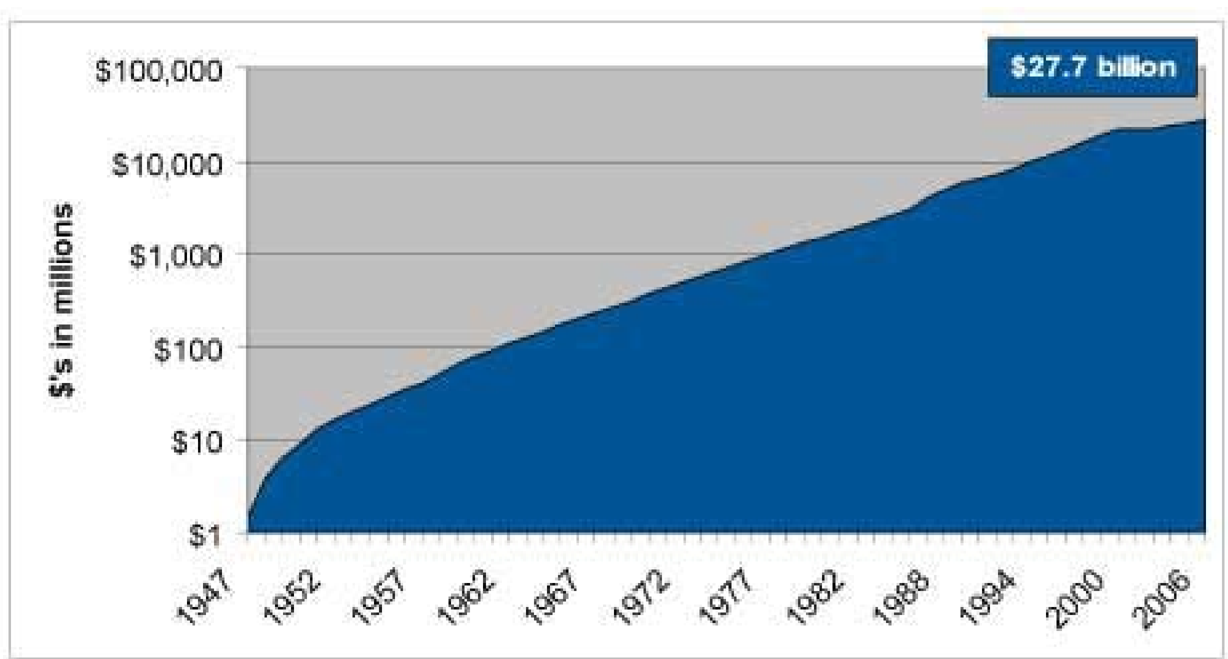
The Board of Trustees of the Public School and the Public Education Employee Retirement Systems (PSRS/PEERS) is charged with the responsibility for investing the assets of the Systems in a manner consistent with the fiduciary standards set forth in the 'prudent person' rule. To that end, the Board has adopted the following principles to guide all investment-related decisions:

(1) Act in the exclusive interest of the members of the Systems,
(2) Maximize total return within prudent risk parameters,
(3) Preserve the long-term purchasing power of the fund.

The investment portfolios of PSRS/PEERS represent all contributions to the plans, from members and their employers, as well as all net earnings on these assets. These funds are held in support of both current and future liabilities.

Total assets grew to $27.7 billion as of June 30, 2006 from $25.7 billion at the beginning of the fiscal year, increasing by approximately $2.0 billion. This growth resulted from positive investment performance in the equity markets, particularly overseas. The long-term growth in assets since the inception of PSRS in 1946 and PEERS in 1965 is shown in the graph below.

59 Years of Growth



PSRS/PEERS Asset Allocation

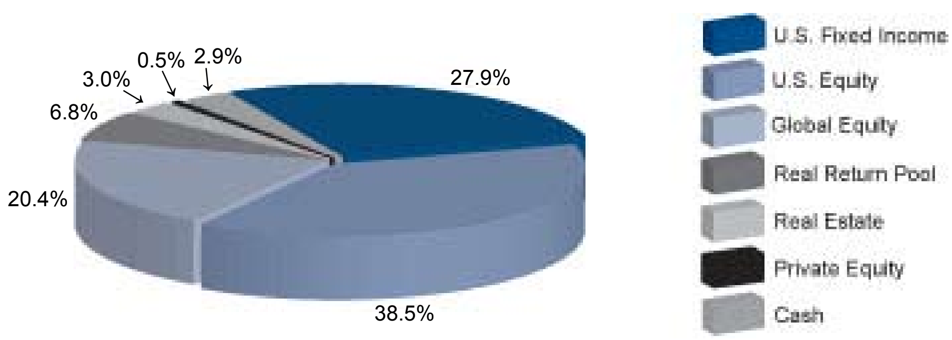
As of June 30, 2006

The time horizon of the Systems' investment portfolio reflects the long-term nature of the PSRS/PEERS pension obligations. Accordingly, diversification among investments displaying unique risk and return characteristics provides the framework for selecting an asset allocation that is expected, in the aggregate, to give the Systems the highest long-term return within a prudent risk level.

The Systems' investment portfolio includes strategic, long-term commitments in the following asset classes: U.S. Fixed Income, U.S. Equities, Global Equities, Real Return Assets, Real Estate and Private Equity. Until the Private Equity and Real Estate asset classes are fully invested, interim investments are being held in U.S. Equities and U.S. Fixed Income, respectively. The Systems' asset allocation is reviewed in conjunction with plan liabilities at least every three years.

Asset Allocation

June 30, 2006



Asset Type	PSRS Market Value	PEERS Market Value	Combined Funds	% of Total	Target Allocation
U.S. Fixed Income	$ 7,095,042,729	$ 640,547,310	$ 7,735,590,039	27.9%	27.0%
U.S. Equity	9,784,957,556	884,616,134	10,669,573,690	38.5	33.5
Global Equity	5,193,883,357	461,507,948	5,655,391,305	20.4	19.5
Real Return Pool	1,740,706,482	158,522,531	1,899,229,013	6.8	10.0
Real Estate	773,393,054	68,665,042	842,058,096	3.0	5.0
Private Equity	130,464,798	9,985,841	140,450,639	0.5	5.0
Cash & Equivalents*	740,466,321	50,106,675	790,572,996	2.9	0.0
Total Investments**	$ 25,458,914,297	$ 2,273,951,481	$ 27,732,865,778	100.0%	100.0%

**All manager-held cash is reflected as Cash & Equivalents. Fixed income managers often hold cash or cash equivalents as part of an active management strategy.*

***Total Investments includes accrued income and excludes securities lending collateral as of June 30, 2006.*

Total Fund Review

Periods Ended June 30, 2006

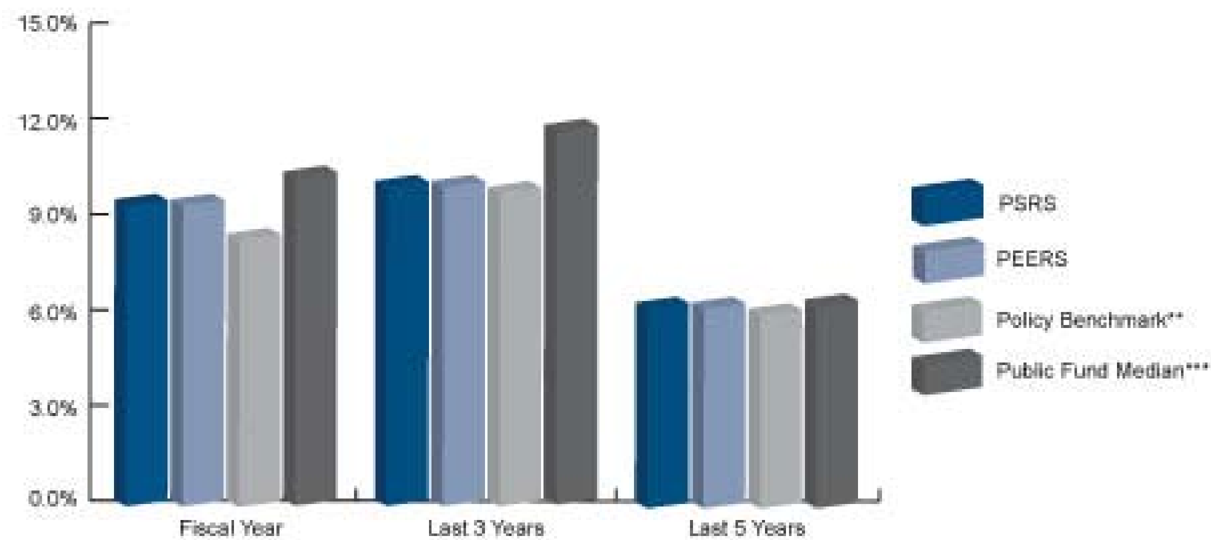
Total Fund Investment Returns*

The Board has established a long-term goal to achieve a total investment return of at least 8.0% per year and a real rate of return of at least 4.5% per year. The real rate of return is the rate by which the long-term total return exceeds the inflation rate. The one-year total returns of 9.8% for PSRS and PEERS, as well as the three-year returns of 10.4%, were above the long-term investment objective of 8.0% due primarily to the positive global equity market environment. The Systems' one-, three- and five-year returns were below the public fund median returns due primarily to the conservative asset allocation employed by the Systems during a time when riskier assets performed well. The Systems' returns for all three time periods exceeded the policy benchmark returns due to the active investment management employed by PSRS/PEERS. The policy benchmark provides an indication of the returns that have been achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in the PSRS/PEERS policy asset allocation.

Total Fund Investment Returns

June 30, 2006

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	9.8%	10.4%	6.5%
PEERS	9.8	10.4	6.5
Policy Benchmark **	8.7	10.2	6.3
Public Fund Median ***	10.7	12.2	6.6



Investment returns were prepared using a time-weighted rate of return based on market values.

***The Policy Benchmark is comprised of 30.25% Lehman Aggregate Index, 35% Russell 3000 Index, 16% MSCI All Country World ex-U.S. Free Index, 7.5% Lehman U.S. TIPS Index, 4% MSCI All Country World Free Index, 2% NCREIF Property Index, 1.75% Merrill Lynch High Yield Master II Index, 1.5% S&P 500 Index, 1.5% Russell 2000 Index and 0.5% FTSE NAREIT Equity Index.*

****The Public Fund Median return reflects the performance of a universe of public pension plans with assets in excess of $1 billion.*

Fixed Income Review

As of June 30, 2006

Market Value

As of June 30, 2006, the combined PSRS/PEERS fixed income assets managed by external investment advisors had a market value of approximately $8.3 billion, representing 29.9% of total assets.

Fixed Income Statistics

The following table displays the statistical characteristics of the PSRS/PEERS bond portfolio as of June 30, 2006 with comparisons shown to the Lehman Brothers U.S. Aggregate Bond Index*. Additionally, the top 10 fixed income holdings as of June 30, 2006 are compared to the top 10 holdings of five years ago.

Characteristics	June 30, 2006 Combined Systems	June 30, 2006 Lehman Aggregate Index*
Number of Securities	12,035	6,824
Average Coupon	5.2%	5.3%
Yield to Maturity	5.8%	5.8%
Average Maturity (Years)	6.8	7.0
Duration (Years)	4.5	4.8

Top 10 Largest Holdings** June 30, 2006	Combined Market Value	% of Total Bonds
USTN, 4.0%, 11/15/12	$ 117,779,757	1.5%
FNMA TBA JUL 30, 6.0%, SNGL FAM	114,978,577	1.5
USTN, 3.875%, 5/15/10	87,531,019	1.1
FNMA TBA JUL 30, 5.0%, SNGL FAM	86,072,941	1.1
FNMA TBA JUL 15, 6.0%, SNGL FAM	82,228,927	1.1
USTN, 4.875%, 5/31/08	81,923,178	1.1
USTN, 4.5%, 11/15/15	78,803,207	1.0
FNMA Pool 725424, 5.5%	75,042,406	1.0
USTB, 6.25%, 8/15/23	72,139,094	0.9
FED HOME LN, 5.125%, 6/15/08	72,031,992	0.9
Total	$ 868,531,098	11.2%

Top 10 Largest Holdings** June 30, 2001	Combined Market Value	% of Total Bonds
USTB, 6.25%, 8/15/23	$ 118,023,170	1.2%
FNMA TBA JUL 30, 7.0%, SNGL FAM	117,643,029	1.2
USTN, 6.5%, 2/15/10	104,252,493	1.0
USTB, 12.75%, 11/15/10	100,758,944	1.0
USTN, 3.95%, 7/2/01	91,855,800	0.9
FNMA TBA JUL 30, 6.0%, SNGL FAM	90,138,883	0.9
FNMA TBA JUL 30, 6.5%, SNGL FAM	79,708,860	0.8
FED HOME LN, 6.625%, 9/15/09	74,958,475	0.8
USTB, 6.875%, 8/15/25	70,628,856	0.7
USTN, 7.25%, 5/15/04	62,470,590	0.6
Total	$ 910,439,100	9.1%

Key to Holdings

USTN = U.S. Treasury Note
USTB = U.S. Treasury Bond
FNMA = Federal National Mortgage Association
FED HOME LN = Federal Home Loan Mortgage Corporation

**The PSRS/PEERS fixed income composite benchmark consists of 95% Lehman Aggregate Bond Index and 5% Merrill Lynch High Yield Master II Index.*
***Includes only actively managed separate accounts.*
A complete list of portfolio holdings is available upon request.

Fixed Income Review

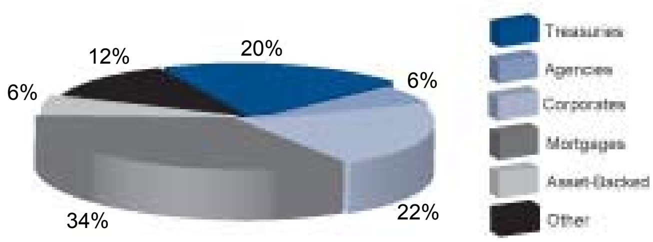
As of June 30, 2006

Fixed Income Structure

As of June 30, 2006, approximately 19.3% of the PSRS/PEERS fixed income portfolio was passively managed by State Street Global Advisors while the remaining 80.7% was actively managed by six separate external managers across seven mandates. Throughout fiscal year 2006, the Systems continued to utilize fixed income assets as a source of funding for the Real Estate allocation. The pie charts below depict the fixed income composite by showing the current sector allocation of the portfolio compared with that of five years ago on a market value basis.

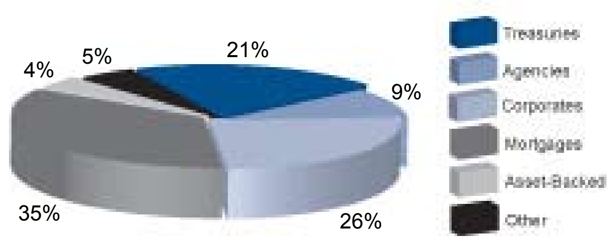
Sector Allocation

June 30, 2006



Sector Allocation

June 30, 2001



Fixed Income Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2006 for management of fixed income securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value*	% of Total Market Value
BlackRock Financial Mgmt - Core Plus	Active Core Plus	$ 690,036,299	2.5%
BlackRock Financial Mgmt - Mortgages	Active Mortgages	890,066,475	3.2
NISA Investment Advisors	Active Core	1,609,125,696	5.8
Pacific Investment Mgmt Company	Active Core Plus	1,060,510,226	3.8
Payden & Rygel	Active Core Plus	770,639,767	2.8
Seix Investment Advisors	High Yield	453,439,660	1.6
State Street Global Advisors	Passive	1,599,717,004	5.8
Wellington Management Company	Active Core	1,213,271,083	4.4
Total		$ 8,286,806,210	29.9%

Includes manager cash.

Fixed Income Review

Periods ended June 30, 2006

Fixed Income Investment Returns

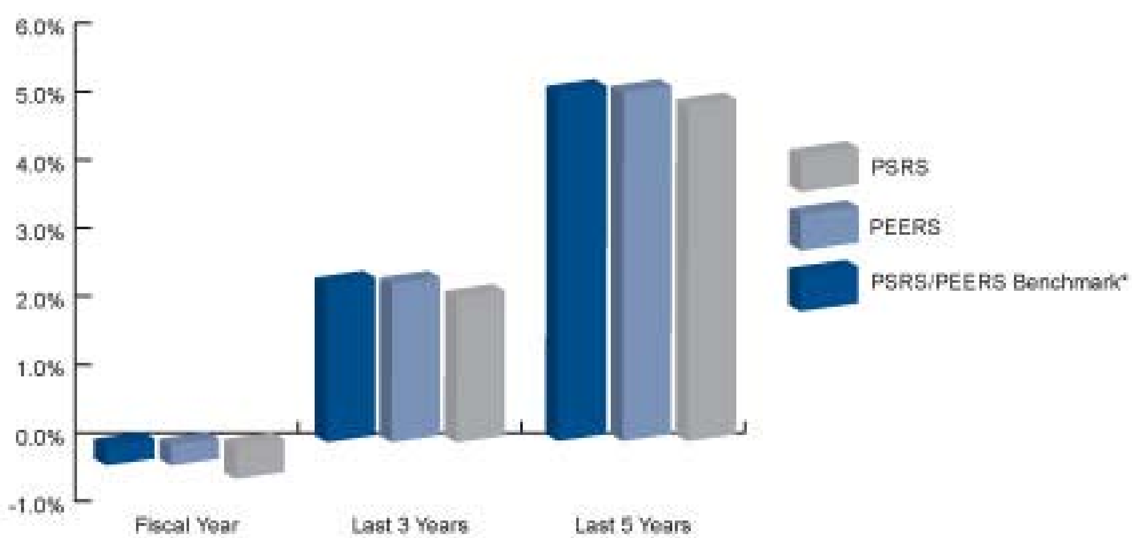
The fixed income market was a difficult asset class for investors over the fiscal year ended June 30, 2006, as rates rose significantly. The yield on the 10-year Treasury note, which moves in the opposite direction from the price, increased to 5.1% at the end of the year from 3.9% at the beginning of the year. Additionally, the Federal Reserve continued rate increases for the second consecutive year as the federal funds rate moved from 3.25% to 5.25% over the fiscal year.

The increase in rates led to a negative total return of 0.8% for the Lehman Aggregate Index during the fiscal year. The total returns on the PSRS and PEERS bond portfolios for the fiscal year were -0.3%, thereby exceeding the performance of the PSRS/PEERS Fixed Income Benchmark* by 20 basis points. During the fiscal year, the outperfomance over the policy benchmark was attributable to active management within the core bond managers. Longer-term portfolio returns (as depicted in the bar graphs below) indicate consistent returns over the policy benchmarks.

Fixed Income Investment Returns

June 30, 2006

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	(0.3)%	2.4%	5.3%
PEERS	(0.3)	2.4	5.3
PSRS/PEERS Benchmark*	(0.5)	2.2	5.1



The PSRS/PEERS Fixed Income Benchmark was comprised of 95.0% Lehman Aggregate Bond Index and 5.0% Merrill Lynch High Yield Master II Index as of June 30, 2006.

Domestic Equity Review

As of June 30, 2006

Market Value

As of June 30, 2006, the combined PSRS/PEERS domestic equity assets had a market value of approximately $10.8 billion, representing 38.8% of total assets.

Domestic Equity Statistics

The following table displays the statistical characteristics of the PSRS/PEERS domestic equity portfolio as of June 30, 2006 with comparisons shown to the portfolio's policy benchmark (Russell 3000 Index). Additionally, the top 10 U.S. stock holdings as of June 30, 2006 are compared to the top 10 holdings of five years ago.

Characteristics	June 30, 2006 Combined Systems	June 30, 2006 Russell 3000 Index
Number of securities	3,002	2,984
Dividend yield	1.5%	1.8%
Price-to-earnings ratio	18.5	18.2
Avg. market capitalization	$ 63.5 billion	$ 69.3 billion
Price-to-book ratio	4.0	3.7

Top 10 Largest Holdings* June 30, 2006	Combined Market Value	% of Total U.S. Equities
Citigroup Inc	$ 136,099,560	1.3%
Exxon Mobil Corp	134,735,643	1.3
Google Inc	120,902,064	1.1
JP Morgan Chase & Co	120,890,532	1.1
Proctor & Gamble	89,011,486	0.8
General Electric Co	85,969,172	0.8
Genentech Inc	84,509,134	0.8
Pfizer Inc	80,387,543	0.8
Qualcomm Inc	75,734,664	0.7
Boeing Co	71,790,347	0.7
Total	$ 1,000,030,145	9.4%

Top 10 Largest Holdings* June 30, 2001	Combined Market Value	% of Total U.S. Equities
Microsoft Corp	$ 148,956,281	1.8%
General Electric Co	122,392,579	1.5
Pfizer Inc	108,357,278	1.3
Citigroup Inc	102,714,144	1.2
AOL Time Warner	91,359,598	1.1
Home Depot Inc	77,923,304	0.9
Intel Corp	71,246,156	0.9
Wal-Mart Stores Inc	70,175,327	0.8
FNMA	64,667,253	0.8
American Intl Group	60,694,844	0.7
Total	$ 918,486,764	11.0%

**Includes only actively managed separate accounts.*
A complete list of portfolio holdings is available upon request.

Domestic Equity Review

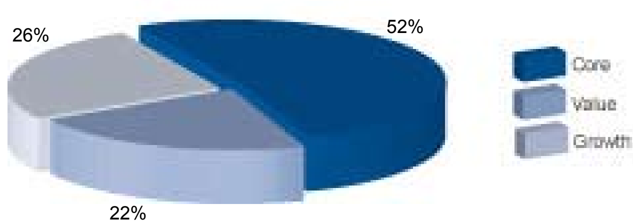
As of June 30, 2006

Domestic Equity Structure

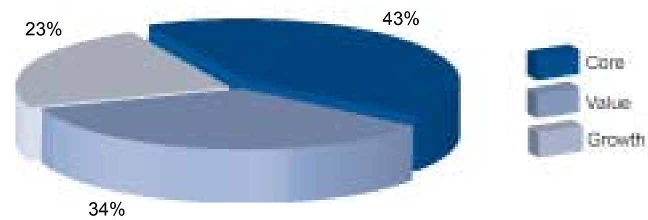
As of June 30, 2006, 28.9% of the PSRS/PEERS domestic equity composite was passively managed and 6.1% was managed in an enhanced index style. The remainder of the portfolio was actively managed and diversified across a broad array of capitalization ranges and investment styles, including the Small Cap Alpha Pool (S-CAP) and the Equity Manager Alpha Pool (E-MAP). Both programs represent multi-manager pools of assets managed within the overall PSRS/PEERS domestic equity structure. The S-CAP Program encompasses all small capitalization assets and began on July 1, 2005 with a target allocation of 10.0% of the Systems' domestic equity assets. The E-MAP Program represents 15.0% of the domestic equity assets and focuses on higher 'alpha' generating strategies.

The pie charts below depict the domestic equity portfolio by presenting the current style structure of the portfolio for comparison with that of five years ago on a market value basis.

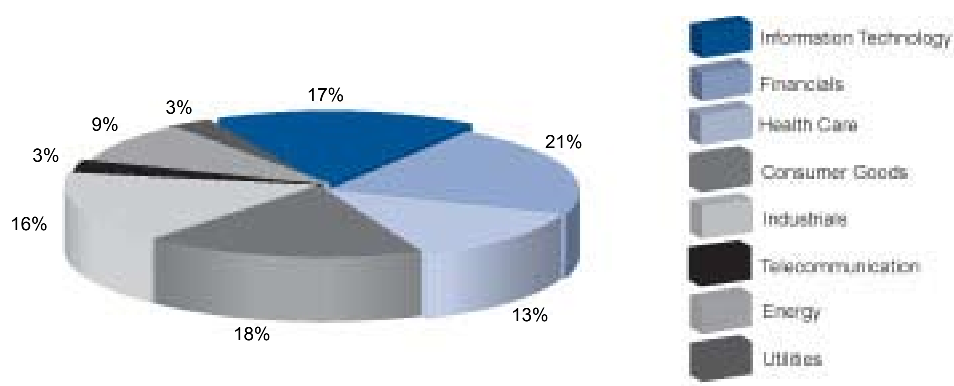
Style Allocation
June 30, 2006



Style Allocation
June 30, 2001



The following pie chart shows the allocation to market sectors within the domestic equity portion of the PSRS/PEERS portfolio as of June 30, 2006.



Domestic Equity Review

As of June 30, 2006

Domestic Equity Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2006 for management of domestic equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2006	% of Total Market Value
Alliance Capital Management	Active Large Cap Growth	$ 894,617,921	3.2%
Aronson + Johnson + Ortiz	Active Large Cap Value	984,607,795	3.6%
Delaware Investments	Active Large Cap Growth	533,834,224	1.9%
Goldman Sachs Asset Management	Large Cap Quantitative Core	806,595,838	2.9%
Jacobs Levy Equity Management	Structured Large Cap Growth	545,109,590	2.0%
SSgA - Enhanced S&P 500 Index	Enhanced Large Cap Core	659,924,099	2.4%
SSgA - S&P 500 Index Fund	Passive S&P 500 Index	2,694,576,633	9.7%
UBS Global Asset Management	Active Large Cap Value	779,435,445	2.8%
U.S. Equity Transition Account	Large Cap Core	1,250,778	0.0%
E-MAP: Analytic Investors - Core	*Structured Large Cap 120/20 Core*	159,330,664	0.6%
E-MAP: Analytic Investors - Value	*Structured Large Cap Value*	118,194,414	0.4%
E-MAP: Aronson + Johnson + Ortiz	*Active Large Cap 130/30 Value*	117,167,202	0.4%
E-MAP: Legg Mason Capital Mgmt.	*Active Large Cap Core*	149,980,834	0.5%
E-MAP: Martingale Asset Management	*Active Large Cap 130/30 Growth*	125,899,037	0.4%
E-MAP: New Amsterdam Partners	*Active Large Cap Core*	155,946,410	0.6%
E-MAP: TCW Asset Mgmt. Company	*Active Large Cap Growth*	99,087,397	0.4%
E-MAP: Westwood Managemnt	*Active Large Cap Value*	211,937,727	0.8%
E-MAP: Zevenbergen Capital	*Active All Cap Growth*	149,117,336	0.5%
Equity Manager Alpha Pool (E-MAP) Subtotal		**1,286,661,021**	**4.6%**
S-CAP: AQR Capital Management	*Active Small Cap Core*	165,603,180	0.6%
S-CAP: Chartwell Investment Partners	*Active Small Cap Growth*	148,545,719	0.5%
S-CAP: Chartwell Investment Partners	*Active Small Cap Value*	74,932,610	0.3%
S-CAP: Duncan-Hurst Capital Mgmt.	*Active Micro Cap Growth*	88,305,373	0.3%
S-CAP: Next Century Growth Investors	*Active Small Cap Growth*	168,934,986	0.6%
S-CAP: Next Century Growth Investors	*Active Micro Cap Growth*	10,843,891	0.1%
S-CAP: SSgA - Russell 2000 Index Fund	*Passive Russell 2000 Index*	419,205,737	1.5%
S-CAP: Systematic Financial Mgmt.	*Active Small Cap Value*	114,870,202	0.4%
S-CAP: Thomson, Horstmann & Bryant	*Active Small Cap Core*	376,050,570	1.4%
Small Cap Alpha Pool (S-CAP) Subtotal		**1,567,292,268**	**5.7%**
Total		$ 10,753,905,612	38.8%

**Includes manager cash.*

Domestic Equity Review

Periods ended June 30, 2006

Domestic Equity Investment Returns

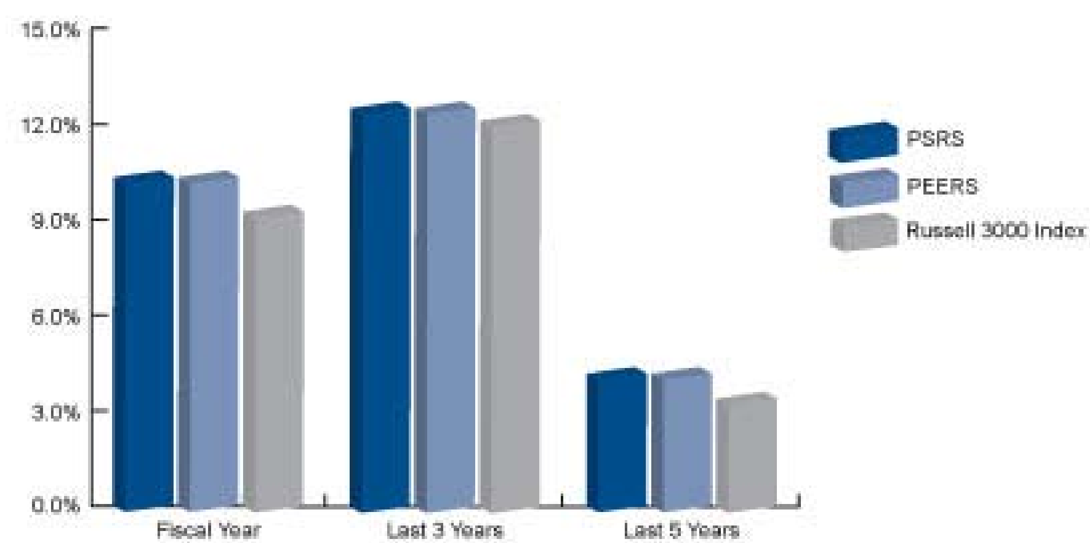
The U.S. equity market provided solid returns during fiscal year 2006. The total returns on the PSRS and PEERS domestic equity portfolios were 10.7% compared to the benchmark return of 9.6% for the fiscal year ended June 30, 2006. The positive performance of the actual portfolios relative to the policy benchmark (Russell 3000 Index) can primarily be attributed to the value added by the Systems' active management strategies including a modest overweight to smaller capitalization stocks. Portfolios concentrated in small capitalization stocks tended to outperform portfolios holding larger capitalization stocks in fiscal year 2006 while value oriented large-cap portfolios outperformed growth style large-cap funds during the year.

As shown in the table and graph below, the Systems' annualized returns for the past three- and five-year time periods exceeded the benchmark return by 40 basis points and 80 basis points, respectively. The lower absolute returns for the five-year period reflect the extreme bear market experienced in domestic equities following the market peak in March 2000.

Domestic Equity Investment Returns

June 30, 2006

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	10.7%	13.0%	4.3%
PEERS	10.7	13.0	4.3
Russell 3000 Index	9.6	12.6	3.5



Global Equity Review

As of June 30, 2006

Market Value

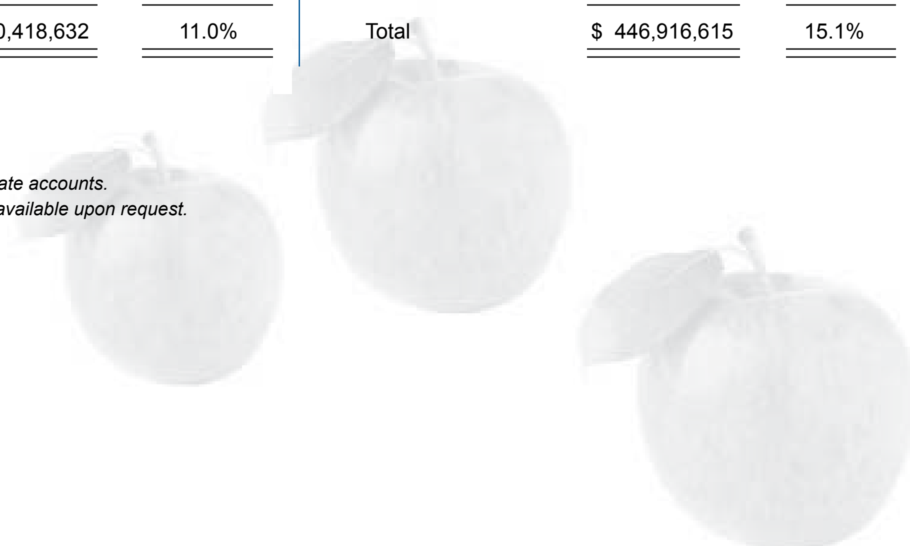
As of June 30, 2006, the combined PSRS/PEERS global equity assets managed by external investment advisors had a market value of approximately $5.8 billion, representing 20.8% of total assets.

Global Equity Statistics

The following table displays the top 10 global stock holdings as of June 30, 2006 as compared to the top 10 holdings of five years ago.

Top 10 Largest Holdings* June 30, 2006	Combined Market Value	% of Total Global Equities
GlaxoSmithKline	$ 83,733,577	1.4%
Roche Holdings AG	72,378,197	1.3
Nestle SA	71,574,779	1.3
Canon Inc	66,318,921	1.2
Vodaphone Group	57,326,997	1.0
Toyota Motor Corp	57,256,467	1.0
ING Groep NV	55,315,179	1.0
Total SA	54,995,104	1.0
Novartis AG	50,776,103	0.9
Credit Suisse Group	50,743,308	0.9
Total	$ 620,418,632	11.0%

Top 10 Largest Holdings* June 30, 2001	Combined Market Value	% of Total Global Equities
GlaxoSmithKline	$ 56,159,767	1.9%
ING Groep NV	52,900,008	1.8
Diageo	48,928,911	1.6
Nestle SA	44,506,856	1.5
Canon Inc	44,251,085	1.5
Aventis SA	41,530,006	1.4
ENI	41,284,231	1.4
Total Fina Elf	40,891,883	1.4
Vivendi Universal	38,263,166	1.3
Ahold (KON) NV	38,200,702	1.3
Total	$ 446,916,615	15.1%



**Includes only actively managed separate accounts.*
A complete list of portfolio holdings is available upon request.

Global Equity Review

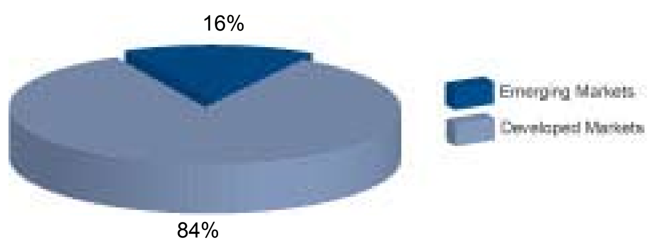
As of June 30, 2006

Global Equity Structure

As of June 30, 2006, the PSRS/PEERS global equity portfolios were 100% actively managed and diversified across capitalization ranges, styles and a number of developed and emerging market countries. The pie chart below presents a breakdown of investments in developed and emerging markets in the global equity composite and the bar graph depicts the specific country exposure.

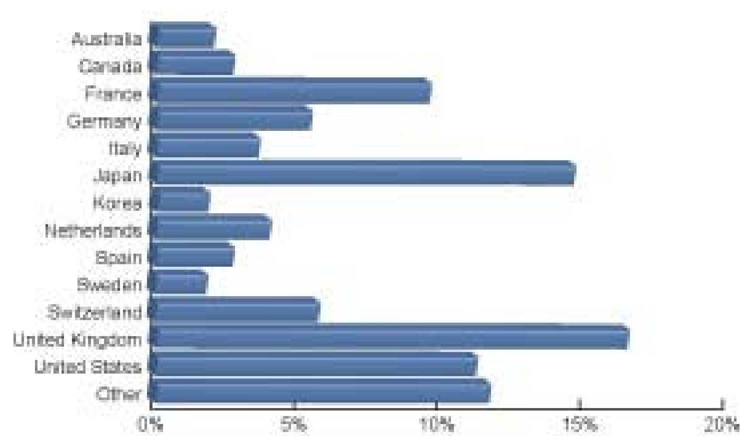
Market Allocation

June 30, 2006



Country Allocation

June 30, 2006



Global Equity Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2006 for management of global equity securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value* As of June 30, 2006	% of Total Market Value
AllianceBernstein Institutional Mgmt.	Active Intl Value	$ 425,217,345	1.5%
AllianceBernstein Institutional Mgmt.	Active Global	484,482,588	1.7
AQR Capital Management	Active Intl Core	937,397,085	3.4
Arrowstreet Capital	Active Global	624,044,730	2.3
INVESCO Global Asset Management	Active Intl Value	763,436,157	2.8
Julius Baer Investment Management	Active Intl Core	778,567,225	2.8
Legg Mason International Equities	Active Emerging Markets	309,406,460	1.1
McKinley Capital Management	Active Intl Growth	602,802,599	2.2
MFS Investment Management	Active Intl Core	822,104,331	3.0
Global Equity Transition Assets	Core	12,823,618	0.0
Total		$ 5,760,282,138	20.8%

Includes manager cash.

Global Equity Review

Periods ended June 30, 2006

Global Equity Investment Returns

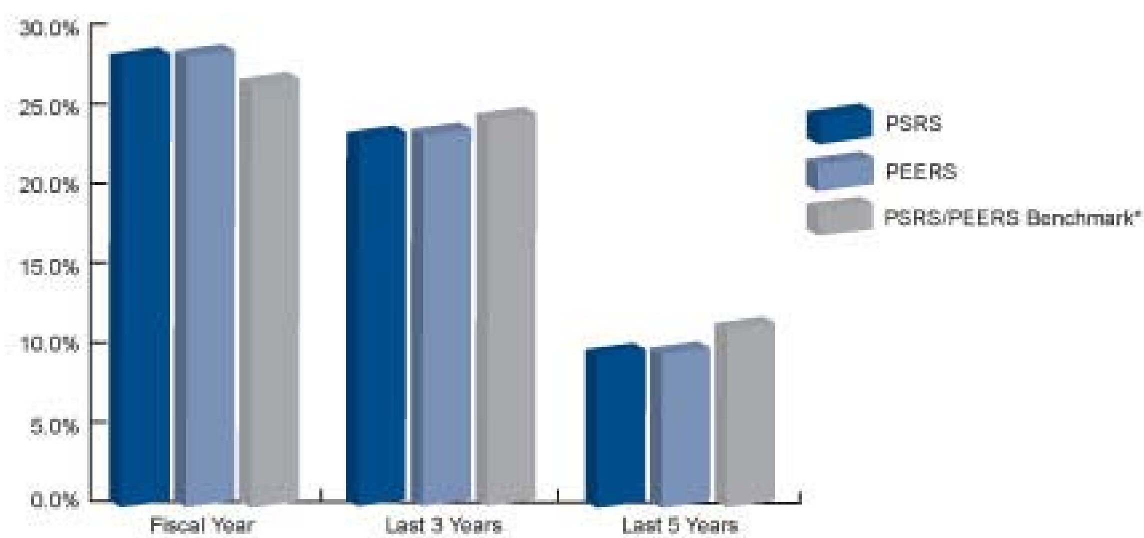
The fiscal year 2006 returns for both developed and emerging non-U.S. markets were significantly above long-term expectations for the third year in a row as the broad international index increased 27.6%. The total returns for the Systems' global equity portfolios for the fiscal year ended June 30, 2006 exceeded the PSRS/PEERS Global Equity Benchmark* by 160 and 140 basis points, respectively. The positive performance of the actual portfolios relative to the policy benchmark can primarily be attributed to the value added by the Systems' active management strategies including a modest overweight to emerging market stocks.

Emerging markets led all developed international markets with a return of 36% for the fiscal year. Additionally, the U.S. dollar weakened against most major currencies throughout the year. A declining dollar has a positive impact on the PSRS/PEERS' international stock investments as returns in most foreign markets are enhanced when translated back to dollars. Longer-term portfolio returns (as depicted in the bar graph below) indicate underperformance relative to the policy benchmarks for the three-year and five-year time periods.

Global Equity Investment Returns

June 30, 2006

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	29.2%	24.0%	9.9%
PEERS	29.4	24.2	10.0
PSRS/PEERS Benchmark*	27.6	25.2	11.6



**The PSRS/PEERS global equity benchmark was comprised of 80.0% MSCI All Country World ex-U.S. Free Index and 20% MSCI All Country World Free Index as of June 30, 2006.*

Real Return Pool Review

As of June 30, 2006

Market Value

As of June 30, 2006, the combined PSRS/PEERS real return pool assets managed by three external investment advisors had a market value of approximately $1.9 billion, representing 6.9% of total assets.

Real Return Pool Structure

The focus of the real return pool is to earn stable, but meaningful, real returns across future economic and market cycles.

Approved sub-asset classes for inclusion in the real return pool are U.S. Treasury and Global Inflation-Indexed Securities, Real Estate Investment Trusts, Non-dollar Bonds and sectors of the Lehman Aggregate Bond Index.

The following table displays the 10 largest portfolio holdings in the real return pool as of June 30, 2006.

Top 10 Largest Holdings* June 30, 2006	Combined Market Value	% of Total Real Return Pool
USTN, INFLATION INDEXED, 0.875%, 4/15/10	$ 152,269,470	8.0%
USTN, INFLATION INDEXED, 2.0%, 1/15/16	146,331,987	7.7
USTN, INFLATION INDEXED, 1.625%, 1/15/15	127,815,664	6.7
USTN, INFLATION INDEXED, 2.0%, 1/15/14	123,771,922	6.6
USTN, INFLATION INDEXED, 3.0%, 7/15/12	111,614,592	5.9
USTN, INFLATION INDEXED, 3.625%, 1/15/08	85,549,306	4.5
USTN, INFLATION INDEXED, 4.25%, 1/15/10	67,141,113	3.5
USTN, INFLATION INDEXED, 2.375%, 4/15/11	66,332,130	3.5
USTN, INFLATION INDEXED, 3.375%, 1/15/12	66,062,442	3.5
USTN, INFLATION INDEXED, 1.875%, 7/15/13	63,134,243	3.3
Total	$ 1,010,022,869	53.2%

Key to Holdings

USTN = U.S. Treasury Note

Real Return Pool Investment Advisors

The following firms were under contract with PSRS/PEERS as of June 30, 2006 for management of real return pool securities.

Investment Advisor	Investment Style	Combined Portfolio Market Value** As of June 30, 2006	% of Total Market Value
Bridgewater Associates	Active Global TIPS	$ 302,928,377	1.1%
NISA Investment Advisors	Active TIPS	974,848,278	3.5
State Street Global Advisors	Passive TIPS	627,205,138	2.3
Total		$ 1,904,981,793	6.9%

**Includes only actively managed separate accounts.*
***Includes manager cash.*
A complete list of portfolio holdings is available upon request.

Real Return Pool Review

As of June 30, 2006

Real Return Pool Investment Returns

Treasury Inflation Protected Securities (TIPS) returns trailed the broad fixed income market (as measured by the Lehman Aggregate Index) in fiscal year 2006 by 80 basis points. However, the total returns on the PSRS and PEERS Real Return portfolios for the fiscal year ended June 30, 2006 significantly outperformed.

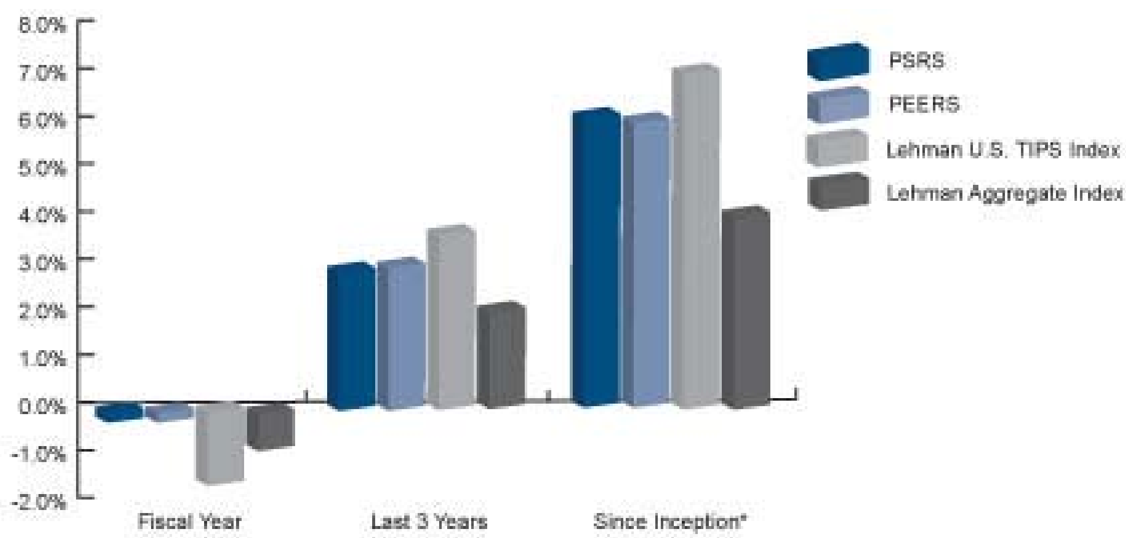
The Systems outperformed the Real Return Pool benchmark (Lehman U.S. TIPS Index) by 140 basis points in the fiscal year due to a shorter duration position. The Systems have maintained a shorter duration position for over two years because of the belief that the direction of interest rates would likely be higher rather than lower. The Real Return composite underperformed its benchmark for the three-year and since inception time periods due to the shorter duration position.

The PSRS/PEERS Real Return Pool was originally funded with assets from the fixed income composite and has outperformed the Lehman Aggregate Index since inception by 210 and 200 basis points, respectively.

Real Return Pool Investment Returns

June 30, 2006

	Fiscal Year	Last 3 Years	Since Inception*
PSRS	(0.2)%	3.0%	6.3%
PEERS	(0.2)	3.1	6.2
Lehman U.S. TIPS Index	(1.6)	3.8	7.3
Lehman Aggregate Index	(0.8)	2.1	4.2



**Performance inception date for the Real Return Pool was March 1, 2002.*

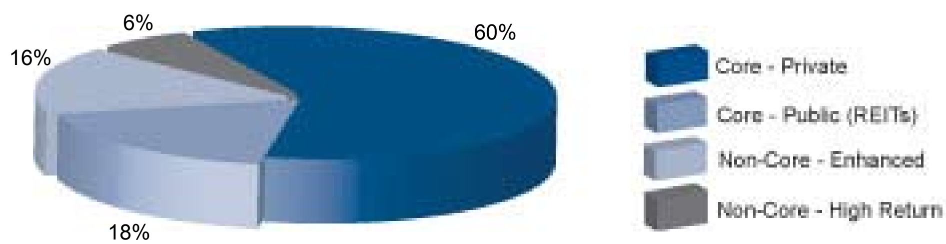
Real Estate Review

As of June 30, 2006

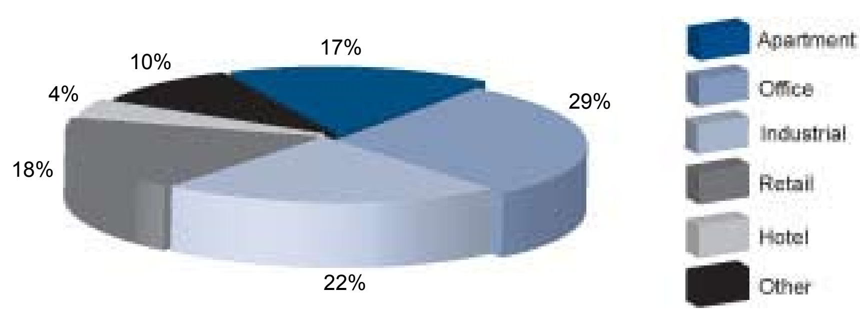
Real Estate Structure

The PSRS/PEERS Board of Trustees approved a 5% target allocation to the real estate asset class in January 2004 with the first real estate investment being funded in December 2004. Within the overall real estate allocation, the Systems have established a 40% target allocation to non-core private real estate and a 60% target to core real estate. The non-core allocation includes both high return and enhanced property types while core real estate includes both private and public securities. The objective of the real estate allocation is to achieve superior risk-adjusted returns, as well as to benefit from the diversification effect provided by real estate investments. The Townsend Group serves as the Systems' real estate consultant and assists with the structuring of the real estate composite. The 5% allocation equates to a total commitment for the Systems (based on current assets) of $1.4 billion with implementation progressing as planned.

The following pie chart shows the allocation to real estate investment strategies utilizing the market value of the assets that have been invested within the Systems' real estate composite.



The following pie chart shows the diversification within the real estate composite by property type for the PSRS/PEERS portfolios.

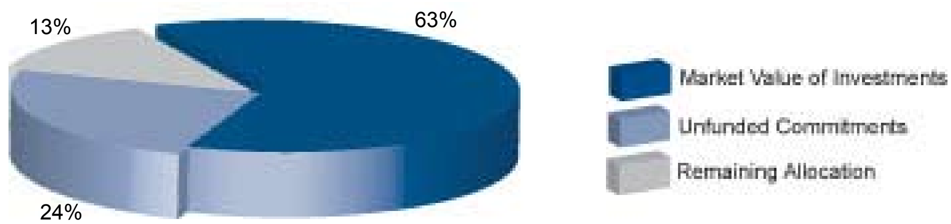


Real Estate Review

As of June 30, 2006

Market Value

As of June 30, 2006, the combined PSRS/PEERS real estate assets committed* for investment were $1.07 billion. The market value of funds that had been drawn down and actually invested as of June 30, 2006 was approximately $846.3 million. The following pie chart shows the percentage of the Systems' real estate allocation that had been invested (at market value), the percentage that had been committed but not yet funded and the percentage that remained to be committed to reach PSRS/PEERS' long-term 5% target allocation.



Real Estate Investment Advisors

The following investment advisors were under contract with PSRS/PEERS as of June 30, 2006 for management of the Systems' real estate investments.

Investment Advisor	Investment Style	Combined Committed Capital* As of June 30, 2006	Combined Market Value** As of June 30, 2006	% of Total Market Value
AMB Alliance III	Non-Core - Enhanced	$ 50,000,000	$ 55,111,878	0.2%
AMB Japan Fund I	Non-Core - High Return	25,000,000	5,092,118	0.0
Blackstone R.E. Partners V	Non-Core - High Return	35,000,000	7,798,043	0.0
CBRE Fund IV	Non-Core - High Return	25,000,000	3,636,238	0.0
CIM Urban REIT	Non-Core - Enhanced	35,000,000	8,208,115	0.0
CPI Capital Partners Europe	Non-Core - High Return	35,000,000	6,697,516	0.0
Guggenheim Structured R.E. II	Non-Core - High Return	25,000,000	0	0.0
Heitman Value Partners	Non-Core - Enhanced	25,000,000	9,404,152	0.0
JPMorgan Strategic Property Fund	Core - Private	125,000,000	133,134,172	0.5
LaSalle Asia Opportunity Fund II	Non-Core - High Return	25,000,000	3,932,456	0.0
LaSalle Income & Growth IV	Non-Core - Enhanced	25,000,000	8,234,561	0.0
Lone Star V	Non-Core - High Return	22,500,000	6,085,808	0.0
MSREF V International	Non-Core - High Return	25,000,000	11,416,903	0.1
Morgan Stanley Prime Property Fund	Core - Private	100,000,000	111,768,618	0.4
Prudential PRISA Fund	Core - Private	110,000,000	124,694,954	0.5
RREEF America REIT II	Core - Private	125,000,000	136,882,735	0.5
RREEF America REIT III	Non-Core - Enhanced	50,000,000	53,828,903	0.2
Starwood Hospitality Fund	Non-Core - High Return	25,000,000	6,395,175	0.0
Urdang Securities Management	Core - Public (REITs)	$185,000,000	154,004,866	0.6
Total		$ 1,072,500,000	$ 846,327,211	3.0%

**Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.*

***Includes manager cash and reflects valuations reported by the Systems' custodian, State Street Bank & Trust. Market values of private holdings reflect March 31, 2006 valuations that are cash flow adjusted through June 30, 2006. Public holdings reflect market values as of June 30, 2006.*

Real Estate Review

As of June 30, 2006

Real Estate Investment Returns

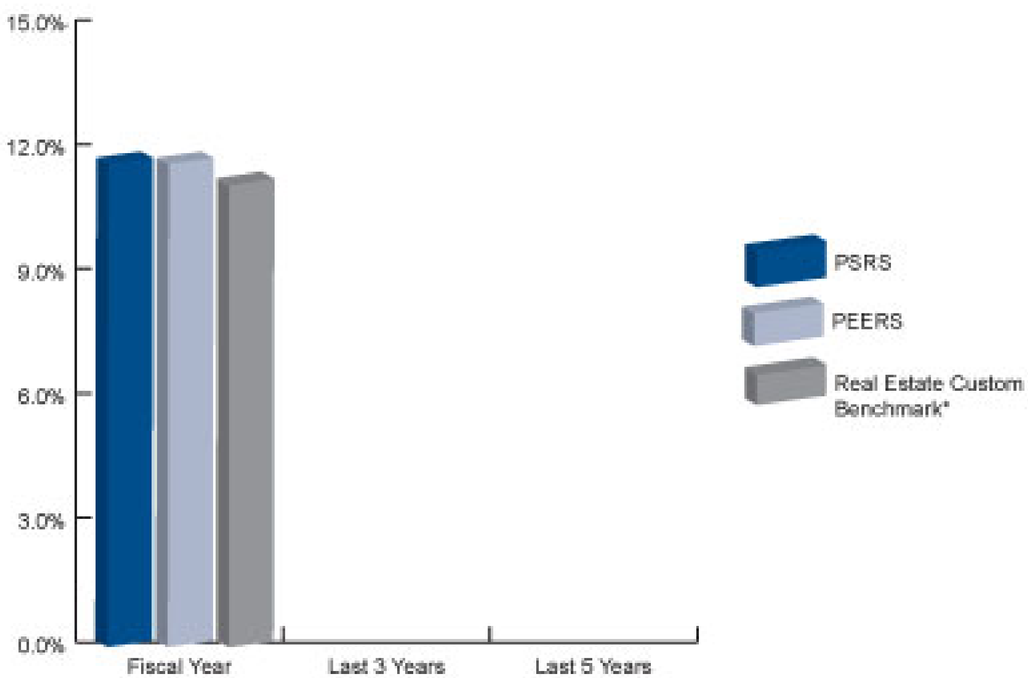
Fiscal year 2006 represented the first year that PSRS and PEERS had meaningful assets invested in the real estate asset class. Although assets were invested throughout the year, the Systems benefited from the strong real estate market. Public REITs increased over 19% for the year while private real estate produced substantial returns across varying segments of the market.

As the table and chart indicate, the Systems' combined real estate portfolio marginally outperformed the PSRS/PEERS Real Estate Custom Benchmark* for the fiscal year ended June 30, 2006.

Real Estate Investment Returns

June 30, 2006

	Fiscal Year	Last 3 Years	Last 5 Years
PSRS	12.1%	N/A	N/A
PEERS	12.1	N/A	N/A
Real Estate Custom Benchmark*	11.6	N/A	N/A



**The Custom Benchmark utilized by the Retirement Systems consists of 80% NCREIF Property Index and 20% NAREIT Equity Index.*

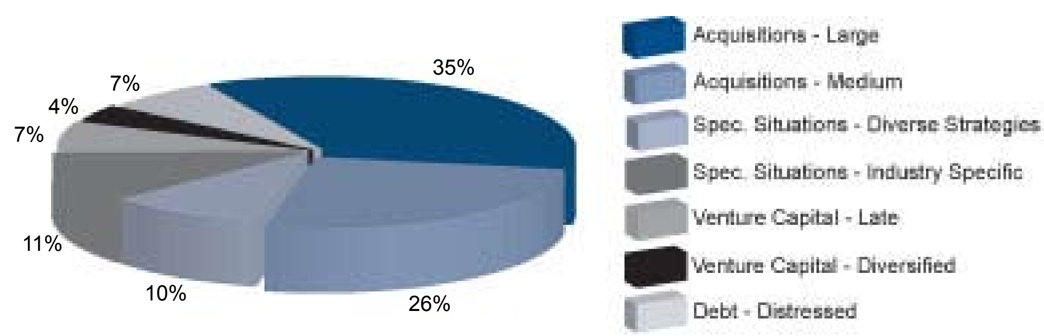
Private Equity Review

As of June 30, 2006

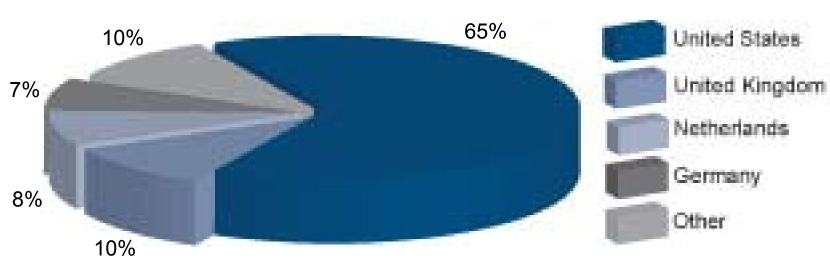
Private Equity Structure

The objective for the Systems' 5% target allocation to private equity is to achieve returns that are higher than those attainable in the public equity markets with the added benefit of diversification. The long-term and illiquid nature of the private equity asset class dictates that capital must be invested at a measured pace. Pathway Capital Management has been retained by the Systems to provide private equity investment management services through two structures: a discretionary fund-of-funds relationship and an advisory relationship, each with an asset commitment level of $850 million. The pie charts below show the diversification of the Systems' private equity holdings as of June 30, 2006 from both strategy and country perspectives.

The following pie chart shows the allocation to private equity investment strategies utilizing the market value of the assets that have been invested within the Systems' private equity composite.



The following pie chart shows the diversification within the PSRS/PEERS private equity composite by country.



investment section

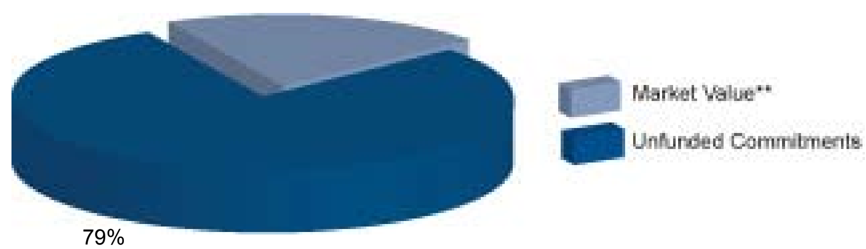
Private Equity Review

As of June 30, 2006

Market Value

As of June 30, 2006, the combined PSRS/PEERS private equity assets committed* for investment was $657.7 million. The market value** of funds that have been drawn down and actually invested as of June 30, 2006 was approximately $140.5 million.

The partnerships within the discretionary fund-of-funds were selected and managed by the Systems' private equity advisor, Pathway Capital Management.



Private Equity Investment Advisors

The following investment advisors were under contract with PSRS/PEERS as of June 30, 2006 for management of the Systems' private equity investments.

Investment Advisor	Investment Style	Combined Committed Capital* As of June 30, 2006	Combined Market Value** As of June 30, 2006	% of Total Market Value
Blackstone Capital Prtnrs V, L.P.	Acquisitions - Large	$ 20,000,000	$ 2,228,118	0.0%
Carlyle Partners IV, L.P.	Acquisitions - Large	25,000,000	10,460,991	0.1
CVC European Equity Prtnrs IV, L.P.	Acquisitions - Large	25,712,759	7,327,020	0.0
GTCR Fund IX, L.P.	Acquisitions - Medium	35,000,000	0	0.0
Montagu III, L.P.	Acquisitions - Medium	19,981,030	3,027,145	0.0
Onex Partners II, L.P.	Acquisitions - Medium	25,000,000	0	0.0
Pathway Capital Management	Fund-of-Funds	401,959,032	105,149,666	0.4
TCV VI, L.P.	Venture Capital	25,000,000	1,314,607	0.0
Thoma Cressey Fund VIII, L.P.	Acquisitions - Medium	20,000,000	1,200,000	0.0
TPG Partners V, L.P.	Acquisitions - Large	25,000,000	219,147	0.0
Wayzata Opportunities Fund, LLC	Debt - Distressed	15,000,000	8,790,027	0.0
Wind Point Partners VI, L.P.	Acquisitions - Medium	20,000,000	733,918	0.0
Total		$ 657,652,821	$ 140,450,639	0.5%

**Committed capital reflects the total amount of capital that the Systems are legally obligated to supply to the partnerships and funds as the capital is needed to invest in underlying holdings. Market value reflects capital that has actually been drawn and invested by the partnerships and funds.*

***Market values as reported by the Systems' custodian, State Street Bank & Trust, that reflect March 31, 2006 valuations cash flow adjusted through June 30, 2006.*

Broker Commissions Report (U.S. Equity)

For The Fiscal Year Ended June 30, 2006

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
BROADCORT CAPITAL	12,988,939	$ 291,627,876.26	$ 591,315.82	$ 0.05
MERRILL LYNCH, PIERCE, FENNER + SMITH	18,839,566	642,081,669.15	434,378.24	0.02
INVESTMENT TECHNOLOGY GROUP INC	43,069,002	1,388,741,845.36	394,585.59	0.01
STATE STREET BROKERAGE SERVICES	12,756,990	452,591,856.42	336,037.68	0.03
CITIGROUP GLOBAL MARKETS INC	18,637,285	679,825,705.23	325,405.23	0.02
GOLDMAN SACHS + CO	19,699,261	731,149,164.74	315,940.30	0.02
LIQUIDNET INC	12,372,812	395,551,326.24	280,900.68	0.02
LEHMAN BROTHERS INC	13,435,319	541,116,781.16	274,809.36	0.02
UBS SECURITIES LLC	6,923,878	265,458,556.37	254,981.80	0.04
CREDIT SUISSE FIRST BOSTON CORP	6,778,101	330,589,725.03	240,948.08	0.04
BANC/AMERICA SECURITIES LLC	8,135,152	314,785,215.68	221,376.36	0.03
PERSHING SECURITIES LIMITED	20,689,942	336,637,519.96	210,920.01	0.01
MORGAN STANLEY CO INC	12,621,510	377,068,730.79	184,728.09	0.01
BEAR STEARNS SECURITIES CORP	4,338,015	147,915,375.38	183,023.88	0.04
DEUTSCHE BANK SECURITIES INC	9,355,968	374,516,277.20	172,547.87	0.02
Other (<$170,000)	111,901,077	3,136,886,004.40	3,397,098.99	0.03
Total	332,542,816	$ 10,406,543,629.37	$ 7,818,997.98	$ 0.023

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost Per Share
BROADCORT CAPITAL	994,538	$ 22,135,517.03	$ 44,466.18	$ 0.04
STATE STREET BROKERAGE SERVICES	1,329,607	45,944,008.98	34,985.36	0.03
INVESTMENT TECHNOLOGY GROUP INC	3,727,365	121,513,845.84	34,566.18	0.01
MERRILL LYNCH, PIERCE, FENNER + SMITH	1,519,897	52,111,834.71	33,946.24	0.02
GOLDMAN SACHS + CO	1,772,584	65,541,514.25	30,133.82	0.02
CITIGROUP GLOBAL MARKETS INC	1,659,367	60,449,264.48	29,508.82	0.02
LEHMAN BROTHERS INC	1,234,829	50,318,350.97	27,029.48	0.02
LIQUIDNET INC	1,030,047	32,931,899.64	23,853.53	0.02
UBS SECURITIES LLC	614,835	23,865,097.70	22,862.44	0.04
CREDIT SUISSE FIRST BOSTON CORP	587,879	29,555,811.68	20,769.74	0.04
BANC/AMERICA SECURITIES LLC	662,800	25,968,206.30	18,796.32	0.03
PERSHING SECURITIES LIMITED	1,861,781	29,059,497.87	18,288.78	0.01
MORGAN STANLEY CO INC	1,073,552	32,041,128.13	16,040.17	0.01
JEFFERIES+ COMPANY INC	352,110	8,507,131.43	13,883.57	0.04
BEAR STEARNS SECURITIES CORP	326,523	10,398,188.05	13,826.42	0.04
Other (<$13,800)	9,895,747	286,709,941.66	289,697.48	0.03
Total	28,643,460	$ 897,051,238.72	$ 672,654.53	$ 0.023

Broker Commissions Report (Global Equity)

For The Fiscal Year Ended June 30, 2006

PSRS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
MERRILL LYNCH, PIERCE, FENNER + SMITH	68,844,088	$ 597,558,760.92	$ 704,493.31	11.8
CREDIT SUISSE FIRST BOSTON CORP	65,531,394	472,351,752.03	603,537.59	12.8
PERSHING SECURITIES LIMITED	50,432,507	873,917,990.97	598,542.69	6.8
MORGAN STANLEY CO INC	68,280,840	493,371,167.76	554,217.84	11.2
GOLDMAN SACHS + CO	49,218,061	401,944,908.10	499,195.28	12.4
DEUTSCHE BANK SECURITIES INC	68,964,368	430,834,395.07	490,081.64	11.4
CITIGROUP GLOBAL MARKETS INC	26,883,806	302,193,165.66	436,830.08	14.5
LEHMAN BROTHERS INC	29,660,061	413,172,224.81	325,064.02	7.9
UBS SECURITIES LLC	22,340,996	192,307,970.26	323,391.06	16.8
JP MORGAN SECURITIES LIMITED	43,058,182	176,683,783.87	305,003.23	17.3
CREDIT LYONNAIS SECURITIES	31,444,283	101,525,862.27	215,542.58	21.2
ABN AMRO SECURITIES INC	69,943,976	183,492,228.76	199,733.22	10.9
BEAR STEARNS SECURITIES CORP	101,872,574	162,091,702.00	184,581.45	11.4
SOCIETE GENERALE SECURITIES	11,609,271	181,913,145.68	161,960.73	8.9
CREDIT AGRICOLE INDOSUEZ SECURITIES	10,795,658	152,998,251.87	140,589.17	9.2
Other (<$140,000)	226,112,364	2,095,344,892.78	2,063,220.92	9.8
Total	944,992,429	$ 7,231,702,202.81	$ 7,805,984.81	10.8

PEERS

Brokerage Firm	Shares Traded	Dollars Traded	Commissions Paid	Cost (basis points)
MERRILL LYNCH, PIERCE, FENNER + SMITH	5,426,470	$ 66,357,381.83	$ 71,285.68	10.7
PERSHING SECURITIES LIMITED	5,376,750	93,173,253.63	61,901.02	6.6
CREDIT SUISSE FIRST BOSTON CORP	7,529,568	39,903,277.23	53,535.48	13.4
MORGAN STANLEY CO INC	6,141,877	45,085,627.63	50,158.81	11.1
DEUTSCHE BANK SECURITIES INC	6,324,510	39,235,781.37	45,198.78	11.5
GOLDMAN SACHS + CO	4,390,217	35,054,696.79	43,301.95	12.4
CITIGROUP GLOBAL MARKETS INC	2,425,097	25,626,054.24	37,749.44	14.7
LEHMAN BROTHERS INC	2,602,185	34,938,518.35	29,390.93	8.4
UBS SECURITIES LLC	1,951,363	16,782,708.69	29,218.94	17.4
JP MORGAN SECURITIES INC	3,958,617	17,469,354.72	29,060.31	16.6
ABN AMRO SECURITIES INC	7,900,068	18,592,815.32	19,095.52	10.3
CREDIT LYONNAIS SECURITIES	2,868,086	8,903,530.07	19,033.45	21.4
BEAR STEARNS SECURITIES CORP	9,489,952	14,701,900.47	16,715.62	11.4
WARBURG DILLION READ LTD	920,268	8,166,988.66	13,226.32	16.2
SOCIETE GENERALE SECURITIES	732,905	13,081,572.40	12,700.40	9.7
Other (<$12,000)	18,982,241	174,058,653.60	173,198.77	10.0
Total	87,020,174	$ 651,132,115.00	$ 704,771.42	10.8

Investment Summary

As of June 30, 2006

Total Market Value	PSRS/PEERS Combined Funds - FY2006	Percent of Total Market Value FY2006	FY2005	FY2004
U.S. Fixed Income	$ 7,735,590,039	27.9%	30.6%	33.5%
U.S. Equity	10,669,573,690	38.5	39.7	39.7
Global Equity	5,655,391,305	20.4	17.6	17.6
Real Return Pool	1,899,229,013	6.8	7.5	7.5
Real Estate	842,058,096	3.0	0.7	0.0
Private Equity	140,450,639	0.5	0.1	0.0
Cash and short-term investments	790,572,996	2.9	3.8	1.7
Total	$ 27,732,865,778	100.0%	100.0%	100.0%

Reconciliation with Statement of Plan Net Assets

Accrued payable for investments purchased	*$ 3,607,338,225*
Accrued income payable	*5,943,275*
Accrued receivable for investments sold	*(3,070,772,994)*
Accrued income receivable	*(94,726,081)*
Short-term investments designated for benefits	*(34,637,643)*
Statement of Plan Net Assets	*$ 28,146,010,560*

Investment Income Expenses

For The Year Ended June 30, 2006

Investment Managers	PSRS	PEERS	Total
Investment Management Fees			
NISA Investment Advisors	$ 1,292,326	$ 104,834	$ 1,397,160
BlackRock Financial Management	1,243,344	108,120	1,351,464
Wellington Management Co.	800,400	69,600	870,000
Payden & Rygel Investment Advi	594,092	51,660	645,752
PIMCO Fixed Income	1,192,679	102,175	1,294,854
Seix Investment Advisors	1,154,902	98,083	1,252,985
Bridgewater Associates, Inc.	834,848	72,540	907,388
Fixed Income Fees	*7,112,591*	*607,012*	*7,719,603*
Jacobs Levy	1,869,484	162,188	2,031,672
Goldman Sachs	656,179	58,133	714,312
Delaware Investment Advisors	1,383,417	119,459	1,502,876
State Street Global Advisors	1,252,328	124,225	1,376,553
Alliance Capital Management	1,499,600	130,400	1,630,000
UBS Global Asset Management	1,255,500	94,500	1,350,000
TCW Asset Management Company	485,956	42,137	528,093
Aronson Partners Large Cap	1,647,293	145,700	1,792,993
Domestic Equity Fees	*10,049,757*	*876,742*	*10,926,499*
Arrowstreet, Capital LP	628,517	54,654	683,171
State Street Global Advisors	(4,418)	(375)	(4,793)
MFS Institutional Advisors	1,700,689	149,602	1,850,291
Oechsle International	65,049	4,896	69,945
McKinley Capital Management	906,155	76,963	983,118
Invesco Global Asset Mmgt	1,544,336	134,624	1,678,960
BPI Global Asset Management	496,128	43,142	539,270
Alliance Bernstein	2,819,526	255,138	3,074,664
Citigroup	801,559	69,701	871,260
AQR Capital Mgt , LLC	3,521,927	306,254	3,828,181
Julius Baer Investment Mgmt	2,758,695	249,077	3,007,772
Global Equity Fees	*15,238,163*	*1,343,676*	*16,581,839*
S-CAP Fees	5,327,694	450,975	5,778,669
E-MAP Fees	3,545,828	295,063	3,840,891
Real Estate Fees	1,173,386	105,967	1,279,353
Private Equity Fees	2,150,124	161,837	2,311,961
Commission Recapture	(1,333,500)	(108,314)	(1,441,814)
Investment Management Expense	*43,264,043*	*3,732,958*	*46,997,001*
Custodial Services			
State Street Bank & Trust Co.	4,414,433	358,889	4,773,322
Investment Consultants			
Townsend	211,600	18,400	230,000
Albourne America, LLC	117,523	10,219	127,742
Pathway Consulting	405,087	30,490	435,577
Russell Investment Group	277,551	52,867	330,418
Mellon Analytical Serv	68,625	13,063	81,688
Consultant Fees	*1,080,386*	*125,039*	*1,205,425*
Staff Investment Expenses	465,535	310,341	775,876
Total Investment Expenses	$ 49,224,397	$ 4,527,227	$ 53,751,624

Note: An additional $3.6 million in private equity fees and $7.9 million in real estate fees were recorded as adjustments to the net value of the investments. These totals include $2.9 million in private equity incentive fee accruals and $1.6 million in real estate incentive fee accruals. The returns presented for private equity and real estate are net of these fees.

actuarial section

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October 20, 2006

Board of Trustees
Public School Retirement System of Missouri
Public Education Employee Retirement System of Missouri
3210 West Truman Boulevard
Jefferson City, MO 65109

Re: Certification of Actuarial Results

Dear Members of the Board:

At your request, we have performed actuarial valuations of the Public School Retirement System and the Public Education Employee Retirement System of Missouri as of June 30, 2006. An actuarial valuation of each system is performed annually.

The actuarial valuation is based upon:

a. *Data relative to the Members of the Systems* – Data for all members of each system was provided by the staff. Such data is tested for reasonableness by the actuary but is used unaudited.

b. *Assets of the Fund* – The values of the trust fund assets for each system are provided by the staff. A market related value of assets, with gains and losses recognized ratably over five years, is used to develop actuarial results.

c. *Actuarial Method* – The actuarial method utilized for each system is the Entry Age Normal Cost Method. The objective of this method is to finance the benefits of the systems as a level percentage of pay over the entire career of each member. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

d. *Actuarial Assumptions* – The actuarial assumptions used in the valuation of each system are summarized in the next few pages. The Board has adopted this set of assumptions effective for the actuarial valuations as of June 30, 2006 and later.

The actuarial assumptions and methods used are in accordance with paragraph 36 of GASB Statement Number 25.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by the staff with our guidance.

Board of Trustees
Public School Retirement System of Missouri
Page 2

The Board's statement of funding policy provides that:

1. The Board of Trustees shall adopt actuarial assumptions, each of which individually represents a reasonable long-term estimate of anticipated experience under the system, derived from experience studies conducted every fifth year.
2. The actuarial funding method used shall be the Entry Age Normal Method with normal costs calculated as a percentage of payroll.
3. It shall be the general objective to maintain an amortization period of 30 years or less in the funding of the Unfunded Actuarial Accrued Liability. Whenever a change is made in a system's benefit and contribution rate structures, the amortization period for the system after this change should not exceed 30 years initially.
4. If an escalation in future payroll is assumed in determining the amortization payments toward the Unfunded Actuarial Accrued Liability, then the annual rate of such escalation shall not exceed the expected rate of expansion in total system payroll based upon the actuarial assumptions.
5. Assets used in the actuarial valuation shall be valued using adjusted market values averaged over a period of five years.
6. Annual actuarial valuations shall be made of the system's assets and liabilities. The contribution rate shall be established based on the results of these valuations.

The results of the valuations are based on the data and actuarial techniques described above and on the provisions of each system at the valuation date. Based on these items, we certify these results to be true and correct.

Sincerely,

Norman S. Losk, F.S.A.
Senior Consultant

William B. Fornia, F.S.A.
Senior Consultant

Alex Rivera, F.S.A.
Senior Consultant

NSL:tte

Gabriel, Roeder, Smith & Company

PSRS Calculation of Unfunded Actuarial Accrued Liability

As of June 30, 2006

	Amount
(1) Present value of future benefits for:	
Active members	$ 22,069,801,395
Service retirees	14,644,979,112
Disability retirees	132,922,630
Tax-sheltered annuitants	1,081,659
Survivors	540,242,157
Death benefits	52,053,079
Inactive members	381,982,601
Total	37,823,062,633
(2) Present value of future normal costs	7,785,932,146
(3) Actuarial accrued liability ((1)-(2))	30,037,130,487
(4) Actuarial value of assets	24,801,644,465
(5) Unfunded actuarial accrued liability ((3)-(4))	$ 5,235,486,022

PSRS Required Contribution Rate and Amortization of Unfunded Liability

As of June 30, 2006

	Percentage of Payroll
(1) Total FY 2007 contribution rate, member and employer	24.00%
(2) Normal cost rate	21.55
(3) Approximate rate available for unfunded actuarial accrued liability ((1) - (2))	2.45
(4) Number of years required to amortize unfunded actuarial accrued liability	Never*
(5) Benchmark FY 2007 contribution rate - normal cost plus a rate to fund the UAAL over 30 years	28.39%

**While the current contribution rate will not fund the UAAL in 30 years, the funding process is designed to fund that item over time.*

PSRS Analysis of Actuarial Gains and Losses

As of June 30, 2006

(Dollar amounts in thousands)

(1)	Unfunded actuarial liability as of July 1, 2005		$ 4,832,072
(2)	Normal cost for 2006 plan year		731,821
(3)	Contribution received during year		(932,559)
(4)	Interest to year end at 8.00% on (1), (2) & (3)		378,690
(5)	Expected unfunded actuarial liability as of June 30, 2006		5,010,024
(6)	Actuarial (gain)/loss during the year		
	a. From investment	$ (294,247)	
	b. From actuarial liabilities	519,709	
	c. Total		225,462
(7)	Unfunded actuarial accrued liability as of June 30, 2006		$ 5,235,486

PEERS Calculation of Unfunded Actuarial Accrued Liability

As of June 30, 2006

	Amount
(1) Present value of future benefits for:	
Active members	$ 2,648,894,111
Service retirees	963,915,145
Disability retirees	18,412,130
Survivors	38,158,542
Inactive members	80,069,736
Total	3,749,449,664
(2) Present value of future normal costs	992,616,722
(3) Actuarial accrued liability ((1)-(2))	2,756,832,942
(4) Actuarial value of assets	2,218,637,802
(5) Unfunded actuarial accrued liability ((3)-(4))	$ 538,195,140

PEERS Required Contribution Rate and Amortization of Unfunded Liability

As of June 30, 2006

	Percentage of Payroll
(1) Total FY 2007 contribution rate, member and employer	11.50%
(2) Normal cost rate	10.99
(3) Approximate rate available for unfunded actuarial accrued liability ((1) - (2))	0.51
(4) Number of years required to amortize unfunded actuarial accrued liability	Never*
(5) Benchmark FY 2007 contribution rate - normal cost plus a rate to fund the UAAL over 30 years	13.22%

**While the current contribution rate will not fund the UAAL in 30 years, the funding process is designed to fund that item over time.*

PEERS Analysis of Actuarial Gains and Losses

As of June 30, 2006

(1)	Unfunded actuarial liability as of July 1, 2005		$ 402,927,887
(2)	Normal cost for 2006 plan year		107,158,697
(3)	Contribution received during year		(129,763,052)
(4)	Interest to year end at 8.00% on (1), (2), and 3.		31,347,451
(5)	Expected unfunded actuarial liability as of June 30, 2006		411,670,983
(6)	Actuarial (gain)/loss during the year		
	a. From investments	$ (24,634,515)	
	b. From liabilities	151,158,672	
	c. Total		126,524,157
(7)	Unfunded actuarial accrued liability as of June 30, 2006		$ 538,195,140

PSRS Summary of Actuarial Assumptions and Methods

Mortality -

Sample rates per 1,000 members by age: (effective 6/30/06)

Active and service retired members, beneficiaries and survivors

Age	Male	Female
20	0.430	0.262
40	0.891	0.551
60	5.581	2.919
80	45.171	28.366
100	268.815	219.655
Active % of retired -	70%	65%

Investment Return - 8% per annum compound, net of expenses (1980)

Termination - Illustrate per 1,000 members (male and female): (2006)

Service	Rate	Second Year
0	190	110
2	85	100
4	62	90
10	23.5	70
20	5	

Salary Increases - Sample annual rates varying by years of service: (effective 6/30/06)

Service	Increase	Service	Increase
0	10.25%	9	6.5%
3	7.75	10	6.25
6	7.25	15 and over	5.0

Retirement Rates - Sample rates per 1,000 members: (effective 6/30/06)

(1) Age 60+		(2) Below 60		(3) Below 60, less than 30 years	
Age	5 Years	Service	With 30 Years	Before (1) or (2), After 55/25	
60	200	30	350	First Year Eligible	450
62	200	31 and over	300	Thereafter	200
65	300				
67	200				
70+	1,000				

Asset Valuation - Based on five-year average of adjusted market value returns (1994).

Payroll Increase - Total covered payroll is assumed to increase 5.0% per year. Additional adjustments are made for those with less than five years of service (effective 6/30/01). Membership is not assumed to increase.

Inflation - 3.25% per annum compound (effective 6/30/06).

Actuarial Method - Entry Age Normal Funding Method is used. Gains and losses are reflected immediately in the unfunded actuarial accrued liability of the System, and amortized in the future as a level percentage of payroll (1947).

Other - In addition to the above, other assumptions are made with respect to the incidence of disability, the rates of retirement under a special temporary program, mortality of disabled lives, the probability that a member has a spouse, minor children and the ages of the children (effective 6/30/97).

COLA - 3.5% per year (effective 6/30/97).

Note: Dates reflect the effective date as adopted by the Board of Trustees.
The most recent assumption analysis was performed as of June 30, 2006. The revised assumptions were used for the June 30, 2006 valuation.

PEERS Summary of Actuarial Assumptions and Methods

Mortality - Sample rates per 1,000 members by age: (effective 6/30/06)

Active and service retired members, beneficiaries and survivors

	Age	Male	Female
	20	0.530	0.273
	40	1.156	0.598
	60	8.986	3.359
	80	68.615	31.727
	100	333.461	237.713
Active % of retired -		70%	60%

Investment Return - 8% per annum compound, net of expenses (1980)

Termination - Illustrate per 1,000 members (male and female): (2006)

				After Three Years	
Service	Rate	Second Year	Third Year	Males	Females
0	300	170	100	66	50
2	150	170	100	66	50
4	100	125	90	61	45
10	48	85	55	39	29
20	18				
25	0				

Salary Increases - Sample annual rates varying by years of service: (effective 6/30/01)

Service	Increase	Service	Increase
0	10.00%	9	5.15%
3	6.05	10 and over	5.0
6	5.60		

Retirement Rates - Sample rates per 1,000 members: (effective 6/30/06)

(1) Age 60+		(2) Below 60		(3) Below 55, with at least 25 years	
Age	5 Years	Service	With 30 Years	Service	With 25+ Years
60	160	30 & over	160	25	50
62	240			27	150
65	260			29	150
66-74	200				
75+	1,000				

Asset Valuation - Based on five-year average of adjusted market values (1994).

Payroll Increase - Total covered payroll is assumed to increase 5.0% per year. Additional adjustments are made for those with less than five years of service (effective 6/30/01).

Inflation - 3.25% per annum compound (effective 6/30/06).

Actuarial Method - Entry Age Normal Funding Method is used. Gains and losses are reflected immediately in the unfunded actuarial accrued liability of the System, and amortized in the future as a level percentage of payroll (1966).

Other - In addition to the above, other assumptions are made with respect to the incidence of disability, the rates of retirement under a special temporary program, mortality of disabled lives, the probability that a member has a spouse and average work year (effective 6/30/97).

COLA - 3.5% per year. (effective 6/30/97).

Note: Dates reflect the effective date as adopted by the Board of Trustees.
The most recent assumption analysis was performed as of June 30, 2006. The revised assumptions were used for the June 30, 2006 valuation.

PSRS Schedule of Active Member Valuation Data

Actuarial Valuation Date	Number of Members	Covered Annual Payroll (000's)	Average Annual Salary	% Increase in Average Salary	Average Attained Age	Average Years of Service
6/30/1997	66,456	$ 2,427,429	$ 36,527	3.3%	42.5	12.1
6/30/1998	68,709	2,577,594	37,514	2.7	42.5	11.9
6/30/1999	70,092	2,690,353	38,383	2.3	42.5	11.7
6/30/2000	71,706	2,836,062	39,581	3.1	42.5	11.6
6/30/2001	72,688	2,982,051	41,025	3.7	42.4	11.3
6/30/2002	73,673	3,213,461	43,618	6.3	42.3	11.2
6/30/2003	74,347	3,373,058	45,369	4.0	42.4	11.3
6/30/2004	73,797	3,408,230	46,184	1.8	42.5	11.4
6/30/2005	73,850	3,540,649	47,944	3.8	42.5	11.4
6/30/2006	75,540	3,775,752	49,983	4.3	42.4	11.2

PEERS Schedule of Active Member Valuation Data

Actuarial Valuation Date	Number of Members	Covered Annual Payroll (000's)	Average Annual Salary	% Increase in Average Salary	Average Attained Age	Average Years of Service
6/30/1997	35,982	$ 556,534	$ 15,467	-1.8%	45.1	7.1
6/30/1998	38,672	616,303	15,937	3.0	44.8	6.7
6/30/1999	41,599	685,272	16,473	3.4	44.6	6.5
6/30/2000	43,533	735,400	16,893	2.5	44.5	6.4
6/30/2001	45,517	814,158	17,887	5.9	44.6	6.3
6/30/2002	46,728	895,420	19,162	7.1	44.8	6.4
6/30/2003	46,863	971,177	20,724	8.2	45.3	6.6
6/30/2004	45,880	984,866	21,466	3.6	46.2	7.0
6/30/2005	46,598	1,055,204	22,645	5.5	46.6	7.1
6/30/2006	48,188	1,190,994	24,716	9.1	46.4	7.1

PSRS Solvency Test

(Dollar amounts in thousands)

Actuarial Accrued Liability for:

Actuarial Valuation Date	Member Contributions	Current Retirees & Beneficiaries	Active & Inactive Members Employer Financed Portion	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Assets for:		
	(1)	(2)	(3)		(1)	(2)	(3)
6/30/1997	$ 3,312,090	$ 4,553,628	$ 4,583,460	$ 13,099,219	100.00%	100.00%	114.2%
6/30/1998	3,541,459	5,523,768	5,405,822	14,979,358	100.00	100.00	109.4
6/30/1999	3,765,854	6,602,915	6,004,376	17,209,870	100.00	100.00	113.9
6/30/2000	3,976,059	7,801,845	6,501,209	19,437,223	100.00	100.00	117.8
6/30/2001	4,129,191	9,504,921	7,648,091	21,146,294	100.00	100.00	98.2
6/30/2002	4,354,507	10,589,546	8,389,885	22,236,105	100.00	100.00	86.9
6/30/2003	4,687,227	11,387,543	8,644,680	20,047,982	100.00	100.00	46.0
6/30/2004	4,954,080	12,625,925	8,645,254	21,501,572	100.00	100.00	45.4
6/30/2005	5,119,055	13,976,901	8,785,557	23,049,441	100.00	100.00	45.0
6/30/2006	5,453,906	15,371,279	9,211,945	24,801,644	100.00	100.00	43.2

PEERS Solvency Test

(Dollar amounts in thousands)

Actuarial Accrued Liability for:

Actuarial Valuation Date	Member Contributions	Current Retirees & Beneficiaries	Active & Inactive Members Employer Financed Portion	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Assets for:		
	(1)	(2)	(3)		(1)	(2)	(3)
6/30/1997	$ 204,757	$ 312,390	$ 447,065	$ 1,001,035	100.00%	100.00%	108.2%
6/30/1998	225,454	350,860	460,033	1,150,311	100.00	100.00	124.6
6/30/1999	231,252	396,846	540,413	1,335,308	100.00	100.00	130.9
6/30/2000	274,167	467,653	653,480	1,522,660	100.00	100.00	119.5
6/30/2001	301,936	565,126	769,014	1,686,242	100.00	100.00	106.5
6/30/2002	354,296	651,295	850,391	1,810,619	100.00	100.00	94.7
6/30/2003	394,925	731,059	923,732	1,677,770	100.00	100.00	59.7
6/30/2004	444,318	804,864	972,028	1,837,308	100.00	100.00	60.5
6/30/2005	466,259	904,292	1,043,943	2,011,566	100.00	100.00	61.4
6/30/2006	524,014	1,020,486	1,212,333	2,218,638	100.00	100.00	55.6

PSRS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls

	Added to Rolls		Removed from Rolls		Rolls End of Year			% Increase	
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Average Annual Allowances	in Annual Allowance	in Average Annual Allowance
2005-2006									
Service retirees	2,441	$ 85,952,556	811	$ 19,138,824	34,631	$ 1,159,504,692	33,482	8.59%	3.48%
Disability retirees	41	855,684	34	594,708	671	14,368,776	21,414	3.95	2.86
Beneficiaries	279	6,109,776	127	1,679,784	2,808	56,410,080	20,089	10.61	4.62
2004-2005									
Service retirees	2,630	91,773,708	681	16,100,976	33,001	1,067,742,636	32,355	10.86	4.31
Disability retirees	58	1,151,928	24	402,816	664	13,823,160	20,818	7.94	2.42
Beneficiaries	226	4,153,424	118	1,426,464	2,656	51,000,276	19,202	9.47	5.02
2003-2004									
Service retirees	2,451	87,108,528	822	17,964,480	31,052	963,188,448	31,019	9.93	4.16
Disability retirees	54	1,155,516	28	442,812	630	12,806,208	20,327	8.04	3.58
Beneficiaries	473	6,153,792	147	1,560,084	2,548	46,586,652	18,284	10.60	-3.55
2002-2003									
Service retirees	2,057	69,930,201	762	16,923,921	29,423	876,214,561	29,780	7.55	2.82
Disability retirees	37	724,718	30	543,617	604	11,852,724	19,624	2.27	1.09
Beneficiaries	194	4,069,979	112	1,564,606	2,222	42,122,623	18,957	6.64	2.70
2001-2002									
Service retirees	2,252	76,277,040	763	16,160,604	28,128	814,713,192	28,964	14.53	8.47
Disability retirees	41	890,640	40	688,908	597	11,589,792	19,413	7.27	7.09
Beneficiaries	246	4,309,632	105	1,452,696	2,140	39,500,232	18,458	15.70	8.08
2000-2001									
Service retirees	2,629	84,732,912	749	14,326,116	26,639	711,328,968	26,703	18.15	9.81
Disability retirees	44	896,940	28	432,888	596	10,803,876	18,127	11.23	8.24
Beneficiaries	184	3,478,620	84	978,240	1,999	34,139,676	17,078	19.26	13.29

PEERS Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Rolls

	Added to Rolls		Removed from Rolls		Rolls End of Year			% Increase	
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Average Annual Allowances	in Annual Allowance	in Average Annual Allowance
2005-2006									
Service retirees	1,080	$ 8,500,248	528	$ 1,834,320	15,322	$ 85,772,400	$ 5,598	9.22%	5.28%
Disability retirees	53	217,428	23	96,480	478	1,872,912	3,918	9.62	2.73
Beneficiaries	86	291,804	50	175,392	960	3,745,200	3,901	4.79	0.85
2004-2005									
Service retirees	1,092	7,628,508	481	1,697,460	14,770	78,531,972	5,317	10.76	6.17
Disability retirees	43	203,208	26	101,004	448	1,708,548	3,814	9.49	5.36
Beneficiaries	98	443,100	29	77,064	924	3,573,960	3,868	16.21	7.53
2003-2004									
Service retirees	1,075	8,476,308	535	1,597,860	14,159	70,902,420	5,008	11.03	6.80
Disability retirees	43	174,660	17	91,188	431	1,560,408	3,620	7.72	1.20
Beneficiaries	86	417,644	44	107,736	855	3,075,528	3,597	11.63	6.14
2002-2003									
Service retirees	966	7,800,240	488	1,584,787	13,619	63,860,114	4,689	10.59	6.71
Disability retirees	31	135,547	13	39,611	405	1,448,560	3,577	7.60	2.82
Beneficiaries	96	417,644	25	85,565	813	2,755,081	3,389	14.19	4.21
2001-2002									
Service retirees	970	7,570,872	461	1,280,604	13,141	57,743,412	4,394	22.43	17.68
Disability retirees	30	146,556	21	58,956	387	1,346,280	3,479	17.02	14.29
Beneficiaries	97	352,764	18	33,996	742	2,412,648	3,252	26.76	13.27
2000-2001									
Service retirees	978	6,089,376	459	1,165,548	12,632	47,164,044	3,734	18.68	13.81
Disability retirees	53	200,208	22	75,372	378	1,150,476	3,044	18.75	9.03
Beneficiaries	76	201,732	14	19,536	663	1,903,260	2,871	19.02	7.89

PSRS Summary Plan Description

The Public School Retirement System of Missouri (PSRS) became operative July 1, 1946. It was established by an Act of the Missouri Legislature and is governed by Chapter 169 of the *Revised Statutes of Missouri*. Its purpose is to provide benefits to members and their dependents at retirement or in the event of death or disability prior to retirement.

PSRS is a defined benefit plan funded on an actuarial reserve basis, which guarantees availability of funds to pay benefits as prescribed by law. The System is established as an independent trust fund and is not subject to direction by any state agency. Administrative expenses are paid entirely out of investment earnings.

Administration – The administration of PSRS is vested in a seven-member Board of Trustees, composed of three elected PSRS members, one elected Public Education Employee Retirement System (PEERS) member, and three appointed trustees. The four elected trustees are selected by vote of the members and retirees of both Systems. Two are elected each even-numbered calendar year to serve four-year terms. The three appointed trustees, one of whom must be a PSRS or a PEERS retiree, are named by the Governor to serve four-year terms. The appointed trustees must be residents of school districts included in the Retirement System but not employees of such districts nor state employees nor a state elected official. The Board appoints an executive director who is responsible for employment of the retirement office staff, routine operation of the System, and advisement of the Board on all matters pertaining to the System.

Member Participation – PSRS membership is automatic, regardless of position, for certificated, full-time employees of public school districts in Missouri (except the St. Louis city and the Kansas City school districts), public junior college districts in Missouri, and of PSRS. Certificated, part-time employees whose services would qualify them for membership in the Public Education Employee Retirement System are contributing members of PSRS unless PEERS membership is elected.

Members working in covered employment are considered *active* members. Such members contribute 11.5% (12.0% effective 7/1/2006) of total compensation to PSRS. The contributions are deducted and remitted by the employer and are credited by PSRS to individual member accounts. Since July 1, 1989, member contributions have been tax-deferred for federal and state income tax purposes under IRS 414(h)(2). Contributions are not considered income for such purposes until they are paid as a lump-sum refund or monthly benefits.

Members not working in covered employment are considered *inactive* members.

Interest at a rate set each year by the Board of Trustees is credited to individual member accounts each June 30 on the previous June 30 balance. The rate credited on June 30, 2006 was 6%. Since PSRS is a defined benefit plan, benefits are based upon the member's final average salary and years of creditable service. The amount of interest credited to a member's account has no bearing on the monthly benefit amount payable at retirement.

In addition to credit earned for covered service, members may purchase credit in various categories including several types of leave, out-of-state school service, other public and private employment, active U.S. military duty, and service under the federal Uniformed Services Employment and Re-employment Rights Act of 1994 (USERRA).

Employer Participation – The employers served by PSRS withhold members' contributions from salary payments and match those contributions at a current rate of 11.5% (12.0% effective July 1, 2006) of payroll. Employer contributions and investment earnings on those funds are placed by PSRS in a general reserve account to pay monthly benefits to retirees and to beneficiaries of deceased members. Employers are responsible for remitting contributions promptly and for furnishing contribution information and new membership records to PSRS. Employers also provide record data when members apply for benefits or for refunds upon termination of employment.

Survivor Benefits – The designated beneficiary of a member who dies before retirement is eligible for a lump-sum refund of the member's contributions and interest. If the beneficiary is an eligible dependent and the member dies while in covered employment with at least two years of credit for such service, or while eligible for disability retirement benefits, monthly survivor benefits based on a percentage of the member's salary for the last full year of covered service can be elected instead of the contribution refund.

In lieu of a lump-sum refund or monthly survivor benefits, survivors with an insurable interest and beneficiaries of disability retirees may elect to receive monthly benefits under the Option 2 retirement plan. Such benefits are payable when the member would have been eligible for early or normal service retirement.

Refund of Contributions – Member contributions and interest are fully refundable upon termination of service or death. All credit and benefit rights are forfeited upon voluntary withdrawal or automatic termination of membership.

A member may, upon returning to covered employment, reinstate the credit forfeited through termination of a previous membership by repaying the money refunded plus interest.

Membership Termination – Membership is terminated by death, retirement, withdrawal of contributions, or absence from covered employment by a non-vested member for five consecutive school years.

Disability Retirement Benefits – Disability retirement benefits are payable to eligible members who, because of permanent disability, are unable to earn a livelihood in any occupation. In most instances, the disability retirement benefit is calculated at 50% of the member's salary for the last full year of creditable service.

Service Retirement Benefits – Service retirement benefits are payable to members who have terminated covered employment and have met certain eligibility requirements.

Benefit Formula – All service retirement benefits are based on a formula which multiplies final average salary by the applicable formula factor, by the years of credit and, in the case of early retirement, by an age-reduction factor. Final average salary is obtained by dividing the total salaries for the three highest consecutive years of service by 36; the applicable factor is determined by the type of retirement eligibility; total credit is the amount accumulated at retirement for covered service and purchased credit; and the age factor, where applicable, is determined by the age at retirement.

Normal Retirement – A member may retire with benefits calculated under the standard (2.5%) formula factor at age 60 with five years of credit, at any age with 30 years of credit, or when a combination of age and service credit equals 80. Between 7/1/2001-7/1/2008, a member may retire with a 2.55% formula factor with 31 or more years of service.

Early Retirement – A member may retire with benefits calculated under the standard (2.5%) formula with an age-reduction factor applied, at age 55 with five years of credit or at any age with 25 years of credit, as long as they do not qualify for Rule of 80.

A special provision in effect until July 1, 2008 allows members under age 55 with 25.0 to 29.9 years of credit to retire with benefits calculated under a modified formula factor ranging from 2.2% to 2.4% but with no age-reduction factor applied.

Payment Options – A retiring member may elect to receive the maximum benefits payable under the Single Life option, or may elect to receive a reduced benefit under one of three Joint-and-Survivor options or under one of two Term-Certain options, to provide survivor benefit coverage in varying degrees after the retiree's death.

Certain benefit minimums apply to normal or early retirement with 15 or more years of credit. The minimums for 15 but fewer than 25 years of credit are reduced if a Joint-and-Survivor or a Term-Certain option is elected and/or if an age factor is applicable because of early retirement. The minimums for 25 or more years of credit are reduced only if a Joint-and-Survivor or a Term-Certain option is elected.

The Partial Lump Sum Option (PLSO) is available to qualified members. This option allows qualified members to elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time, lump-sum payment at retirement.

Post-Retirement Increases – Cost-of-living adjustments (COLAs) are provided beginning the second January after retirement to service and disability retirees, and to Joint-and-Survivor beneficiaries of deceased retirees. The annual COLA, not to exceed 5%, is based on the increase in the cost of living as measured by the Department of Labor Consumer Price Index for the previous fiscal year and is applied to the current benefit of each eligible recipient. Lifetime COLAs are limited to 80% of the original retirement benefit.

Member Handbook – A Member Handbook containing detailed information concerning the retirement program can be obtained from the retirement office upon request.

PEERS Summary Plan Description

The Public Education Employee Retirement System of Missouri (PEERS) was established by an Act of the Missouri Legislature effective November 1, 1965, and is governed by Chapter 169 of the Revised Statutes of Missouri. Its purpose is to provide benefits to members and their dependents at retirement or in the event of death or disability prior to retirement.

PEERS is a defined benefit plan funded on an actuarial reserve basis, which guarantees availability of funds to pay benefits as prescribed by law. The System is established as an independent trust fund and is not subject to direction by any state agency. Administrative expenses are paid entirely out of investment earnings.

Administration – The statutes provide that the responsibility for the operation and administration of the retirement system is vested in The Public School Retirement System (PSRS) Board of Trustees sitting as the Board of Trustees for PEERS. The Board is comprised of three elected PSRS members, one elected Public Education Employee Retirement System (PEERS) member and three appointed trustees. The four elected trustees are selected by vote of the members and retirees of both Systems. Two are elected each even-numbered calendar year to serve four-year terms. The three appointed trustees, one of whom must be a PSRS or an PEERS retiree, are named by the Governor to serve four-year terms. The appointed trustees must be residents of school districts included in the Retirement System but not employees of such districts nor state employees nor a state elected official.

The Board appoints an executive director who is responsible for employment of the retirement office staff and routine operation of the system, and who acts as advisor to the Board on all matters pertaining to the System.

Member Participation

Active Members – are currently working in covered employment. Employees contribute 5.5% (5.75% effective July 1, 2006) of their total compensation to PEERS. These amounts are deducted by the employing district and then forwarded to PEERS by the payroll officer and applied to the member's account in PEERS. PEERS membership is automatic, regardless of position, for all persons not covered by the Public School Retirement System who are regularly employed for 20 or more hours a week on a regular basis in a position that normally requires at least 600 hours during the school term by the public school districts in Missouri (except the St. Louis city and the Kansas City school districts), public junior college districts in Missouri, and by the Retirement System.

PEERS membership can be elected by employees with Missouri teaching certificates who work in any position for 20 or more hours weekly but less than full time; however, PSRS membership is automatic if a PEERS election is not made. The election to join PEERS must be filed with the Board of Trustees within 90 days after entering first time, part-time employment.

Since July 1, 1989, member contributions have been tax-deferred for federal and state income tax purposes under IRC 414(h)(2). Contributions are not considered as income for federal or state income tax purposes until they are paid in a lump-sum refund or in monthly benefits.

Individual accounts are maintained for all PEERS members. Interest is credited each June 30 on the previous June 30 balance. The interest rate, set annually by the Board of Trustees, was 6% on June 30, 2006. Since PEERS is a defined benefit plan, benefits are based upon the member's final average salary and years of creditable service. The amount of interest credited to a member's account has no bearing on the monthly benefit amount payable at retirement.

In addition to credit earned for covered service, members may purchase credit in various categories including several types of leave, out-of-state school service, other public and private employment, active U.S. military duty, and service under the federal Uniformed Services Employment and Re-employment Rights Act of 1994 (USERRA).

Inactive Members – have contributions on deposit with PEERS but are not currently working in covered employment.

Member's Survivors – When a member dies before retirement, the designated beneficiary becomes eligible for a lump-sum refund of the employee's contributions and interest. In lieu of the lump-sum refund, beneficiaries with an insurable interest and beneficiaries of disability retirees may elect to receive monthly benefits under the Option 2 retirement plan. Benefits are payable to the beneficiary under the Option 2 plan when the member would have been eligible for early or normal retirement.

Membership Termination – Membership in the System is terminated by death, retirement, withdrawal of contributions, or absence from covered employment by a non-vested member for five consecutive school years.

Employer Participation – The employers served by PEERS withhold members' contributions from salary payments and match employee contributions at a current rate of 5.5% (5.75% effective July 1, 2006) of payroll. Employer contributions and investment earnings on those funds are placed in a general reserve account to pay monthly benefits to retirees and to beneficiaries of deceased members. It is the responsibility of the employers to remit contributions to the Retirement System promptly and to supply PEERS with new membership records and members' contribution information. Employers also provide needed data when members apply for benefits or refund of contributions upon termination of employment.

Refund of Contributions – Member contributions plus interest are fully refundable upon termination of service or death. All credit and benefit rights are forfeited upon voluntary withdrawal or automatic membership termination. Voluntary withdrawal is available to members who cease covered employment. Automatic termination occurs when a non-vested member is absent from covered employment for five consecutive years. Only the money the member has contributed and accrued interest are refundable.

A member may, upon returning to covered employment, reinstate the credit forfeited through termination of a previous membership by repaying the money withdrawn plus interest.

Service Retirement Benefits – Service retirement benefits are payable to persons who have terminated employment and who have met age and service requirements.

Benefit Formula – All service retirement benefits are based on a formula which multiplies final average salary by the applicable formula factor, by the years of credit and, in the case of early retirement, by an age-reduction factor. Final average salary is obtained by dividing the total salaries for the three highest consecutive years of service by 36; the applicable factor is determined by the type of retirement eligibility; total credit is the amount accumulated at retirement for covered service and purchased credit; and the age factor, where applicable, is determined by the age at retirement.

Because of the conversion of the System from a formula integrated with Social Security to the present basis, a special "frozen benefit" is in effect for certain members for service prior to July 1, 1973.

Normal Retirement – A member may retire with benefits calculated under the standard (1.61%) formula at age 60 with five years of credit, at any age with at least 30 years of service, and at the point where the member's age plus creditable service equals or exceeds 80 (Rule of 80). A member may retire under the standard (1.61%) formula when the member qualifies for Rule of 80 or 30 and out and will receive an additional .8% multiplier until he/she reaches minimum eligibility age for Social Security benefits (currently age 62).

Early Retirement – A member may retire with benefits calculated under the standard (1.61%) formula with an age-reduction factor applied, at age 55 with five but fewer than 25 years of credit.

A special provision in effect until July 1, 2008 allows members under age 55 with 25.0 to 29.9 years of credit to retire with benefits calculated under a modified formula factor ranging from 1.51% to 1.59% but with no age-reduction factor applied.

Options – A retiring member may elect to receive the maximum benefits payable under the Single Life option, or may elect to receive a reduced benefit under one of three Joint-and-Survivor options or under one of two Term-Certain options, to provide survivor benefit coverage in varying degrees after the retiree's death. Another option, the Accelerated Payment Plan (APP), allows members to receive a higher PEERS benefit prior to minimum Social Security eligibility age (currently age 62). When the minimum Social Security eligibility age is attained, the member's PEERS benefit is reduced and remains at a reduced level for the remainder of their retirement.

The Partial Lump Sum Option (PLSO) is available to qualified members. This option allows qualified members to elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time, lump-sum payment at retirement.

Disability Retirement Benefits – Disability retirement benefits are payable to persons who have met service and eligibility requirements and who, because of permanent disability, are unable to earn a livelihood in any occupation. The disability retirement benefit is calculated at 90% of the normal service retirement benefit.

Cost-of-Living Adjustments – Cost-of-living adjustments (COLAs) are provided starting the fourth January after retirement to service and disability retirees, and to Joint-and-Survivor beneficiaries of deceased retirees. The annual COLA, not to exceed 5%, is based on the increase in the cost of living as measured by the Department of Labor Consumer Price Index for the previous fiscal year and is applied to the current benefit of each eligible recipient. Lifetime COLAs are limited to 80% of the original retirement benefit.

Member Handbook – A Member Handbook which furnishes more complete information concerning provisions of the PEERS law and regulations can be obtained from the retirement office.

statistical section

Statistical Summary

Benefit Recipients

The largest percentage of the Systems' benefit recipients are service retirees. Service retirement benefits are payable to members who have met age and service requirements. The number of PSRS service retirees increased by 1,630 from 33,001 at June 30, 2005 to 34,631 at June 30, 2006. The number of PEERS service retirees increased by 552 from 14,770 at June 30, 2005 to 15,322 at June 30, 2006.

Disability benefits in PSRS and PEERS are paid to members who are unable to earn a livelihood due to permanent disability and who have met certain eligibility requirements. The number of PSRS disability retirees increased by seven from 664 at June 30, 2005 to 671 at June 30, 2006. The number of PEERS disability retirees increased by 30 from 448 at June 30, 2005 to 478 at June 30, 2006.

In both PSRS and PEERS, beneficiary payments are available to survivors if the retiree elected this option. Three Joint-and-Survivor options and two Term-Certain options are available. In PSRS, survivor benefits are also available to designated beneficiaries of members that die before retirement.

The chart on page 100 details the number of benefit recipients by type and monthly benefit amount for each system.

Pension Funding

An unfunded actuarial accrued liability (UAAL) for pension benefits generally represents the difference between the present value of all benefits estimated to be payable to plan members as a result of their age, salary, and service through the valuation date and the actuarial value of plan assets available to pay those benefits. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base. Each year an outside actuary performs a valuation to determine the present value of the benefits payable (actuarial accrued liability) and compares this to the assets available to arrive at the funded status of the systems.

The chart on page 108 shows a comparison of the assets and liabilities of the Systems over time. At June 30, 2006, PSRS was 82.6% funded and PEERS was 80.5%. These percentages have remained relatively constant for the past four fiscal years.

Changes in Net Assets

The chart on page 101 details a 10 year history of the additions (revenue) and deductions (expenses) of the systems.

Other charts in this section detail demographic information concerning our members and employers.

The data in this section was derived from internal sources and the annual actuarial valuation reports.

Summary of Benefits by Type

Public School Retirement System

Amount of Monthly Benefit	Service Retirement	Disability Retirement	Beneficiary Recipients: Disability	Survivors	Beneficiary	Term Certain	Total
<$1,000	2,951	62	58	621	409	4	4,105
$1,000 - $1,999	6,846	387	40	-	733	1	8,007
$2,000 - $2,999	10,508	196	4	-	513	2	11,223
$3,000 - $3,999	8,519	24	3	-	275	4	8,825
$4,000 - $4,999	4,019	1	-	-	98	2	4,120
$5,000 - $5,999	1,238	1	-	-	33	-	1,272
$6,000+	550	-	-	-	8	-	558
Total	34,631	671	105	621	2,069	13	38,110

Public Education Employee Retirement System

Amount of Monthly Benefit	Service Retirement	Disability Retirement	Beneficiary Recipients: Disability	Survivors	Beneficiary	Term Certain	Total
<$500	10,477	383	104		675	16	11,655
$500 - $599	3,274	91	8		118	3	3,494
$1,000 - $1,999	1,333	4			29	3	1,369
$2,000 - $2,999	183		1		3		187
$3,000 - $3,999	41				-		41
$4,000+	14				-		14
Total	15,322	478	113	-	825	22	16,760

Schedules of Changes in Plan Net Assets
Last 10 Fiscal Years
(Dollar amounts in thousands)

Public School Retirement System

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions by source										
Member contributions	$ 264,736	$ 289,224	$ 302,183	$ 319,579	$ 335,275	$ 356,685	$ 378,434	$ 405,614	$ 432,500	$ 502,980
Employer contributions	251,958	273,126	287,699	304,944	324,526	340,000	355,979	359,763	389,416	429,579
Investment income	2,396,120	2,609,911	1,795,732	1,455,003	(407,172)	(582,958)	873,340	2,402,566	1,958,622	2,235,836
Other income	494	246	273	274	810	2,761	351	488	476	264
Total additions by source	2,913,308	3,172,507	2,385,887	2,079,800	253,439	116,488	1,608,104	3,168,431	2,781,014	3,168,659
Deductions by type										
Monthly benefits										
Service retirement	375,765	417,511	504,517	601,718	706,647	810,898	877,538	967,357	1,089,909	1,192,394
Disability	7,541	7,716	8,717	9,762	10,719	11,621	11,901	12,720	13,613	14,297
Beneficiary	15,586	17,623	21,385	27,501	32,525	37,916	41,011	44,663	49,056	54,148
Lump-sum refunds										
Death	2,701	2,568	2,215	5,603	6,170	6,872	6,781	7,173	6,131	7,188
Withdrawal/transfers	24,255	25,841	28,829	30,495	28,877	24,907	21,693	28,845	28,215	29,206
Administrative expenses/other	4,048	2,833	3,140	3,712	4,009	4,486	4,675	5,274	5,614	6,754
Total deductions by type	429,896	474,092	568,803	678,791	788,947	896,700	963,599	1,066,032	1,192,538	1,303,987
Changes in plan net assets	$ 2,483,412	$ 2,698,415	$ 1,817,084	$ 1,401,009	($ 535,508)	($ 780,212)	$ 644,505	$ 2,102,399	$ 1,588,476	$ 1,864,672

Public Education Employee Retirement System

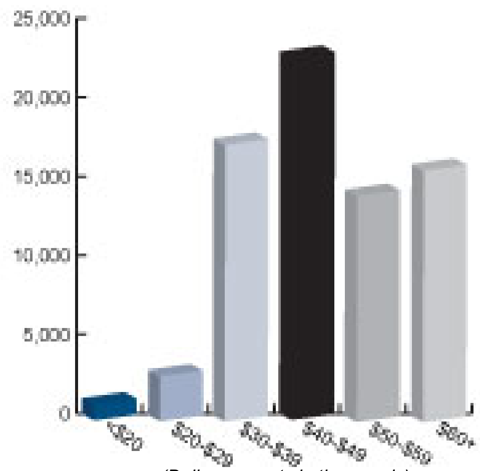
	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions by source										
Member contributions	$ 24,616	$ 27,528	$ 30,372	$ 34,499	$ 37,934	$ 46,217	$ 48,994	$ 50,625	$ 55,699	$ 68,018
Employer contributions	24,394	27,316	30,013	34,186	37,500	45,773	48,933	49,977	53,110	61,746
Investment income	183,542	198,913	137,142	113,954	(29,647)	(46,732)	73,188	198,389	170,921	197,629
Other income	11	11	17	14	73	26	16	10	9	3
Total additions by source	232,563	253,768	197,544	182,653	45,860	45,284	171,131	299,001	279,739	327,396
Deductions by type										
Monthly benefits										
Service betirement	26,555	29,599	32,547	39,071	46,093	56,305	63,333	70,419	78,860	87,151
Disability	597	665	746	945	1,122	1,304	1,448	1,503	1,686	1,840
Beneficiary	967	1,074	1,225	1,514	1,823	2,262	2,618	2,949	3,360	3,670
Lump-sum refunds										
Death	507	402	527	409	432	425	475	593	647	542
Withdrawal/transfers	5,799	6,719	6,768	9,493	8,769	7,441	7,559	9,827	11,245	11,502
Administrative expenses/other	884	1,471	1,605	1,920	2,246	2,575	2,946	3,210	3,564	4,358
Total deductions by type	35,309	39,930	43,418	53,352	60,485	70,312	78,379	88,501	99,362	109,063
Changes in plan net assets	$ 197,254	$ 213,838	$ 154,126	$ 129,301	($ 14,625)	($ 25,028)	$ 92,752	$ 210,500	$ 180,377	$ 218,333

PSRS Summary of Changes in Membership During 2005-2006

		Male	Female	Total
Membership, July 1, 2005		19,111	66,431	85,542
New members added		1,452	5,029	6,481
Less:	Service retirements	627	1,801	2,428
	Disability retirements	6	35	41
	Withdrawals	444	1,288	1,732
	Deaths	16	40	56
	Memberships terminated	82	369	451
	Other	4	19	23
		1,179	3,552	4,731
Net change in membership 2005-2006		273	1,477	1,750
Membership June 30, 2006		19,384	67,908	87,292

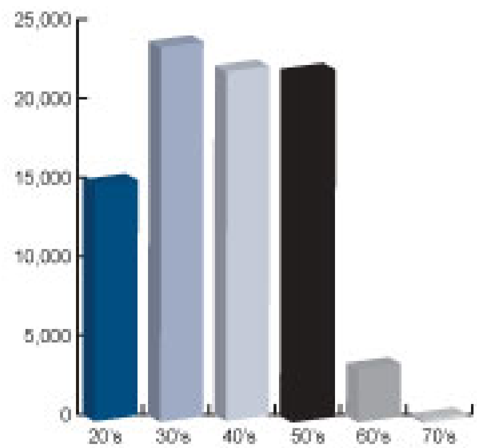
Note: *Five members eligible for retirement died during the year. These are reflected as deaths on this schedule, but as new retirees on page 104.*

2005-2006 PSRS Members by Annual Salary

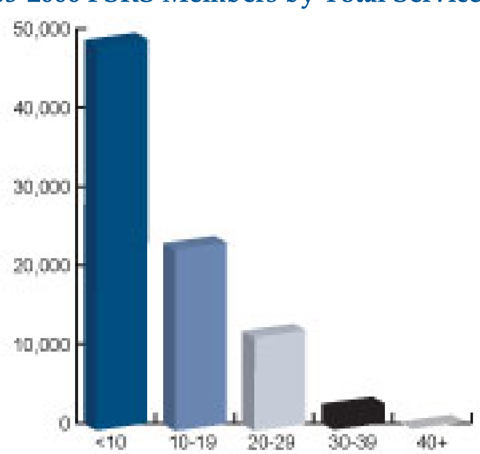


(Dollar amounts in thousands)

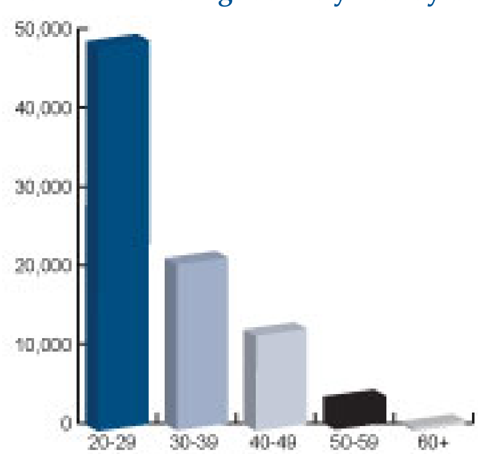
2005-2006 PSRS Members by Current Age



2005-2006 PSRS Members by Total Service Credit



2005-2006 PSRS Age at Entry into System

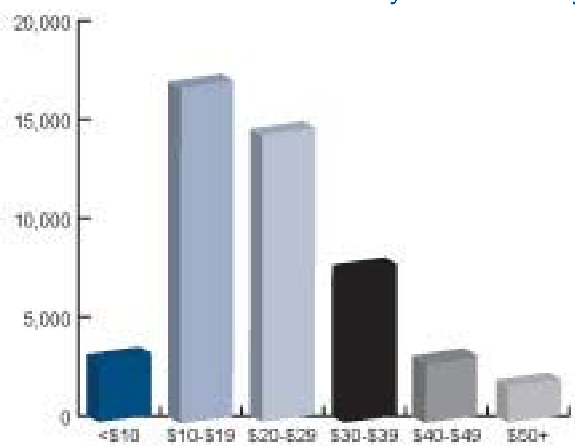


PEERS Summary of Changes in Membership During 2005-2006

		Male	Female	Total
Membership, July 1, 2005		16,025	48,944	64,969
New members added		2,270	6,181	8,451
Less:	Service retirements	277	786	1,063
	Disability retirements	16	35	51
	Withdrawals	1,164	2,841	4,005
	Deaths	48	58	106
	Memberships terminated	583	1,416	1,999
	Other	21	63	84
		2,109	5,199	7,308
Net change in membership 2005-2006		161	982	1,143
Membership June 30, 2006		16,186	49,926	66,112

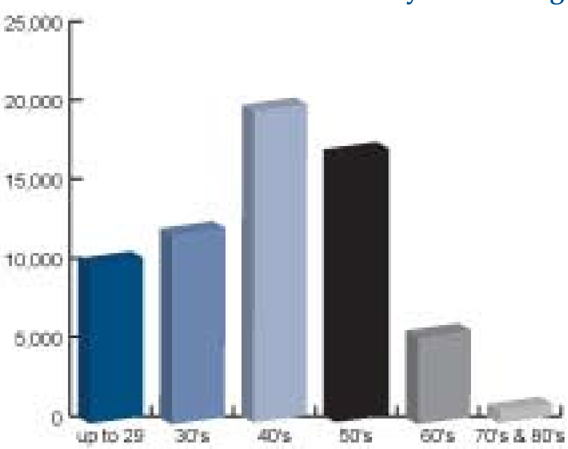
Note: *Six members eligible for retirement died during the year. These are reflected as deaths on this schedule, but as new retirees on page 105.*

2005-2006 PEERS Members by Annual Salary

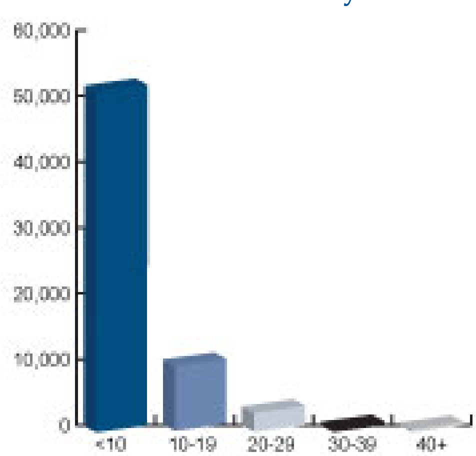


(Dollar amounts in thousands)

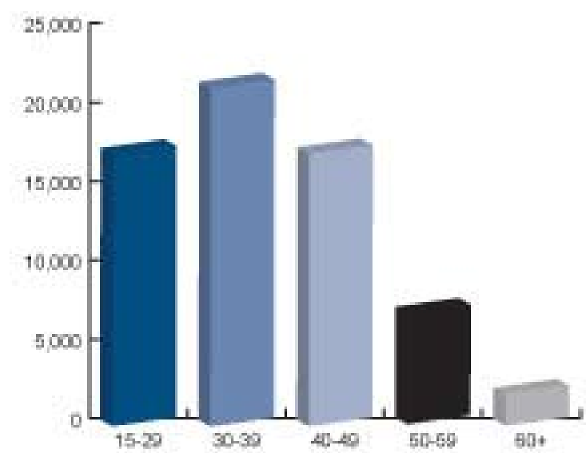
2005-2006 PEERS Members by Current Age



2005-2006 PEERS Members by Total Service Credit



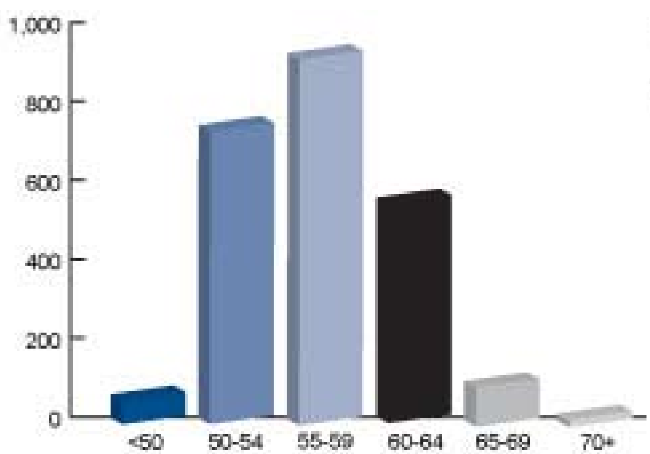
2005-2006 PEERS Age at Entry into System



PSRS 2005-2006 New Service Retirees

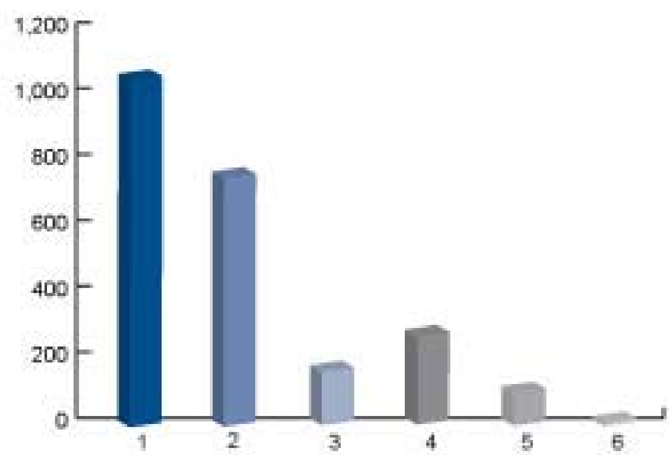
	Service Retirees	Disability Retirees	Beneficiaries
Retirees July 1, 2005	33,001	664	2,656
Added during the year	2,433	41	273
Died during the year	(776)	(29)	(84)
Other	(27)	(5)	(37)
Retirees June 30, 2006	34,631	671	2,808

2005-2006 New Service Retirees by Age at Retirement



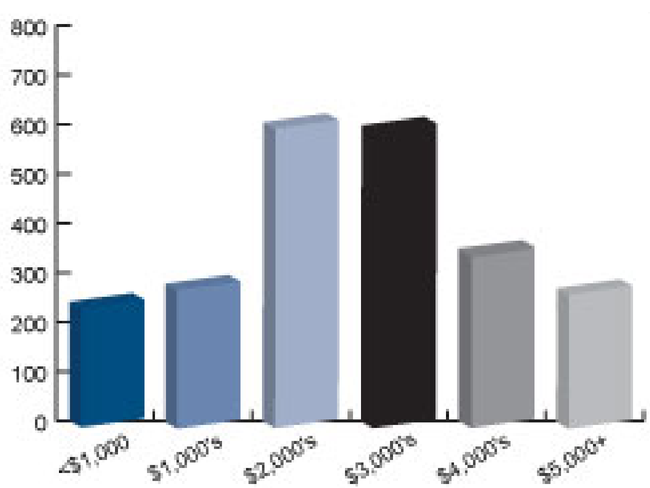
(Age at retirement)

2005-2006 New Service Retirees by Retirement Plan Option

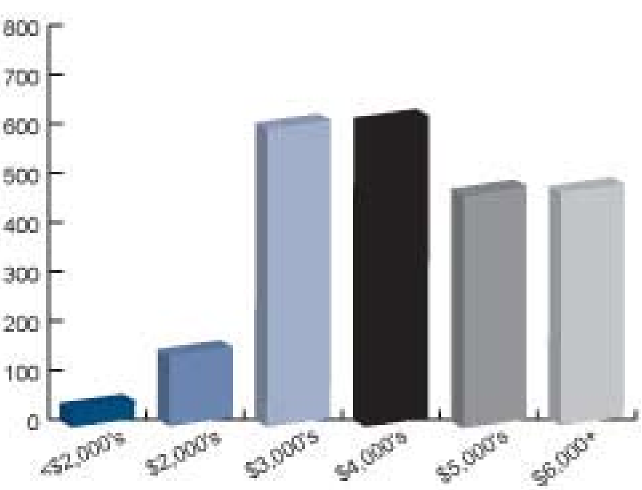


(Optional retirement plan)

2005-2006 New Service Retirees by Single Life Benefit Amount



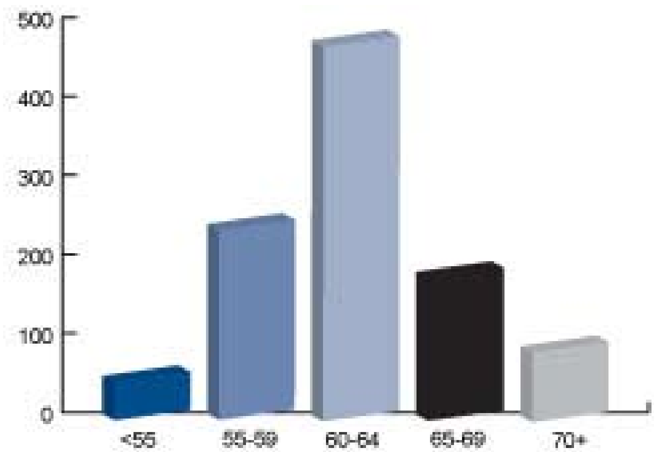
2005-2006 New Service Retirees by Final Average Monthly Salary



PEERS 2005-2006 New Service Retirees

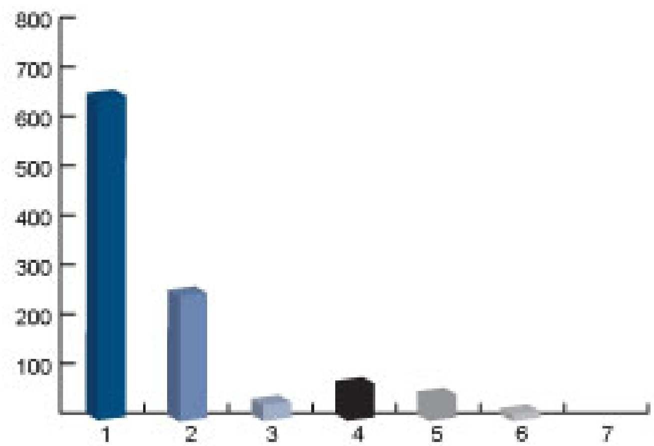
	Service Retirees	Disability Retirees	Beneficiaries
Retirees July 1, 2005	14,770	448	924
Added during the year	1,069	51	86
Died during the year	(477)	(22)	(42)
Other	(40)	1	(8)
Retirees June 30, 2006	15,322	478	960

2005-2006 New Service Retirees by Age at Retirement



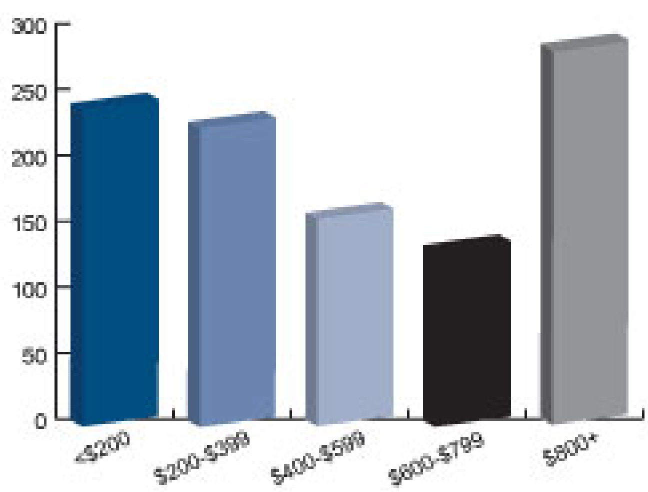
(Age at retirement)

2005-2006 New Service Retirees by Retirement Plan Option

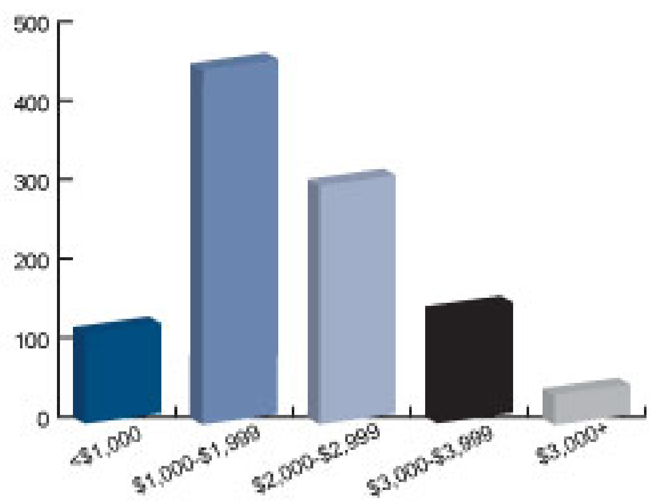


(Optional retirement plan)

2005-2006 New Service Retirees by Single Life Benefit Amount



2005-2006 New Service Retirees by Final Average Monthly Salary



PSRS Schedule of Average Benefit Payments to New Retirees

	Years of Service Credit							
Retirement Effective Dates	5 - 9.9	10 - 14.9	15 - 19.9	20 - 24.9	25 - 29.9	30 - 34.9	35 - 39.9	40+
2005-2006								
Average monthly benefit	$ 572	$ 1,021	$ 1,709	$ 2,558	$ 3,263	$ 4,299	$ 5,555	$ 5,833
Average final average salary	$ 3,659	$ 3,628	$ 4,214	$ 4,580	$ 4,854	$ 5,346	$ 5,985	$ 5,833
Number of retirees	177	137	137	358	778	744	96	6
2004-2005								
Average monthly benefit	$ 579	$ 1,314	(1)	$ 2,977	(2)	$ 4,240	(3)	$ 5,751
Average final average salary	$ 3,630	$ 3,783	(1)	$ 4,652	(2)	$ 5,216	(3)	$ 5,751
Number of retirees	158	323	(1)	1,165	(2)	973	(3)	11
2003-2004								
Average monthly benefit	$ 510	$ 1,363	(1)	$ 2,944	(2)	$ 4,205	(3)	$ 4,042
Average final average salary	$ 3,243	$ 3,849	(1)	$ 4,582	(2)	$ 5,155	(3)	$ 4,042
Number of retirees	158	269	(1)	1,097	(2)	927	(3)	12
2002-2003								
Average monthly benefit	$ 493	$ 1,295	(1)	$ 2,832	(2)	$ 4,005	(3)	$ 4,241
Average final average salary	$ 3,210	$ 3,591	(1)	$ 4,418	(2)	$ 4,936	(3)	$ 4,241
Number of retirees	111	247	(1)	930	(2)	752	(3)	17
2001-2002								
Average monthly benefit	$ 486	$ 1,253	(1)	$ 2,738	(2)	$ 3,872	(3)	$ 4,823
Average final average salary	$ 3,276	$ 3,637	(1)	$ 4,248	(2)	$ 4,824	(3)	$ 4,823
Number of retirees	93	232	(1)	1,034	(2)	875	(3)	18
2000-2001								
Average monthly benefit	$ 478	$ 1,165	(1)	$ 2,621	(2)	$ 3,593	(3)	$ 5,431
Average final average salary	$ 3,020	$ 3,245	(1)	$ 4,072	(2)	$ 4,552	(3)	$ 5,431
Number of retirees	75	276	(1)	1,232	(2)	1,027	(3)	18
1999-2000								
Average monthly benefit	$ 506	$ 1,128	(1)	$ 2,472	(2)	$ 3,514	(3)	$ 5,208
Average final average salary	$ 2,949	$ 3,310	(1)	$ 3,900	(2)	$ 4,447	(3)	$ 5,209
Number of retirees	95	218	(1)	913	(2)	912	(3)	14
1998-1999								
Average monthly benefit	$ 429	$ 994	(1)	$ 2,211	(2)	$ 3,159	(3)	$ 4,456
Average final average salary	$ 2,922	$ 2,827	(1)	$ 3,576	(2)	$ 3,987	(3)	$ 4,532
Number of retirees	82	206	(1)	1,120	(2)	526	(3)	12
1997-1998								
Average monthly benefit	$444	$921	(1)	$ 2,009	(2)	$ 2,839	(3)	$ 3,407
Average final average salary	$2,716	$2,781	(1)	$ 3,502	(2)	$ 3,900	(3)	$ 3,575
Number of retirees	43	203	(1)	757	(2)	722	(3)	23
1996-1997								
Average monthly benefit	$392	$902	(1)	$ 1,889	(2)	$ 2,718	(3)	$ 3,440
Average final average salary	$2,270	$2,704	(1)	$ 3,308	(2)	$ 3,736	(3)	$ 3,602
Number of retirees	42	176	(1)	843	(2)	704	(3)	23

Prior year data is not available in five-year service increments. Chart will be updated as data becomes available.

(1) Column to the left covers those with 10 to 19.9 years of service.

(2) Column to the left covers those with 20 to 29.9 years of service.

(3) Column to the left covers those with 30 to 39.9 years of service.

PEERS Schedule of Average Benefit Payments to New Retirees

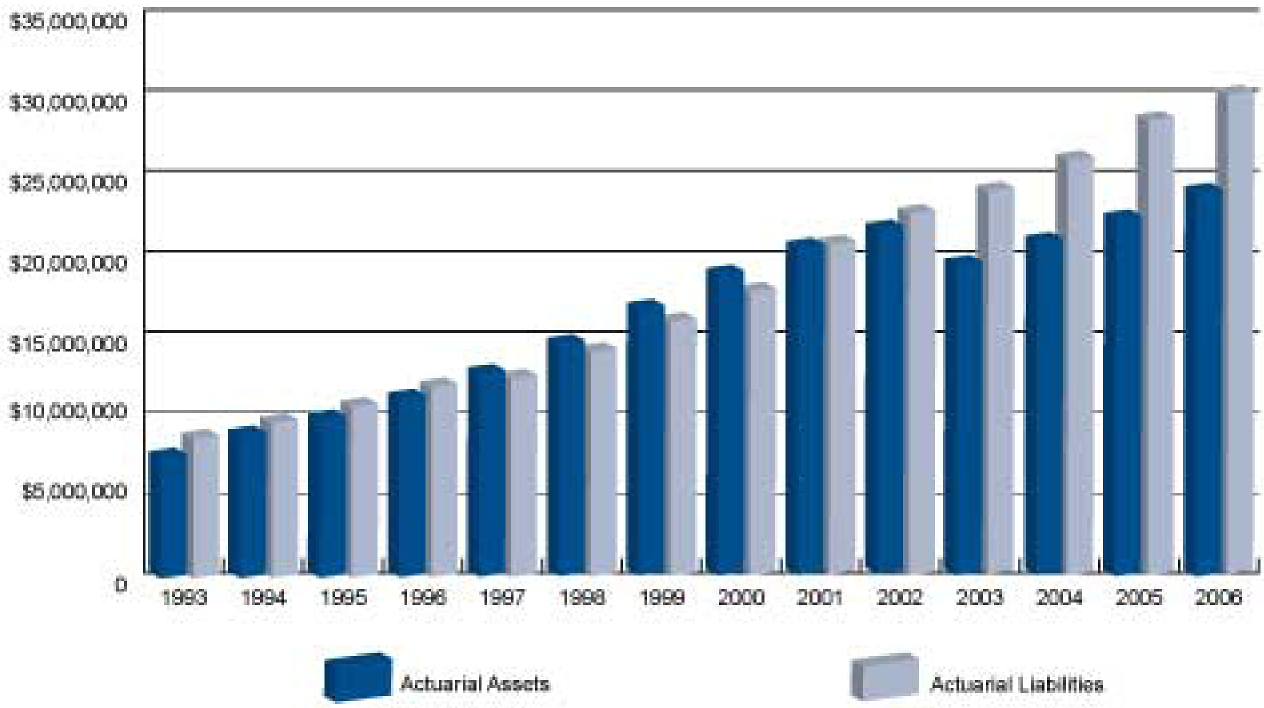
Retirement Effective Dates	Years of Service Credit 5 - 9.9	10 - 14.9	15 - 19.9	20 - 24.9	25 - 29.9	30+
2005-2006						
Average monthly benefit	$ 178	$ 370	$ 586	$ 822	$ 1,111	$ 1,451
Average final average salary	$ 1,611	$ 1,971	$ 2,134	$ 2,306	$ 2,564	$ 2,708
Number of retirees	310	184	165	177	156	77
2004-2005						
Average monthly benefit	$ 159	$ 401	(1)	$ 952	(2)	$ 1,468
Average final average salary	$ 1,454	$ 1,788	(1)	$ 2,427	(2)	$ 2,771
Number of retirees	306	366	(1)	322	(2)	97
2003-2004						
Average monthly benefit	$ 167	$ 402	(1)	$ 906	(2)	$ 1,250
Average final average salary	$ 1,519	$ 1,737	(1)	$ 2,305	(2)	$ 2,397
Number of retirees	222	338	(1)	306	(2)	71
2002-2003						
Average monthly benefit	$ 167	$ 373	(1)	$ 836	(2)	$ 1,335
Average final average salary	$ 1,519	$ 1,644	(1)	$ 2,115	(2)	$ 2,530
Number of retirees	222	324	(1)	335	(2)	58
2001-2002						
Average monthly benefit	$ 147	$ 345	(1)	$ 827	(2)	$ 1,150
Average final average salary	$ 1,382	$ 1,645	(1)	$ 2,102	(2)	$ 2,300
Number of retirees	230	371	(1)	354	(2)	84
2000-2001						
Average monthly benefit	$ 141	$ 310	(1)	$ 685	(2)	$ 876
Average final average salary	$ 1,363	$ 1,524	(1)	$ 1,894	(2)	$ 1,853
Number of retirees	217	374	(1)	306	(2)	67
1999-2000						
Average monthly benefit	$ 120	$ 1,128	(1)	$ 594	(2)	$ 3,514
Average final average salary	$ 1,188	$ 3,310	(1)	$ 1,735	(2)	$ 4,447
Number of retirees	213	218	(1)	307	(2)	912
1998-1999						
Average monthly benefit	$ 111	$ 270	(1)	$ 507	(2)	$ 824
Average final average salary	$ 1,190	$ 1,405	(1)	$ 1,580	(2)	$ 1,916
Number of retirees	187	300	(1)	259	(2)	50
1997-1998						
Average monthly benefit	$ 106	$ 265	(1)	$ 536	(2)	$ 735
Average final average salary	$ 1,112	$ 1,401	(1)	$ 1,633	(2)	$ 1,703
Number of retirees	193	344	(1)	24	(2)	53
1996-1997						
Average monthly benefit	$ 119	$ 250	(1)	$ 504	(2)	$ 710
Average final average salary	$ 1,206	$ 1,313	(1)	$ 1,571	(2)	$ 1,614
Number of retirees	184	301	(1)	269	(2)	57

Prior year data is not available in five-year service increments. Chart will be updated as data becomes available.

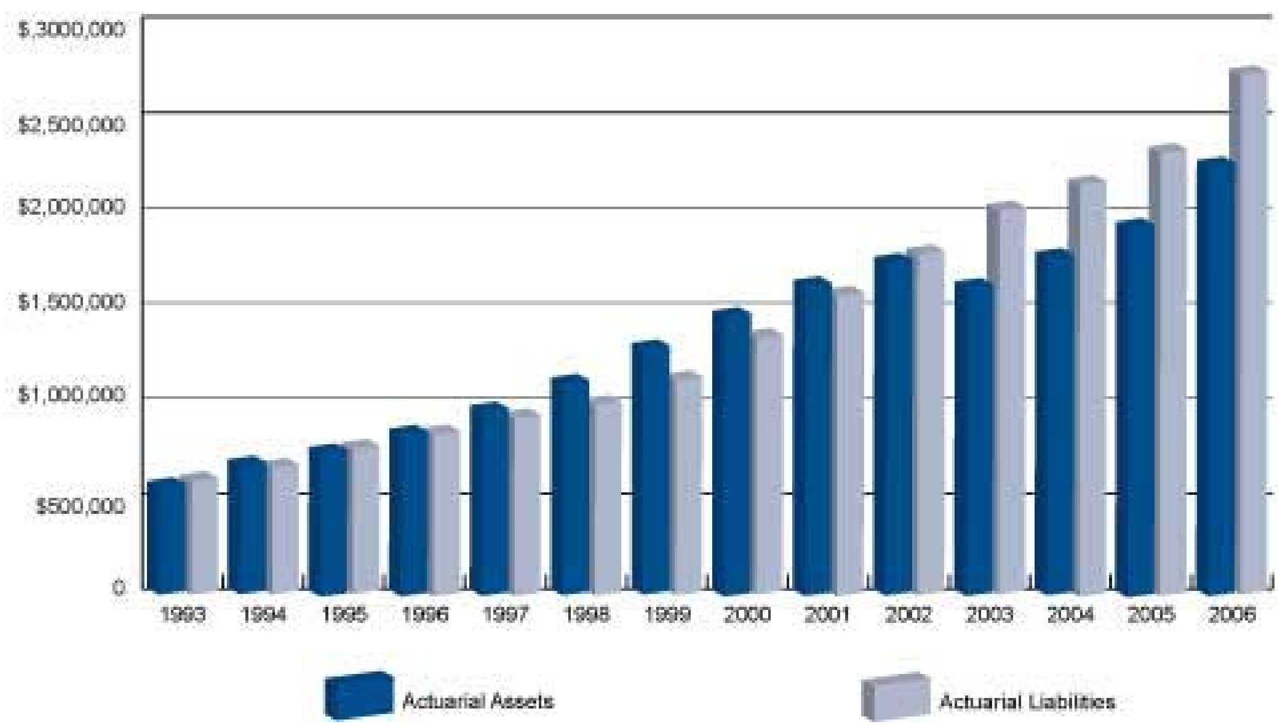
(1) Column to the left covers those with 10 to 19.9 years of service.

(2) Column to the left covers those with 20 to 29.9 years of service.

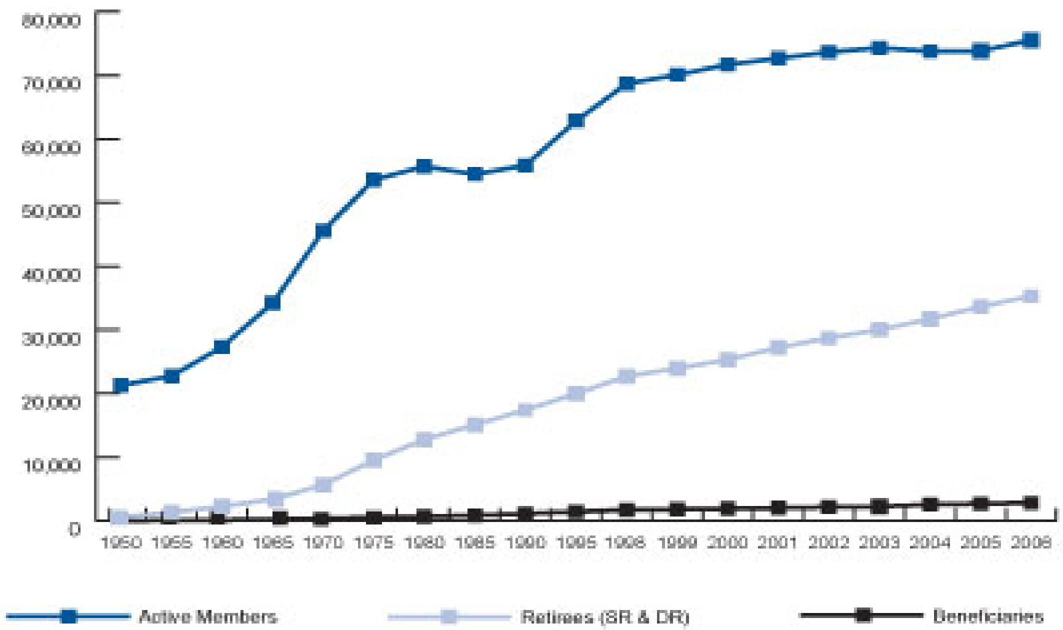
PSRS Comparison of Actuarial Assets and Total Actuarial Liabilities



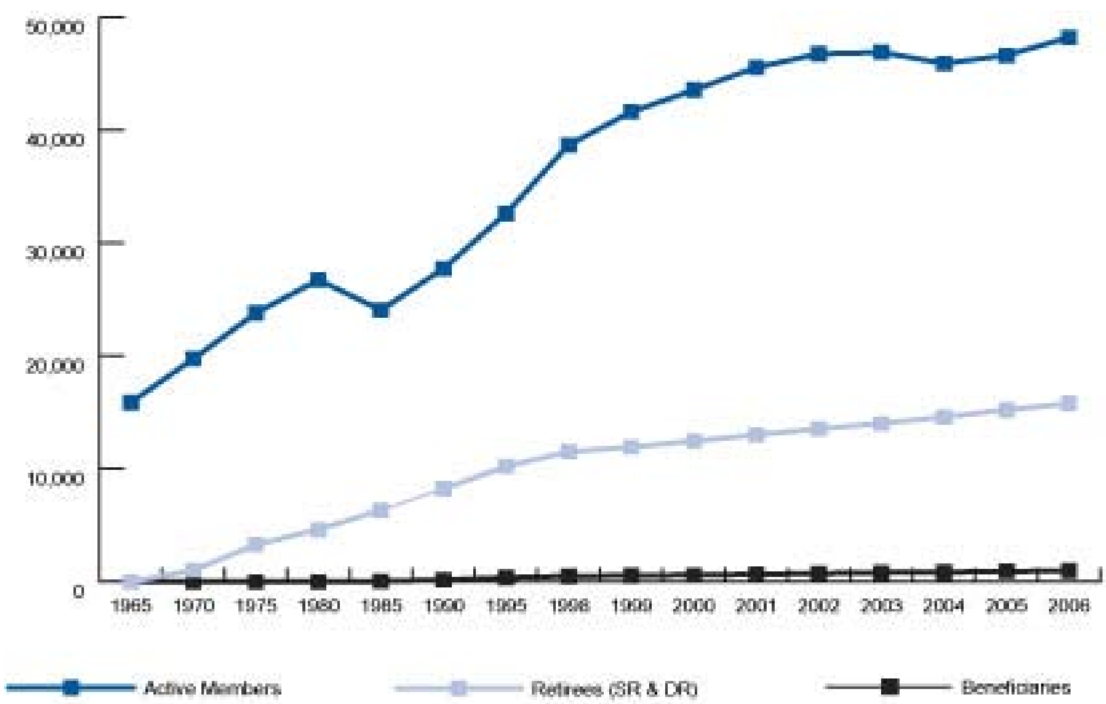
PEERS Comparison of Actuarial Assets and Total Actuarial Liabilities



PSRS Growth in Membership



PEERS Growth in Membership



PSRS Schedule of Covered Employees for the Eight Years Ended June 30, 2006

Public School Retirement System

District	2006 Covered Employees	2006 Percentage of Total	2005 Covered Employees	2005 Percentage of Total	2004 Covered Employees	2004 Percentage of Total
Special School District - St. Louis	2,809	4%	2,771	4%	2,799	4%
Springfield R-XII Schools	1,983	3%	1,914	3%	1,902	2%
Rockwood R-VI Schools	1,724	2%	1,690	2%	1,768	2%
Columbia Public Schools	1,533	2%	1,490	2%	1,500	2%
Parkway C-2 Schools	1,522	2%	1,575	2%	1,700	2%
Hazelwood R-I Schools	1,461	2%	1,486	2%	1,451	2%
North Kansas City Schools	1,450	2%	1,430	2%	1,494	2%
Francis Howell R-III Schools	1,444	2%	1,397	2%	1,464	2%
Ft. Zumwalt R-II Schools	1,340	2%	1,270	2%	1,259	2%
Lee's Summit R-VII Schools	1,262	2%	1,179	2%	1,178	2%
All Others	60,766	79%	59,427	79%	60,407	79%
Total - All Employers	77,294	100%	75,629	100%	76,922	100%

	2003 Covered Employees	2003 Percentage of Total	2002 Covered Employees	2002 Percentage of Total	2001 Covered Employees	2001 Percentage of Total
Special School District - St. Louis	2,647	3%	2,468	3%	2,454	3%
Springfield R-XII Schools	1,957	3%	1,980	3%	1,880	3%
Rockwood R-VI Schools	1,679	2%	1,564	2%	1,492	2%
Columbia Public Schools	1,510	2%	1,479	2%	1,444	2%
Parkway C-2 Schools	1,706	2%	1,832	2%	1,738	2%
Hazelwood R-I Schools	1,536	2%	1,474	2%	1,474	2%
North Kansas City Schools	1,489	2%	1,436	2%	1,436	2%
Francis Howell R-III Schools	1,461	2%	1,419	2%	1,375	2%
Ft. Zumwalt R-II Schools	1,264	2%	1,194	2%	1,187	2%
Lee's Summit R-VII Schools	1,186	2%	1,084	1%	1,025	1%
All Others	60,817	79%	59,663	79%	58,728	79%
Total - All Employers	77,252	100%	75,593	100%	74,233	100%

	2000 Covered Employees	2000 Percentage of Total	1999 Covered Employees	1999 Percentage of Total
Special School District - St. Louis	2,435	3%	2,316	3%
Springfield R-XII Schools	1,877	3%	2,002	3%
Rockwood R-VI Schools	1,447	2%	1,523	2%
Columbia Public Schools	1,382	2%	1,376	2%
Parkway C-2 Schools	1,729	2%	1,725	2%
Hazelwood R-I Schools	1,425	2%	1,370	2%
North Kansas City Schools	1,394	2%	1,334	2%
Francis Howell R-III Schools	1,444	2%	1,512	2%
Ft. Zumwalt R-II Schools	1,150	2%	987	1%
Lee's Summit R-VII Schools	972	1%	993	1%
All Others	57,599	79%	56,887	79%
Total - All Employers	72,854	100%	72,025	100%

Note: 10 years of data was not available in this format - additional data will be added next year.

PEERS Schedule of Covered Employees for the Eight Years Ended June 30, 2006

Public Education Employee Retirement System

	2006		2005		2004	
District	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total
Special School District - St. Louis	2,483	5%	2,467	5%	2,129	4%
Springfield R-XII Schools	1,374	3%	1,328	3%	1,333	3%
Rockwood R-VI Schools	1,177	2%	1,213	2%	1,230	3%
North Kansas City Schools	1,144	2%	1,117	2%	1,132	2%
Lee's Summit R-VII Schools	1,138	2%	1,072	2%	984	2%
Parkway C-2 Schools	1,120	2%	1,070	2%	1,145	2%
Ft. Zumwalt R-II Schools	1,023	2%	968	2%	952	2%
Columbia Public Schools	992	2%	957	2%	942	2%
Independence Public Schools	920	2%	910	2%	939	2%
Hazelwood R-I Schools	914	2%	912	2%	907	2%
All Others	37,874	76%	36,634	75%	36,473	76%
Total - All Employers	50,159	100%	48,648	100%	48,166	100%

	2003		2002		2001	
	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total
Special School District - St. Louis	2,044	4%	1,833	4%	1,833	4%
Springfield R-XII Schools	1,326	3%	1,407	3%	1,407	3%
Rockwood R-VI Schools	1,244	3%	1,148	2%	1,148	2%
North Kansas City Schools	1,163	2%	1,081	2%	1,084	2%
Lee's Summit R-VII Schools	983	2%	933	2%	933	2%
Parkway C-2 Schools	1,199	2%	1,278	3%	1,278	3%
Ft. Zumwalt R-II Schools	955	2%	668	1%	668	1%
Columbia Public Schools	954	2%	983	2%	983	2%
Independence Public Schools	899	2%	1,062	2%	1,068	2%
Hazelwood R-I Schools	963	2%	970	2%	970	2%
All Others	37,371	76%	36,399	76%	36,400	76%
Total - All Employers	49,101	100%	47,762	100%	47,772	100%

	2000		1999	
	Covered Employees	Percentage of Total	Covered Employees	Percentage of Total
Special School District - St. Louis	1,941	4%	1,792	4%
Springfield R-XII Schools	1,336	3%	1,254	3%
Rockwood R-VI Schools	1,164	3%	1,071	3%
North Kansas City Schools	1,070	2%	897	2%
Lee's Summit R-VII Schools	857	2%	672	2%
Parkway C-2 Schools	1,264	3%	1,080	3%
Ft. Zumwalt R-II Schools	623	1%	515	1%
Columbia Public Schools	898	2%	830	2%
Independence Public Schools	1,099	2%	843	2%
Hazelwood R-I Schools	958	2%	834	2%
All Others	34,963	76%	30,947	76%
Total - All Employers	46,173	100%	40,735	100%

Note: 10 years of data was not available in this format - additional data will be added next year.

For more information on The Public School Retirement System of Missouri and/or The Public Education Employee Retirement System of Missouri, write or call:

The Public School Retirement System of Missouri

P.O. Box 268
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Web site: www.psrs-peers.org

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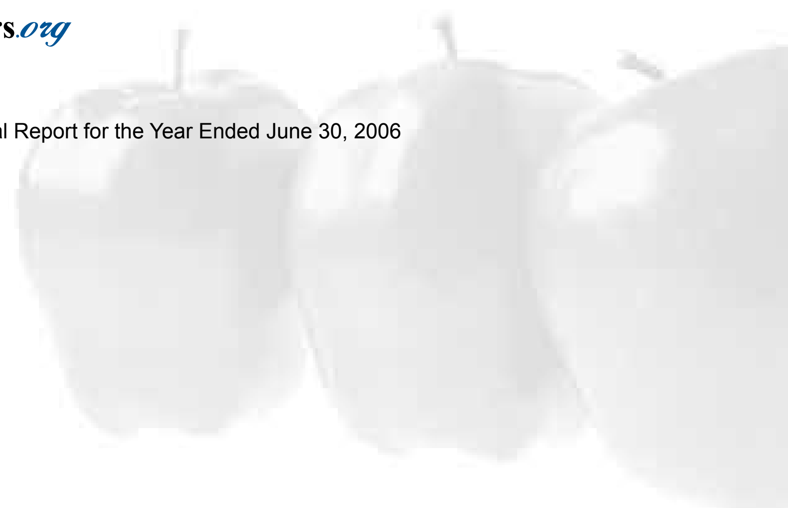
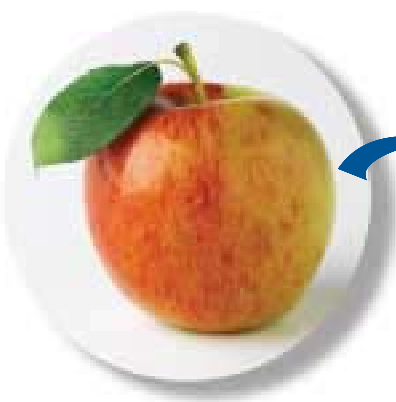


Comprehensive Annual Financial Report for the Year Ended June 30, 2006



Public School & Education Employee

PSRS/PEERS

Retirement Systems of Missouri

P.O. Box 268 • Jefferson City, MO 65102

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