

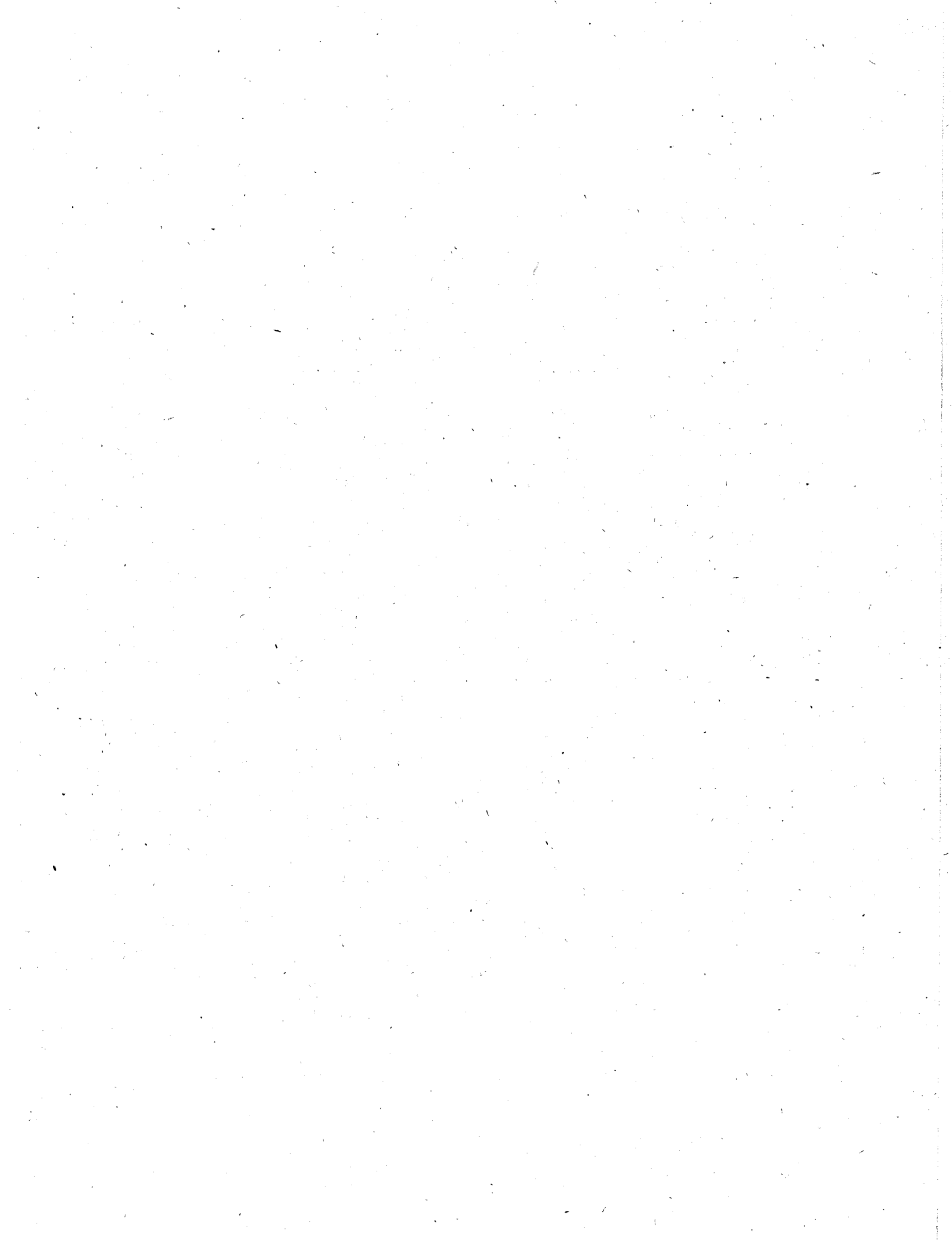
Public School Retirement System



of the City of
St. Louis

ANNUAL REPORT
CALENDAR YEAR 2001

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Board of Trustees

An eleven-member Board of Trustees is responsible for general administration of the Retirement System as well as investment of the System's assets. The Board of Education appoints four trustees; the Retirement System members elect seven. Terms of office are four years. Active Retirement System members elect five trustees – one administrator, two teachers, and two non-teachers. Retired members elect two trustees – one retired teacher and one retired non-teacher. As of January 1, 2002, the following individuals served on the Board of Trustees.

Appointed by the Board of Education

Marlene Davis
John P. Mahoney
Paulette McKinney
William Purdy

Elected by Active Members

Joseph Clark, Jr.
Amy S. Collins
Mary Franklin
Helen Lynch
John Miriani

Elected by Retired Members

Norbert Eisele
Lois Jean Turner

Administrative Staff

The Retirement System employs the administrative staff members listed below.

Executive Director	Gail A. Lakin
Director of Technology	Lonnie R. Caldwell
Accounting Specialist	Marty Winters
Insurance Benefits Specialist	Carolyn M. Feuchtenbeiner
Communications/Data Specialist	James U. Hammond
Member Services Supervisor	Amy Williams
Member Services Specialist	Harold Haberman
Member Services Specialist	Nicole Harris
Member Services Clerical Assistant	Rita E. Thiel

Professional Advisors

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

Legal Counsel	Jeffrey E. Hartnett Bartley, Goffstein, Bollato, and Lange
Investment Advisor	Doris Ewing New England Pension Consultants
Independent Auditor	Thomas S. Helm Huber, Ring, Helm & Co.
Actuary	James S. Rubie, Jr. W. Alfred Hayes & Company

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
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OFFICE OF THE
EXECUTIVE DIRECTOR

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April, 2002

On behalf of the Board of Trustees, I am pleased to present the Annual Report of the Public School Retirement System of the City of St. Louis for the fiscal year ended December 31, 2001. This report provides financial, investment, actuarial and statistical information about the Retirement System.

The Retirement System's management is responsible for the contents and presentation of material in this report. To the best of our knowledge, we believe the information in this report is accurate in all material respects. We also believe the information is presented in a manner that fairly represents the status of the Retirement System.

We hope you find the report informative and helpful.

The Year in Review

Cost of Living Adjustments (COLAs)

For the first time in the history of the Retirement System, the surviving beneficiaries of deceased members became eligible for the 3.0% Cost of Living Adjustment that was paid February 1, 2001. We thank the Board of Education for its support in providing this much-needed increase for our retired members and their beneficiaries.

Deferred Retirement Option Plan (DROP)

Effective July 1, 2001, a DROP became available to our members who might otherwise have elected to retire. The program, which permits active members to continue working while they defer receipt of their monthly pension benefits to a future time of up to four years, was extremely successful in attracting 276 participants by the end of 2001.

Activity Summary

During 2001, we processed 209 new retirements, 276 DROP Applications and 118 applications for Supplemental Pension Benefits under the Sick Leave Conversion Program sponsored by St. Louis Public Schools. In addition, we processed more than 500 distributions for members who left the System and we

extended a hearty welcome to more than 1,000 new members. To better serve our members and to accommodate increasing Charter School participation, we added two new staff positions during 2001. We increased our Member Services Unit by one position and added a Data/Communications Specialist. We hope that each of you who worked with us during 2001 had a good experience and won't hesitate to contact us with your future questions or problems.

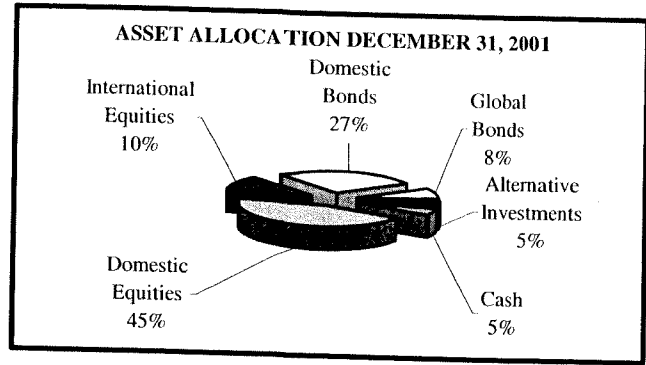
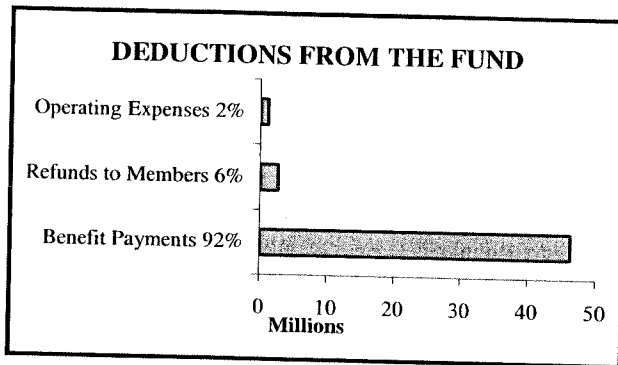
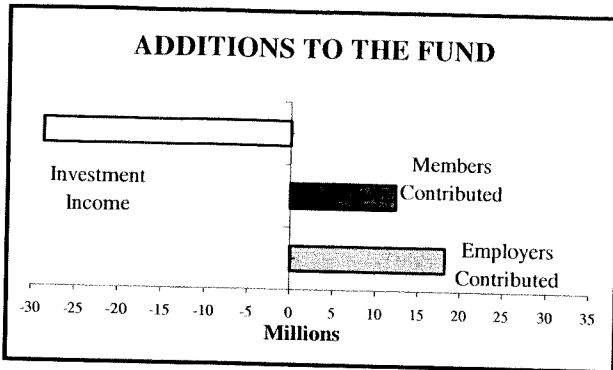
Financial Summary

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

The Retirement System's financial statements for the year ended December 31, 2001 were audited by Huber, Ring, Helm & Co., an independent accounting firm. Audited financial statements are contained in this Annual Report. Summary financial information is provided below.

Net Assets as of 12-31-2000	\$1,000,074,869
Additions	
Employer Contributions	18,213,595
Member Contributions	12,327,077
Net Investment Income (Loss)	(28,677,490)
Deductions	
Benefits Paid to Members	55,968,897
Refunds Paid to Members	2,436,665
Operating Expenses	<u>1,286,239</u>
Net Assets as of 12-31-2001	\$942,246,250

Additions and deductions from the fund are presented graphically below.



As we all know, both 2000 and 2001 were difficult years for the economic markets. Not since the early 1970s have our domestic markets, in general, declined for two consecutive years! For the three-year period ending December 31, 2001, the median public pension fund returned only 3.7%, which makes it a pleasure for me to report that our investments earned 5.6% for that three-year period. This performance ranked us in the 24th percentile of the public fund universe.

For calendar year 2001, even though the System's domestic equities were down a little more than 5.0%, our bond managers posted respectable returns that resulted in the System's financial investments losing only 2.0%. Our overall performance in calendar year 2001 ranked us in the 44th percentile of the public fund universe.

Additional investment information is provided in the Investment Information Section of this report.

Investment Performance

One of the most important decisions made by any board of trustees is how a retirement system's investments will be allocated and diversified among different asset classes. A fund's asset allocation is critical to mitigating volatility and improving long-term returns.

As of December 31, 2001, the System's assets were broadly diversified as follows.

Domestic Equities	44.75%
International Equities	10.45%
Domestic Fixed Income	27.26%
Global Bonds	7.79%
Cash	<u>4.75%</u>
Financial Composite	95%
Real Estate Investments	1.5%
Private Investments	3.5%
Alternative Investments	<u>5%</u>
Total Portfolio	100%

Actuarial and Funding Summary

Each year, the Retirement System has an independent actuarial valuation conducted. The valuation has two primary purposes:

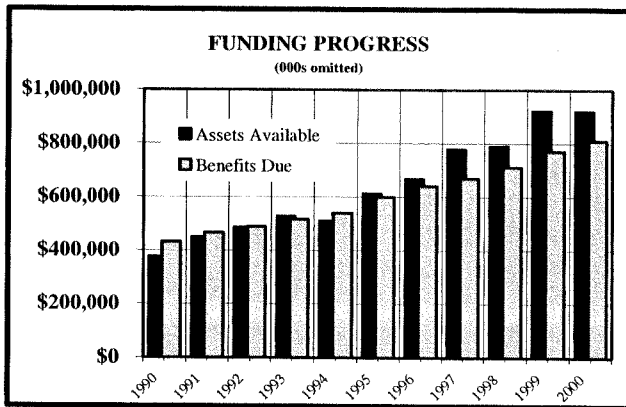
- to measure the relative financial condition of the System, and
- to determine the level of the annual contribution that should be made to the Retirement System during the upcoming year so that sufficient assets are available for benefit payments in the future.

The actuarial valuation as of January 1, 2001 recognized liabilities for the 3.0% COLA paid to retired members and their beneficiaries in 2001 and the increased compensation paid to members participating in St. Louis Public Schools' extended school year program.

With respect to its funding status, the annual valuation indicated that the Retirement System was 102% funded on an actuarial basis; and 114% funded on a market value basis. Additional detail about the System's funding status is provided in the Actuarial Section of this report.

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

<i>Projected Benefit Obligations</i>	\$810,729,056
<i>Net Assets Available for Benefits</i>	
Actuarial Value of Assets	\$828,097,298
Market Value of Assets	\$920,233,350
<i>Funding Ratio (Assets ÷ Obligations)</i>	
Actuarial Value Funding Ratio	102%
Market Value Funding Ratio	114%



It is the opinion of the independent actuary that if future contributions are made as recommended the Retirement System will continue to be funded on a sound actuarial basis.

Detailed actuarial information is provided in the Actuarial Section of this report.

Acknowledgments

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

I want to express my gratitude to the Board of Trustees for their support, their dedication, and the many hours of personal time they devoted to the System during the past year. I also want to recognize the outstanding quality of the services provided by the System's professional advisors. In addition, I want to thank the administrative staff for their enthusiastic assistance, expertise and hard work. The recent successes of the Retirement System have been made possible only through the efforts of these and many other individuals.

Sincerely,

Gail A. Lakin
Executive Director

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

FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

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INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

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

We have audited the accompanying statements of plan net assets of the Public School Retirement System of the City of St. Louis (the "System") as of December 31, 2001 and 2000 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, investments in partnerships amounting to \$41,304,911 and \$47,826,856 (4 percent in 2001 and 5 percent in 2000 of plan net assets) as of December 31, 2001 and 2000, respectively, have been valued at cost. Accounting principles generally accepted in the United States of America require these investments to be recorded at fair value, however, a reasonable estimate of fair value could not be made without incurring excessive costs. Therefore, these investments are recorded at cost. The affect on the financial statements of not applying adequate procedures to determine the fair value of these investments is not determinable.

In our opinion, except for the affects of the procedures used to determine the valuation of investments in partnerships at December 31, 2001 and 2000 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School Retirement System of the City of St. Louis as of December 31, 2001 and 2000 and changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Huber, Ring, Helm & Co., P.C.
St. Louis, Missouri
February 1, 2002

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

**STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

ADDITIONS	2001	2000
Employer Contributions	<u>\$18,213,595</u>	<u>\$17,401,208</u>
Member Contributions	<u>12,327,077</u>	<u>12,202,705</u>
	30,540,672	29,603,913
Net appreciation (depreciation) in fair value of investments		
Cash equivalents	1,754,363	3,457,966
Bonds		
U.S. Government and agency issues	10,370,515	17,829,632
Corporate	11,707,864	3,721,960
Common and preferred stock	(26,143,522)	2,101,484
Mutual funds	(18,443,476)	(11,337,984)
Real estate loans	26,580	38,501
Limited partnerships	(2,404,814)	2,235,657
Real estate partnerships	732,780	303,822
Venture capital partnerships	(2,366,229)	7,061,261
	<u>(24,765,939)</u>	<u>25,412,299</u>
Less investment expense	3,911,551	4,270,986
Net investment income (loss)	<u>(28,677,490)</u>	<u>21,141,313</u>
Total additions	1,863,182	50,745,226
DEDUCTIONS		
Benefits paid		
Retirement and death benefits	52,296,714	40,481,052
Supplemental payments	3,672,183	5,832,319
	<u>55,968,897</u>	<u>46,313,371</u>
Operating expenses	1,286,239	1,172,277
Contribution refunds due to death or resignation	2,436,665	2,786,072
Total deductions	<u>59,691,801</u>	<u>50,271,720</u>
NET INCREASE	(57,828,619)	473,506
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR AS REPORTED	1,000,074,869	999,601,363
END OF YEAR	<u>\$ 942,246,250</u>	<u>\$ 1,000,074,869</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF SYSTEM

General

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

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

Membership

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

	January 1, 2001	January 1, 2000
Active members	6,190	6,073
Inactive members	429	784
Total members not retired	<u>6,619</u>	<u>6,857</u>
Retired members		
Service and survivors	3,279	3,093
Disability	250	253
	<u>3,529</u>	<u>3,346</u>

Benefits

Upon retirement at age 65 (or at any age if age plus years of credited service add up to 85 or more), members receive monthly payments for life of yearly benefits equal to years of credited service multiplied by 2% of average final compensation, but not to exceed 60% of average final compensation.

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

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

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

NOTES TO FINANCIAL STATEMENTS**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Estimates***

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

Basis of Accounting

Plan member contributions of 5.0%, effective July 1, 1999, are mandatory and are recognized in the period in which contributions are due. Employer contributions to the plan are also mandatory and are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Tax Status

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

Method Used to Value Investments

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

The real estate loans have effective interest rates ranging from 8.75% to 17.5% with varying maturities up to 30 years and are stated at the outstanding principal balance, which approximates estimated fair value.

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

Real estate partnerships – insurance contracts

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

Net Appreciation (Depreciation) in Fair Value of Investments

Net appreciation (depreciation) in fair value of investments includes: realized gains (losses), unrealized appreciation (depreciation), dividends, interest, and other investment income. However, Limited, Real Estate and Venture Capital Partnerships are recorded at cost, which excludes unrealized appreciation (depreciation).

Furniture and Equipment

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

Reclassifications

Certain reclassifications have been made to prior year amounts to make them consistent with the 2001 presentation.

NOTES TO FINANCIAL STATEMENTS**NOTE 4 – FUTURE MINIMUM LEASE PAYMENTS**

The System leases office space under an operating lease expiring in August 2004. Rent expense for the years ended December 31, 2001 and 2000 was \$71,439 and \$69,422, respectively. Approximate future minimum lease payments for the remaining term of the lease are as follows:

<u>Year</u>	<u>Minimum Lease Payments</u>
2002	\$ 71,115
2003	72,204
2004	48,620
	<u>\$ 191,939</u>

NOTE 5 – CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments that potentially subject the System to concentrations of credit and market risk consist principally of cash and investments. The System places its temporary cash investments with major financial institutions. At December 31, 2001 and 2000 the System had approximately \$51,000,000 and \$52,000,000 in cash and cash equivalents at Firststar Bank. These balances were insured by the Federal Depository Insurance Corporation for \$100,000. The remaining balances are neither insured nor collateralized. A significant portion of the System's net assets are held by US Bank of St. Louis, N.A.

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

At December 31, 2001 the System had the following concentrations, defined as investments (other than those issued or guaranteed by the U.S. government) in any one organization that represent five percent or more of net assets held in trust for pension benefits:

	<u>Fair Value</u>
Mutual funds	
Putnam Investments - Putnam International Trust	<u>\$ 96,665,905</u>
Delaware Pooled Trust - Global Fixed Income Portfolio	<u>\$ 73,267,795</u>

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Independent Auditor's Report On Supplemental Information

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

Our report on our audits of the basic financial statements of the Public School Retirement System of the City of St. Louis for 2001 and 2000 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of funding progress and employer contributions are presented for the purpose of additional analysis and are a required part of the basic financial statements. The supplemental schedules of operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the System's management. All of the supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

St. Louis, Missouri
February 1, 2002

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SCHEDULE OF FUNDING PROGRESS (in millions)

DECEMBER 31, 2001

Actuarial Valuation Date <u>January 1,</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Frozen Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>
1990	373.3	460.7	87.4
1991	395.7	472.5	76.8
1992	427.8	502.0	74.2
1993	458.3	530.8	72.5
1994	487.4	557.9	70.5
1995	519.1	588.2	69.1
1996	562.2	664.8	102.6
1997	598.6	716.7	118.1
1998	644.4	759.7	115.3
1999	694.3	846.9	152.6
2000	770.1	937.7	167.6
2001	828.1	1,022.0	193.9

Actuarial Valuation Date <u>January 1,</u>	Funded Ratio <u>(a/b)</u>	Annual Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
1990	81.0	194.6	44.9
1991	83.7	198.5	38.7
1992	85.2	194.2	38.3
1993	86.3	194.6	37.3
1994	87.4	202.4	34.9
1995	88.3	207.1	33.3
1996	84.6	206.9	49.6
1997	83.5	210.2	56.2
1998	84.8	210.8	54.7
1999	82.0	215.6	70.8
2000	82.1	216.7	77.3
2001	81.0	235.1	82.5

See independent auditor's report on supplemental information.

SCHEDULE OF EMPLOYER CONTRIBUTIONS**DECEMBER 31, 2001****Employer Contributions**

Year Ended December 31,	Annual Required Contribution	Percent Contributed
1990	\$ 13,147,093	94.0%
1991	14,020,492	94.9%
1992	14,970,746	97.2%
1993	14,098,562	98.4%
1994	15,441,488	99.2%
1995	15,087,519	99.6%
1996	16,619,187	100.1%
1997	16,876,759	100.2%
1998	15,328,067	111.1%
1999	13,906,270	124.5%
2000	15,543,984	111.9%
2001	18,168,580	100.2%

The information presented in the required supplemental schedules was determined as part of the actuarial valuation prepared by W. Alfred Hayes and Company at January 1, 2001. Additional information related to the above actuarial valuation follows:

Actuarial cost method:	Frozen entry age.
Rate of investment return:	8% for 2001 and 2000, net of expenses.
Turnover or withdrawal rates:	Various by age and year of membership based on actual experience of the System.
Mortality or death rates:	1983 Group Annuity Mortality Tables for males and females is used for active members and the same table with ages set up one year for retired members and beneficiaries.
Disability rates:	Various by age of active members based on actual experience of the System.
Rates of retirement between ages of 55 and 70:	Various based on actual experience of the System.
Rate of salary increases:	Based on actual experience of the System, assumed to be 4.5%-6.0%.
Asset valuation method:	The assumed yield method of valuing assets, less the expense and contingency reserve.

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

See independent auditor's report on supplemental information.

**SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Actuarial services	\$ 192,420	\$ 191,305
Accounting and auditing fees	37,733	34,320
Computer programming and consultation	162,710	112,371
Convention, conferences, seminars		
Executive Director	5,219	4,149
Trustees (Page 15)	31,065	43,571
Dues and subscriptions	3,972	3,770
Furniture and equipment	22,749	43,879
Insurance - group hospitalization	43,234	30,967
Insurance - casualty and bonding	42,340	42,735
Legal fees and expense	60,152	55,131
Medical fees	2,429	2,157
Office repairs and maintenance	9,200	7,020
Office supplies and expense	14,018	8,761
Postage	48,321	48,970
Pension contribution	19,465	19,538
Printing and stationery	20,722	18,848
Rent and parking - office	72,589	70,502
Salaries - administrative and clerical	418,521	358,727
Payroll taxes	32,176	26,264
Telephone	21,553	9,023
Miscellaneous expense	25,651	40,269
	<u>\$ 1,286,239</u>	<u>\$ 1,172,277</u>

Trustees Expenses

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

	<u>2001</u>	<u>2000</u>
Transportation and registration	\$ 12,654	\$ 12,825
Lodging, meals, and miscellaneous	17,011	27,995
Other	1,400	2,751
Total	<u>\$ 31,065</u>	<u>\$ 43,571</u>

See independent auditor's report on supplemental information.

THE CAPITAL MARKET ENVIRONMENT

Domestic Stocks

Despite the efforts of the Federal Reserve to revive the economy by cutting interest rates eleven times during 2001, a recession was ultimately acknowledged following the tragic events of September 11th. Thus, with the exception of small cap stocks, which were up 2.5% during the year, generally, our domestic equity markets declined for the second year in a row.

Amid layoffs and market uncertainty, the S&P Index lost 11.9% for the year, with value stocks (down only 5.6%) outperforming growth stocks, which were down more than 20%.

Domestic Bonds

For the second consecutive year, bond markets outperformed most stock indices in 2001. Despite its 0.0% return in the fourth quarter, the Lehman Aggregate Index was up 8.4% for the year. In addition, even with the high rate of defaults and investors moving to quality, the high yield bond market posted a gain of 5.3% in the fourth quarter and 5.8% for the year.

International Markets

The international equity markets performed poorly during calendar year 2001, losing value for the second year in a row. The MSCI EAFE Index lost 21.4% for the year and emerging market equities were down 2.4%.

Primarily due to the strong U.S. dollar, global bonds continued to struggle during 2001, ending the year down 1.0%.

INVESTMENT PERFORMANCE

Investment Goals

The Retirement System has a well-diversified investment portfolio with long-term goals of earning a 9.0% return and exceeding the rate of inflation by 4.0%. Over the short-term (three to five years), the System's assets are structured to mitigate volatility while ranking in the top half of a universe of public funds.

Investment Performance

For the year ending December 31, 2001, the Retirement System's financial portfolio lost 2.0% and ranked in the 44th percentile in the Investment Consultants' Cooperative (ICC) Universe of Public Funds. This universe of public funds included 167 public funds with assets of \$416 billion. For the three-year period ending December 31, 2001, we ranked in the 24th percentile, earning a 5.6% return.

The Retirement System is a long-term, patient investor, believing that its well-diversified portfolio will ultimately revert to the long-term mean. With this in mind, we believe that our portfolio is well-positioned to participate in improved performance as the economy begins its rebound.

Investment performance by asset class for one and three year periods ending December 31, 2001 is set forth below.

	<u>One Year</u>	<u>Three Years</u>
<i>PSRS Total Portfolio</i>	-2.0%	5.6%
Allocation Index	-3.3%	1.8%
Median Public Fund	-2.1%	3.7%
<i>PSRS Domestic Equities</i>	-5.2%	6.8%
S&P 500	-11.9%	-1.0%
Median Public Fund	-8.8%	4.4%
<i>PSRS Domestic Bonds</i>	8.1%	5.1%
Lehman Aggregate Index	8.4%	6.3%
Median Public Fund	8.4%	6.4%
<i>PSRS International Equities</i>	-18.2%	5.0%
EAFE Index	-21.4%	-5.0%
MSCI Emerging Index	-2.4%	4.1%
Median International Fund	-18.0%	1.8%
<i>PSRS Global Bonds</i>	0.4%	-0.1%
Salomon Global Index	-1.0%	-1.3%
Median Global Bonds	3.1%	0.3%

INVESTMENT STATISTICS

The Investment Information Section of this report provides statistical information about the Retirement System's investment managers, securities held in the portfolio, and brokerage fees paid in 2001.

INVESTMENTS AS OF DECEMBER 31, 2001 (000s omitted)

Public School Retirement System of the City of St. Louis

Manager	Market Value	Percent of Fund	Management Style	Asset Class	Percent of Fund	Target
Buford, Dixon, Harper	\$13,072	1.4%	Large Cap Growth Equity			
Monetary Management	28,654	3.0%	Large Cap Growth Equity			
New Amsterdam	32,114	3.4%	Large Cap Growth Equity			
Weatherfield	19,259	2.0%	Large Cap Growth Equity	Large Cap Growth Domestic Equities	9.9%	10.0%
Batterymarch	27,921	3.0%	Large Cap Core Equity			
Conning Asset Management	22,659	2.4%	Large Cap Core Equity			
Todd Investment	32,447	3.4%	Large Cap Core Equity			
Progress Trust	10,976	1.2%	Large Cap Core Equity	Large Cap Core Domestic Equities	10.0%	10.0%
Chicago Equity	38,831	4.1%	Large Cap Value Equity			
Edgar Lomax Company	21,216	2.3%	Large Cap Value Equity	Large Cap Value Domestic Equities	6.4%	10.0%
Systematic Financial	42,458	4.5%	Small Cap Value Equity			
Westfield Capital	27,756	2.9%	Small Cap Growth Equity			
DFA	30,536	3.2%	Micro Cap Equity	Small/Micro Cap Domestic Equities	10.7%	5.0%
Calvert South Africa Fund	1,613	0.2%	Emerging Market Equity			
Putnam Investments	96,666	10.3%	International Equity	International Equities	10.4%	13.0%
Invesco Capital	99,967	10.6%	Balanced Fund	Balanced Fund	10.6%	10.0%
John Hancock	88,692	9.4%	Core Bond Fund			
MDL Capital	30,880	3.3%	Core Bond Fund			
Vanderbilt	87,447	9.3%	Core Bond Fund	Core Domestic Bonds	22.0%	20.0%
Credit Suisse	49,359	5.2%	High Yield Bond Fund	High Yield Domestic Bonds	5.2%	5.0%
Delaware International	73,268	7.8%	Global Bond Fund	Global Bonds	7.8%	10.0%
3 Partnerships	7,831	0.8%	Mezanine Debt			
6 Funds	14,015	1.5%	Real Estate			
13 Investments	25,488	2.7%	Venture Capital	Alternative Investments *	5.0%	7.0%
Cash	19,036	2.0%	STIF	Cash	2.0%	0%
Total Market Value	\$942,161	100.0%				100.0%

* Alternative Investments are valued at cost.

DOMESTIC EQUITY INVESTMENTS

2001 Return	-5.2%
Average Market Capitalization	\$61,013,400,000
P/E Ratio	19.67
Price/Book Ratio	4.15
Five Year Earnings Growth Rate	16.66

Ten Largest Equity Holdings					
<u>Company</u>	<u>Dollar Value</u>	<u>Percent of Portfolio</u>	<u>Company</u>	<u>Dollar Value</u>	<u>Percent of Portfolio</u>
Citigroup Inc.	\$9,920,616	2.3%	Intel Corp.	4,637,344	1.1%
Microsoft Corp.	7,667,522	1.8%	SBC Communications	4,548,328	1.1%
General Electric	7,329,787	1.7%	Merck & Co.	4,526,851	1.1%
Exxon Mobil Corp.	7,125,056	1.7%	Johnson & Johnson	4,427,877	1.0%
Focal Communications	6,701,582	1.6%	American Intel Group	4,339,272	1.0%

Ten Best Performing Equity Holdings			
<u>Company</u>	<u>Return</u>	<u>Company</u>	<u>Return</u>
Mercator Software I	667.0%	Chordiant Corp.	323.0%
Avant Corp	592.2%	Emulex Corp.	315.5%
Sigmatron Intl Inc.	432.0%	Netmanage Inc.	308.0%
Excelon Corp.	369.3%	On Technology Corp.	306.4%
Motient Corp.	366.7%	Ion Networks Inc.	305.6%

Ten Worst Performing Equity Holdings			
<u>Company</u>	<u>Return</u>	<u>Company</u>	<u>Return</u>
Valley Media Inc.	-99.9%	Track N Trail Inc.	-93.7%
House2home Inc.	-99.8%	Classic Communications	-92.9%
Metals USA Inc.	-95.9%	Harvard Inds. Inc. Co.	-92.1%
Wall Street Deli In	-95.7%	Act Manufacturing	-92.1%
Highlands Ins. Group	-95.5%	Netradio Corp.	-91.7%

DOMESTIC BOND INVESTMENTS

The System's domestic bond investments had an overall average maturity of 9.04 years, a duration of 5.22 years, and an average quality rating of 8.42. During 2001, the System's bond portfolio earned 8.0%. A statistical description of the bond investments is shown below.

Bond Portfolio Maturity in Years	Percent of Portfolio
0.0 - 1.0	4.5%
1.0 - 3.0	9.7%
3.0 - 5.0	18.9%
5.0 - 10.0	35.7%
10.0 - 20.0	0.7%
20 +	12.3%

Bond Portfolio Duration in Years	Percent of Portfolio
0.0 - 1.0	5.2%
1.0 - 3.0	16.9%
3.0 - 4.0	16.1%
4.0 - 6.0	19.8%
6.0 - 8.0	11.5%
8.0 +	12.1%

Bond Portfolio Quality Rating	Percent of Portfolio
Government (10)	43.7%
Aaa(10)	7.3%
Aa(9)	2.6%
A(8)	10.4%
Baa(7)	13.5%
Below Baa(6-1)	16.3%
Other	6.2%

BROKERAGE FEES

Brokerage Company	Commission	Brokerage Company	Commission	Brokerage Company	Commission
ABD Securities	\$168.00	First Union	90.00	Oppenheimer	1,162.00
Abel Noser Corp.	488.50	Gardner Rich & Co.	165.00	Pacific Equities Growth	2,012.50
Access Securities Inc.	3,799.50	Gerard Klauer Mattison	984.00	Paine Webber	445.00
Alex Brown & Sons	2,527.00	Goldman Sachs	7,504.69	Pershing	3,730.00
Allen & Co.	100.00	Herzog Heine	122.50	Prudential Securities	3,731.50
Autranet Inc.	5,730.00	Hoenig & Co. Inc.	1,967.50	R J Piper	471.00
Baird & Co.	108.00	Instinet	2,127.75	Sandler O'Neill	30.00
Baring Securities	376.50	Interstate Securities	615.00	Sanford Berstein	294.00
Bear Stearns	8,505.69	Investment Technology Group	12,817.09	SBC Capital Markets	15,085.80
Berean Capital	1,380.00	ISI Group Inc.	65.00	SK International	1,868.00
Berstein, Sanford & Co.	990.00	J P Morgan	2,722.50	Smith Barney	36.00
Boston Institutional Services	2,315.92	Jackson Partners	205.00	Solomon Brothers	10,760.78
Broadcourt	111,144.16	Jefferies	5,860.50	Standard Poor Securities	7,877.18
B-Trade Services Inc.	672.25	Kemper Capital Market	198.50	Stechler & Co.	23,007.72
Cantor Fitzgerald	3,690.76	Lehman Bros.	6,059.45	Stifel Nicolaus	1,290.00
Chicago Corp.	84.00	Lewco Securities	205.00	Sutro & Co.	672.00
County Natwest Securities	96.00	Liquidnet Inc	108.00	Thomson Institutional Services	108.00
Cowen & Co.	162.00	Loop Capital Mkts	2,662.20	Troster Singer	62.50
Croix Securities	1,329.00	Magna Securities	160.00	Utendahl Capital Partners	1,520.00
Donaldson Lufkin	3,135.00	Merrill Lynch Pierce	16,571.50	Weeden & Co.	3,085.50
Execution Services	9.00	Montgomery Securities	1,883.00	Weiss Peck & Greer	129.00
Factset Data Systems	4,791.00	Morgan Stanley	9,338.28	Wheat First Securities	161,105.80
Fidelity Capital Markets	1,341.50	Neuberger & Berman	100.00	Williams Capital Group	35.00
First Boston	9,006.74	NFSC	260.00	Wilshire Associates Inc.	76,300.15
Total Commissions					\$549,562.41

MARKET VALUE OF ASSETS

Investment Category	As of December 31, 1999		As of December 31, 2000		As of December 31, 2001	
	Market Value	% of Total	Market Value	% of Total	Market Value	% of Total
Cash, Receivables, Cash Equivalents	\$51,628,882	5.2%	\$55,833,843	5.6%	\$54,629,662	5.8%
U.S. Bonds, Bills and Mortgages	119,897,484	12.0%	152,626,142	15.2%	104,712,936	11.1%
Corporate Bonds	94,236,248	9.4%	115,611,809	11.5%	147,404,245	15.6%
Common Stocks	464,089,128	46.4%	396,377,582	39.6%	380,796,183	40.4%
Mutual Funds	230,041,087	23.0%	231,589,133	23.1%	213,058,724	22.6%
Real Estate - Insurance Contracts	1,359,330	0.1%	1,099,644	0.1%	1,020,690	0.1%
Mortgages	353,835	0.0%	276,617	0.0%	172,166	0.0%
Alternative Investments *	38,760,489	3.9%	47,826,856	4.8%	41,304,911	4.4%
Total	\$1,000,366,483	100.0%	\$1,001,241,626	100.0%	\$943,099,517	100.0%

* Carried at Cost Value

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

**ACTUARIAL VALUATION
AS OF JANUARY 1, 2001**

**NOVEMBER
2001**

PURPOSE OF THE REPORT

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

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

Information concerning the financial condition and factors affecting it will be found throughout the report. There is no generally accepted single measure or standard for determining whether or not a retirement system is "actuarially sound." The financial health of a retirement system is measured best on a relative basis. Results are compared over a period of years to determine whether adequate progress is being made in the funding of the system's liabilities. Another relative measure is the stability of the contribution rate, with recognition for changes in funding requirements due to changes in benefit provisions. The actuarial balance sheet also provides an indication of the relative financial condition of the plan.

COMMENTS

This actuarial valuation reflects the increase in benefits (the 3% COLA effective January 1, 2001 and the DROP effective July 1, 2001). These changes combined with unfavorable actuarial experience for the year ending December 31, 2000 resulted in an increase in the Annual Required Contribution rate from 7.17% to 7.73%. The primary factor producing the unfavorable experience was the unanticipated increase in compensation for members participating in the extended school year program. Offsetting the unfavorable demographic experience was a net investment return on an actuarial basis in excess of the 8.0% assumed rate of return for 2000.

Pursuant to Section 169.471 R.S. Mo. 1997, the Board of Education has adopted an increase in benefits (the DROP). As a part of the package to increase benefits, the Board of Education agreed to fix the employer contribution at 8.00% for 2001 and institute a one-year lag for future years. Therefore, this actuarial valuation is used to determine the actual contribution rate for 2002. The dollar amount of the actual contribution increased from \$17,400,968 to \$17,610,899 for 2001, and will increase to \$18,168,580 for 2002. As a percentage of covered compensation the actual contribution for 2002 will decrease from 8.00% to 7.73%.

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

For 2001, the annual normal cost is \$0 or 0.00% of the covered payroll of \$235,087,151.

The actuarial accrued liability contribution is determined as the amount necessary to amortize the remaining Unfunded Frozen Actuarial Accrued Liability (UFAAL) over a specified period of years. This portion of the contribution only changes to reflect changes in benefits or changes in actuarial assumptions and methods. The UFAAL was increased by \$30,413,346 to reflect the effect of the change in benefits.

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

Respectfully submitted,

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

**SUMMARY OF PRINCIPAL RESULTS OF THE
ACTUARIAL VALUATION AS OF JANUARY 1, 2001**

ANNUAL REQUIRED CONTRIBUTION

<u>2001</u>	<u>Board of Education</u>	<u>Harris-Stowe State College</u>	<u>Retirement System</u>	<u>Charter Schools</u>	<u>Total</u>
Normal Cost Contribution	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Actuarial Accrued Liability Contribution	17,862,598	10,079	30,295	265,608	18,168,580
Annual Required Contribution	\$ 17,862,598	\$ 10,079	\$ 30,295	\$ 265,608	\$ 18,168,580
Covered Payroll	231,127,985	130,420	391,991	3,436,755	235,087,151
ARC as % of Covered Payroll	7.73%	7.73%	7.73%	7.73%	7.73%

2000*

Normal Cost Contribution	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Actuarial Accrued Liability Contribution	<u>15,517,497</u>	<u>9,035</u>	<u>17,453</u>	<u>0</u>	<u>15,543,984</u>
Annual Required Contribution	\$ 15,517,497	\$ 9,035	\$ 17,453	\$ 0	\$ 15,543,984
Covered Payroll	216,330,219	125,957	243,307	0	216,699,483
ARC as % of Covered Payroll	7.17%	7.17%	7.17%	0.00%	7.17%

SYSTEM ASSETS

	<u>January 1, 2000*</u>	<u>January 1, 2001</u>
Expense and Contingency Reserve	\$ 77,995,894	\$ 79,841,519
Market Value, excluding Expense & Contingency Reserve	922,081,344	920,233,350
Actuarial Value	770,090,498	828,097,298

SYSTEM LIABILITIES

Unfunded Actuarial Accrued Liability	\$ 167,578,602	\$ 193,945,521
Actuarial Present Value of Projected Accrued Benefits	771,464,357	810,729,056

FUNDING RATIO

Actuarial Value Funding Ratio	99.8%	102.1%
Market Value Funding Ratio	119.5%	113.5%

* Prior year shown for comparison purposes only.

INTRODUCTION

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

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

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

ACTUARIAL ASSUMPTIONS

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

While care is taken in the selection of actuarial assumptions, actual experience is expected to deviate from these assumptions over the short term.

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

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

ACTUARIAL LIABILITIES

Actuarial liabilities include the actuarial present value of all future benefits and expenses. To determine the actuarial present value of all future benefits, the probability of future events that establish benefit payments is forecast utilizing the actuarial assumptions. System provisions and current member data are used to forecast the amount of benefits to be paid. Assumptions for survival among retired members and beneficiaries are used to estimate the duration of these benefit payments. Each probable benefit payment is then discounted to the valuation date using the actuarial assumption for investment return. These discounted payments are then summed to arrive at the total actuarial present value of benefits.

ACTUARIAL ASSETS

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

ACTUARIAL METHODOLOGY

ASSET VALUATION METHOD

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

ACTUARIAL BALANCE SHEET

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

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

ACTUARIAL COST METHOD

To determine the funding requirements of the system, it is necessary to employ an actuarial cost method. The choice of the cost method does not affect the balance sheet financial status, which is a function only of the system provisions, actuarial assumptions, member data and assets. However, the actuarial cost method has a direct impact on the incidence of the funding requirements.

The actuarial cost method allocates the actuarial present value of future employer contributions between the past and future, and thus establishes the Unfunded Actuarial Accrued Liability (UFAAL) and the Normal Cost. The actuarial cost method is specified in Section 169.490 of the statutes.

The funding requirement for each plan year is the sum of the "normal cost contribution" (equal to the normal cost for that year), plus the "actuarial accrued liability contribution." The UFAAL as of January 1, 1981 is amortized over the period ending October 13, 2011, while subsequent "supplements" are amortized over a period of 50 years from the year created. The "actuarial accrued liability contribution" is the sum of these amortization payments.

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

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

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

Actuarial Information

ACTUARIAL METHODOLOGY *(continued)*

The following actuarial assumptions were used in the valuation:

Interest - 8% per annum, net of expenses.

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

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

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

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

Withdrawal - Select and ultimate rates based on actual experience of the Retirement System are used. During the first three years of membership, the rates for members employed by employers *other* than Charter Schools are:

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

During the first three years of membership, the rates for members at Charter Schools are:

Year of Membership	Withdrawal Rate	
	Males	Females
1	50.0%	50.0%
2	25.0%	25.0%
3	15.0%	15.0%

Retirement - Retirements are assumed to occur at rates based on the actual experience of the Retirement System. Illustrative age-related rates are shown in Exhibit A. For those eligible to retire under the Rule of 85, it is assumed that 50% will retire when first eligible for unreduced benefits unless the age-related rate is greater, but not prior to 30 years of Credited Service 30 years of Credited Service.

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

ACTUARIAL ASSUMPTIONS

ACTIVE MEMBER RATES OF DECREMENT AND SALARY INCREASE

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

ACTIVE LIFE MORTALITY RATES

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

ACTUARIAL ASSUMPTIONS (continued)

RETIRED LIFE MORTALITY RATES
(SERVICE PENSIONERS AND BENEFICIARIES)

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

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

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

ACTUARIAL BALANCE SHEET AS OF JANUARY 1, 2001**Actuarial Assets**

Actuarial value of present assets	\$ 828,097,298
Actuarial present value of future member contributions	100,632,820
Actuarial present value of future employer contributions for:	
Normal Costs	(106,613,290)
Actuarial Accrued Liability	<u>193,945,521</u>
Total present and future assets	\$ 1,016,062,349

Actuarial Liabilities

Actuarial present value of benefits now payable	\$ 403,164,800
Actuarial present value of benefits payable in the future	
Active members -- New Plan	601,846,179
Active members -- Old Plan	163,877
Members on leave of absence without pay	1,404,794
Terminated members	<u>9,482,699</u>
Total payable in the future	<u>612,897,549</u>
Total liabilities for benefits	\$ 1,016,062,349

PROJECTED BENEFIT OBLIGATION FUNDING STATUS**Projected Benefit Obligation at January 1, 2001:**

Retired members and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	\$ 414,052,293
Current active members:	
Accumulated member contributions, including interest	127,086,325
Employer-financed vested benefits	267,865,362
Employer-financed non-vested benefits	<u>1,725,076</u>
Total Projected Benefit Obligation	\$ 810,729,056

At January 1, 2001, the Projected Benefit Obligation was funded as follows:

Net assets available for benefits at actuarial value	\$ 828,097,298
Unfunded Projected Benefit Obligation	(17,368,242)
Actuarial value funding ratio	102.1%
Net assets available for benefits at market value	\$ 920,233,350
Unfunded Projected Benefit Obligation	(109,504,294)
Market value funding ratio	113.5%

PRIORITIZED SOLVENCY TEST

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

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

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

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

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

Valuation Date	Actuarial Present Value of Credited Projected Benefits			Actuarial Value of Assets	Percent of Present Value Covered by Valuation Assets		
	(1) Active Members' Accumulated Contributions	(2) Retirants, Inactive Members & Beneficiaries	(3) Active Members (Employer-Financed)		(1)	(2)	(3)
January 1 1991	81,666,231	149,239,594	201,521,149	395,749,015	100	100	82
1992	88,975,156	163,137,064	214,404,373	427,706,455	100	100	82
1993	96,350,532	176,391,424	216,680,909	458,279,727	100	100	86
1994	104,202,541	189,651,537	222,503,913	487,385,302	100	100	87
1995	108,933,074	204,234,143	226,947,717	519,088,399	100	100	91
1996	114,061,708	236,007,330	250,659,986	562,177,274	100	100	85
1997	118,041,749	272,393,748	251,827,653	598,638,356	100	100	83
1998	122,227,173	296,455,647	252,445,749	644,429,672	100	100	90
1999	130,705,014	276,290,128	303,953,494	694,250,672	100	100	95
2000	129,398,364	353,852,977	288,213,016	770,090,498	100	100	100
2001	127,086,325	414,052,293	269,590,438	828,097,298	100	100	100

ACTUARIAL VALUE OF ASSETS

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

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

The fund had a rate of return of 11.08% on an actuarial value basis, 3.08% above the assumed rate of return of 8.0% for 2000. The rate of return on an actuarial value basis is intended to be a stable rate of return and fluctuate less than rates of return on book or market value basis. Thus, the rate of return on an actuarial basis is not always a fair measure of the investment performance of the fund. Another indicator of actual performance during the year is the rate of return on a market value basis of 2.52%.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial value of assets as of January 1, 2000	\$ 770,090,498
(2)	Member contributions	12,151,198
(3)	Employer contributions	17,452,715
(4)	Benefit payments and expenses	54,542,706
(5)	Investment increment at 8.0%	59,911,580
(6)	Expected actuarial value on January 1, 2001:	
	(1) + (2) + (3) - (4) + (5)	805,063,285
(7)	Market value of assets on January 1, 2001	1,000,074,869
(8)	Expense and Contingency Reserve on January 1, 2001	79,841,519
(9)	Excess of market value over expected actuarial value: (7) - (8) - (6)	115,170,065
(10)	Market value adjustment: 20% x (9)	23,034,013
(11)	Actuarial Value of Assets as of January 1, 2001: (6) + (10)	828,097,298

MEMBERSHIP AND BENEFITS PAID AS OF JANUARY 1, 2001

	Males	Females	Total
ACTIVE MEMBERS			
Old Plan	1	4	5
New Plan	<u>1,738</u>	<u>4,447</u>	<u>6,185</u>
Total Active	1,739	4,451	6,190
INACTIVE MEMBERS			
Terminated or Leave of Absence Without Pay	<u>139</u>	<u>290</u>	<u>429</u>
Total Members Not Retired	1,878	4,741	6,619
RETIRED MEMBERS AND BENEFICIARIES			
Retired Members and Contingent Annuitants	869	2,136	3,005
Survivors	43	231	274
Disabled Members	<u>73</u>	<u>177</u>	<u>250</u>
Total Retired Members and Beneficiaries	<u>985</u>	<u>2,544</u>	<u>3,529</u>
TOTAL MEMBERSHIP	2,863	7,285	10,148

NUMBER OF RETIRED MEMBERS AND BENEFICIARIES

<u>Option</u>	<u>Service Benefit</u>	<u>Disability Benefit</u>	<u>Survivor Benefit</u>	<u>TSA Benefit</u>	<u>COLA & Supplements</u>
0	2,628	234	274	54	1,658
1	98	10	0	1	54
2	68	0	0	3	39
3	108	2	0	0	51
4	<u>103</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>44</u>
Total	3,005	250	274	58	1,846

AMOUNT OF ANNUAL BENEFIT

<u>Option</u>	<u>Service Benefit</u>	<u>Disability Benefit</u>	<u>Survivor Benefit</u>	<u>TSA Benefit</u>	<u>COLA & Supplements</u>
0	\$38,143,752	\$1,884,260	\$1,910,726	\$51,188	\$1,641,503
1	1,356,431	93,034	0	3,034	30,568
2	1,125,476	0	0	2,398	31,683
3	1,595,771	16,401	0	0	30,005
4	<u>1,965,829</u>	<u>44,844</u>	<u>0</u>	<u>0</u>	<u>23,975</u>
Total	\$44,187,259	\$2,038,539	\$1,910,726	\$56,620	\$1,757,734

Background

The Public School Retirement System of the City of St. Louis was established and became effective January 1, 1944. It provides retirement, disability, death, and survivor benefits for eligible employees of the St. Louis Public School District, employees of Charter Schools located in St. Louis, employees of the Retirement System, and certain employees of Harris-Stowe State College.

Members of the Retirement System are also covered by Social Security, and are eligible for full Social Security benefits in addition to their benefits from the Retirement System.

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

A summary of the primary benefit provisions of the Retirement System as of December 31, 2001 follows. These provisions apply for all but a few active members who elected to remain under provisions of the law as of October 13, 1961.

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

Eligibility for Benefits

Normal Pension

Members become eligible for Normal Pension when they attain age 65 or when the sum of their years of Credited Service plus their age equals at least 85 (known as the Rule of 85).

Early Pension

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

Disability Pension

Members unable to perform their job duties due to physical or mental incapacity who are not eligible for Normal Pension will qualify for Disability

Pension if: (a) they have at least five years Credited Service, and (b) they are recommended for Disability Pension by the Medical Board, and (c) their Disability Pension is approved by the Board of Trustees.

Benefit Amounts

Benefit calculations require determining a member's:

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

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

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

Normal Pension

A Normal Pension is a lifetime monthly benefit equal to 2.0% of a member's Average Final Compensation multiplied by the member's years of Credited Service; however, the monthly benefit will not exceed 60% of the member's Average Final Compensation. In addition, members retiring at or after attaining age 65 with at least five years of Credited Service will be entitled to a minimum monthly benefit equal to \$10 for each year of Credited Service up to \$150.

Early Pension

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

Disability Pension

A Disability Pension is a lifetime monthly benefit (subject to verification of continued disability and certain earnings limitations) that is the greater of (a) a benefit calculated in the same manner as a Normal Pension as if the member were age 65, or (b) one-fourth (1/4) of a member's Average Final

Summary of Benefits

Compensation; however, a Disability Pension cannot exceed what a member's Normal Pension would have been if the member had continued to work until he/she became eligible for Normal Pension.

Benefit Payment Options

Members may elect an optional form of payment that will coordinate their monthly pension benefits with estimated Social Security benefits and/or that will pay them reduced monthly pension benefits so that payments can continue to an Option Beneficiary after their death. The amount of the reduction is determined by the difference in age between a member and his/her Option Beneficiary.

Seven Benefit Payment Options are available.

- *Option 1* provides that upon a member's death, the member's reduced monthly benefit will continue to the member's Option Beneficiary for the Option Beneficiary's lifetime.
- *Option 2* provides that upon a member's death, one-half (1/2) of the member's reduced monthly benefit will continue to the member's Option Beneficiary for the Option Beneficiary's lifetime.
- *Option 3* is like Option 1, except that if the Option Beneficiary predeceases the member, the member's monthly benefit increases to what it would have been if the member had not elected a Benefit Payment Option.
- *Option 4* is like Option 2, except that if the Option Beneficiary predeceases the member, the member's monthly benefit increases to what it would have been if the member had not elected a Benefit Payment Option.
- *Option 5* provides that a member's monthly pension benefit prior to age 62 will be increased to an amount such that his/her monthly pension benefit prior to age 62 will be approximately equal to the sum of his/her monthly pension benefit after age 62 plus estimated Social Security benefits.
- *Option 6* is a combination of Options 1 and 5. Option 6 provides a monthly pension benefit that adjusts for a member's estimated Social Security benefits based on the date the member will attain age 62, or would have attained age 62, and provides that upon the member's death, the amount of the member's adjusted monthly pension benefit will continue to the member's

Option Beneficiary for the Option Beneficiary's lifetime.

- *Option 7* is a combination of Options 2 and 5. Option 7 provides a monthly pension benefit that adjusts for the member's estimated Social Security benefits based on the date the member will attain age 62, or would have attained age 62, and provides that upon the member's death, one-half of the amount of the member's adjusted monthly pension benefit will continue to the member's Option Beneficiary for the Option Beneficiary's lifetime.

Death and Survivor Benefits

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

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

In the context of discussing survivor benefits:

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

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

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

If the surviving spouse is under age 62 when the youngest eligible child reaches the age of 22, the benefit will cease, but will resume when the surviving spouse attains age 62.

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

Upon the death of an active member with at least five years of Credited Service, if the member designated a dependent beneficiary, the beneficiary may elect to receive the member's pension benefit under Benefit Payment Option 1 in lieu of receiving a refund of the member's accumulated contributions and interest thereon.

If the deceased member was less than age 60 at the time of death, the Option 1 payment due the dependent beneficiary will be computed as if the deceased member had attained age 60 and retired under Option 1 as of the date of his/her death.

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

Termination of Employment

Refund

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

Rollover

At a member's election, that portion of a refund that is eligible for rollover treatment may be transferred to a member's IRA or to another qualified plan to preserve its tax-deferred status. Rollovers are subject to applicable provisions of the Internal Revenue Code at the time of the distribution.

Pension Benefit

In lieu of a refund or rollover, members with five or more years of Credited Service may elect to leave their contributions with the Retirement System and

receive a Normal or Early Pension upon becoming eligible. The benefit paid to a terminated, vested member is based on the member's Credited Service, Average Final Compensation, and benefit provisions in effect at the time of the member's employment termination.

Retirement System Funding

The Retirement System is funded by:

Member Contributions

Except members employed by Harris-Stowe State College, active members are required to contribute 5.0% of their Compensation. Member contributions are withheld from members' pay on a tax-deferred basis.

Employer Contributions

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

Investment Income

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

Health Insurance

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

Surviving spouses of deceased retired members are eligible to retain health care insurance after the death of the member.

Surviving spouses of deceased active members who elect to receive monthly benefit payments under Option 1 may also be eligible for health insurance coverage for themselves and for otherwise eligible children of deceased active members.

Summary of Benefits

Supplements and COLAs

Supplements

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

COLAs

Members who retired with at least 15 years of Credited Service on or before August 28, 1997 received annual Cost-of-Living Adjustments (COLAs) based on the Consumer Price Index (CPI). COLA adjustments were equal to any increase of 1% or greater in the CPI, subject to an annual maximum of 3% and a cumulative maximum increase of 10%.

Effective July 1, 2000, retired members and the surviving dependents of retired members received a catch-up Cost of Living Adjustment (COLA) to assure that the monthly benefit of every retired member and surviving dependent reflected at least 65% of the Consumer Price Index for each year since the beneficiary's payments began.

Effective January 1, 2001, members who retired on or before January 1, 2000, and the beneficiaries of such retired members, received a COLA of 3%.

The information presented below shows how member benefit payments have increased and how the assets of the Retirement System have grown since the Retirement System was established in 1944.

