2005 Annual Report

The Public School Retirement System of the City Of St. Louis

This page is intentionally left blank.

Board of Trustees

An eleven-member Board of Trustees is responsible for general administration of PSRSSTL as well as investment of PSRSSTL assets. The Board of Education appoints four trustees; PSRSSTL members elect seven. Terms of office are four years. Active PSRSSTL 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. At May 1, 2006, the following individuals served on the Board of Trustees.

Administrative Staff

PSRSSTL employs the administrative staff members listed below.

Executive Director	Andrew Clark
Publications/LAN Manager	James U. Hammond
Technology Manager	Thomas Kinealy II
Accounting Specialist	Marty Winters
Insurance Benefits Specialist	Beverly Wessels
Member Services Specialist	Angela Johnson
Member Services Specialist	Stephanie L. Johnson
Member Services Clerical Assistant	Brenda Buggs

Professional Advisors

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

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

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
ONE U.S. BANK PLAZA, SUITE 2510
ST. LOUIS, MO 63101-1657

OFFICE OF THE EXECUTIVE DIRECTOR

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

May, 2006

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 (PSRSSTL) for the fiscal year ended December 31, 2005. This report provides financial, investment, actuarial and statistical information about PSRSSTL.

PSRSSTL 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 PSRSSTL.

The Year in Review

During 2005, we processed 304 new retirements and 177 applications for Supplemental Pension Benefits under the Sick Leave Conversion Program sponsored by St. Louis Public Schools. In addition, we processed more than 1,183 distributions for members who left PSRSSTL and we extended a hearty welcome to 507 new members.

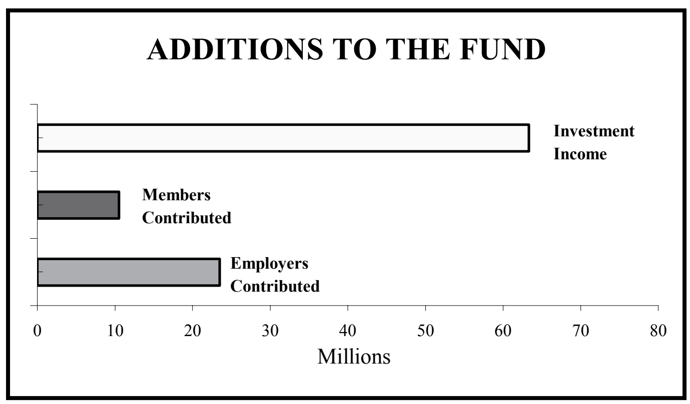
Financial Summary

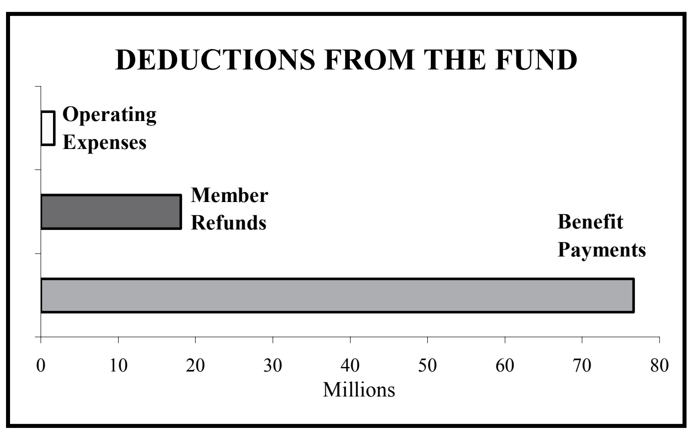
PSRSSTL management is responsible for maintaining appropriate internal accounting and procedural controls. These controls provide reasonable assurance that PSRSSTL assets are protected from loss due to unauthorized use or disposition, that financial transactions are executed in accordance with proper authorization, and that transactions are recorded accurately to facilitate the annual preparation of audited financial statements.

Huber, Ring, Helm & Co., an independent accounting firm, audited PSRSSTL financial statements for the year ended December 31, 2005. This Annual Report contains those audited financial statements in their entirety. Summary financial information is provided as follows.

Net Assets as of 12-31-2004	$1,060,577,177
Additions	
Employer Contributions	23,514,266
Member Contributions	10,515,674
Net Investment Income (Loss)	63,349,054
Deductions	
Benefits Paid to Members	76,653,091
Refunds Paid to Members	18,067,968
Administrative Expenses	1,756,223
Net Assets as of 12-31-2005	$1,061,478,889

Additions and deductions from the fund are presented graphically below.





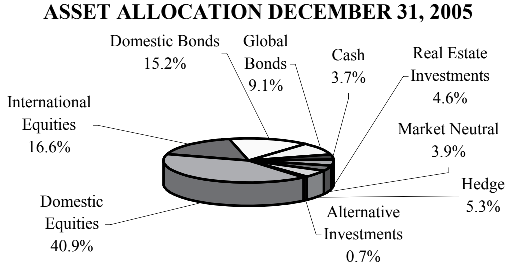
Investment Performance

Proper asset allocation is important for controlling volatility and increasing the probability of favorable long-term investment returns. Members entrust its Board of Trustees with making vital decisions to properly allocate and diversify the Plan investments among different asset classes.

As of December 31, 2005, PSRSSTL assets were broadly diversified as follows.

Domestic Equities	40.9%	
International Equities	16.6%	
Domestic Fixed Income	15.2%	
Global Fixed Income	9.1%	
Cash	3.7%	
Financial Composite		85.5%
Real Estate Investments		4.6%
Market Neutral		3.9%
Hedge Funds		5.3%
Alternative Investments		0.7%
Total Portfolio		100%

ASSET ALLOCATION DECEMBER 31, 2005



The return on PSRSSTL *investments* was 6.9% for fiscal year 2005 and 12.0% for fiscal year 2004. Returns are attributed to the performance of financial markets, conscientious re-balancing of the portfolio to maintain the PSRSSTL Asset Allocation Policy, and active management by the Board of Trustees in retaining quality investment managers while focusing on long-term PSRSSTL investment objectives.

During 2005, the Core-S&P 500 increased 2.1% in the fourth quarter, capping off at 4.9% for the year. The Russell 2000 Growth Index was up 1.6% the fourth quarter and finished at 4.1% for the year.

Overall, financial markets posted positive results in the last quarter of 2005. Domestic equity markets rose modestly, capping off three consecutive years of gain. PSRSSTL domestic bonds were up 2.9% in 2005 with a 6.8% return over the 5-year period.

In contrast, for year ending 2005, the Lehman Aggregate Bond Index rose 2.4% and the Citigroup High Yield Bond rose 2.1%.

International stock markets performed well for the year with the MSCI EAFE (the benchmark for international equities) and MSCI Emerging Market Indices posting returns of 13.5% and 34.1% respectively for 2005. Citigroup World Government Global Bonds Index performed unsatisfactorily during the fourth quarter which contributed to an overall loss of -6.9% for the year.

Notwithstanding, the well-diversified PSRSSTL portfolio allowed for a favorable investment year. Over a three-year period ending December 2005, the PSRSSTL portfolio returned 13.7%, ranking in the top 38% of public pension systems.

Focusing on the long-term PSRSSTL investment horizon, for the five-year period ending December 31, 2005, the PSRSSTL portfolio earned 6.2% ranking in the top 21% of public plans.

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

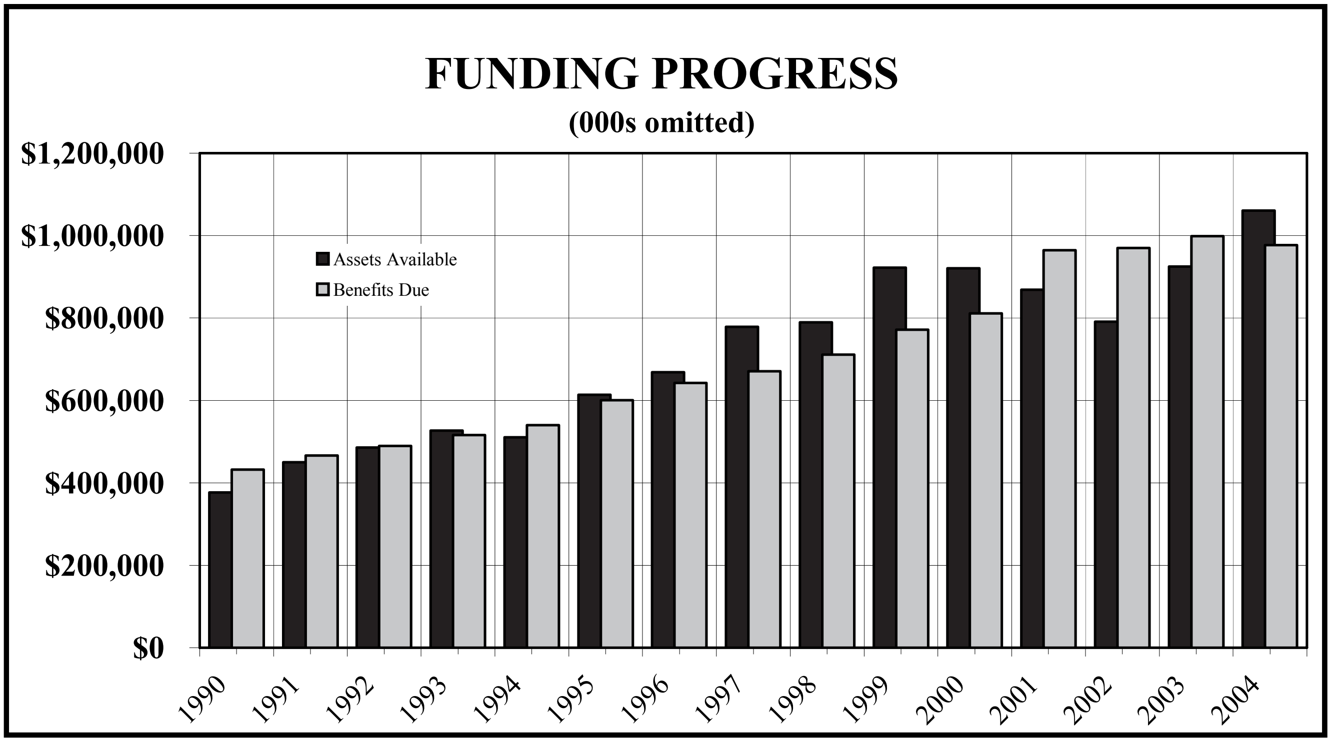
Actuarial and Funding Summary

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

The annual valuation as of January 1, 2005 indicated PSRSSTL was 95.7% funded on an actuarial basis and 101.9% funded on a market value basis. Additional detail about the funding status of PSRSSTL is provided in the Actuarial Section of this report.

In summary, as measured at the beginning of 2005, PSRSSTL benefit obligations and the assets available to satisfy those obligations are set forth as follows:

Projected Benefit Obligations	$976,897,316
Net Assets Available for Benefits	
Actuarial Value of Assets	$935,328,638
Market Value of Assets	$1,060,577,177
Funding Ratio (Assets ÷ Obligations)	
Actuarial Value Funding Ratio	95.7%
Market Value Funding Ratio	101.9%



As discussed in the Financial and Investment Sections of this report, it is noteworthy that the market value of PSRSSTL assets increased from $925,312,217 at the beginning of 2004 to $1,060,577,177 at the beginning of 2005.

It is the opinion of the independent actuary, assuming future contributions will be made as recommended, that PSRSSTL will continue to be funded on a sound actuarial basis.

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

Acknowledgments & Reflections

I want to take this time to applaud the efforts of the Board of Trustees for their tireless dedication, enthusiasm, and personal time they devoted to the PSRSSTL during the past year. I also want to recognize the outstanding quality of services provided by the PSRSSTL professional advisors.

An organization is only as good as the internal staff that supports it. I want to thank the staff for their hard work, expertise, and loyalty. Their integrity and professionalism ensures that PSRSSTL operates efficiently and continues to be a strong dependable pension organization.

Furthermore, I want to thank our members and their employers. They are the cornerstone of our existence. Their devotion to education preserves the future of St. Louis and helps guarantee the stability of the PSRSSTL. Their financial contributions along with the return on prudent investments continue to allow the PSRSSTL to prosper. As we complete our sixty-second year, we continue to look forward to future opportunities to enhance the well-being and financial security of our members.

Sincerely,

Andrew Clark
Executive Director

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS

FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

1600 S. Brentwood Blvd.
Suite 600
St. Louis, MO 63144
(314) 962-0300
(314) 962-9474 fax

HUBER RING HELM & CO.
A Professional Corporation of Certified Public Accountants

3660 W. Clay
St. Charles, MO 63301
(636) 946-3366
fax (636) 946-0753

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, 2005 and 2004 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 $15,243,782 and $22,031,393 (1% in 2005 and 2% in 2004 of plan net assets) as of December 31, 2005 and 2004, 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 effect on the financial statements of not applying adequate procedures to determine the fair value of these investments is not determinable.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

In our opinion, except for the effects of the procedures used to determine the valuation of investments in partnerships at December 31, 2005 and 2004 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, 2005 and 2004 and changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental management discussion and analysis on pages 1 - 4, and the supplemental schedules of funding progress and employer contributions on pages 19 - 20 are not a required part of the basic financial statements of the System, but are supplemental information required by the Governmental Accounting Standards Board. For the supplemental management discussion and analysis, and schedules of funding progress and employer contributions, and schedule of operating expenses found on pages 21-22, we have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Huber, Ring, Helm + Co., P.C.
St. Louis, Missouri
January 27, 2006

STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2005 AND 2004

ASSETS

	2005	2004
CASH	$ 7,863,658	$ 7,560,170
BUILDING PROJECT	2,205,134	
RECEIVABLES		
Accrued interest and dividends	4,601,937	4,731,425
Contributions	10,102	39,910
	4,612,039	4,771,335
INVESTMENTS, at fair value		
Cash equivalents	38,514,950	42,809,647
Bonds		
U.S. Government and agency issues	66,801,915	68,052,963
Corporate	80,801,056	87,503,497
Foreign corporate and government bonds	91,171,180	65,059,609
Foreign common stocks	60,930,056	45,210,915
Common and preferred stocks	360,444,537	360,491,905
Mutual funds	291,258,639	321,796,877
Real estate partnerships - insurance contracts	42,604,405	36,157,517
	1,032,526,738	1,027,082,930
INVESTMENTS, at estimated fair value		
Real estate loans, first mortgages	63,304	93,325
INVESTMENTS, at cost		
Limited partnerships	2,633,668	5,772,973
Real estate partnerships - other	6,872,618	9,451,298
Venture capital partnerships	5,737,496	6,807,122
	15,243,782	22,031,393
Total investments	1,047,833,824	1,049,207,648
Total assets	1,062,514,655	1,061,539,153

LIABILITIES

	2005	2004
CURRENT LIABILITIES		
Accounts payable and accrued expenses	982,834	851,326
Advance contributions received	52,932	110,650
Total current liabilities	1,035,766	961,976
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
(A schedule of funding progress is presented on page 19.)	$ 1,061,478,889	$ 1,060,577,177

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS
DECEMBER 31, 2005 AND 2004

ADDITIONS	**2005**	**2004**
Employer Contributions	$23,514,266	$26,406,806
Member Contributions	10,515,674	10,825,664
	34,029,940	37,232,470
Net appreciation (depreciation) in fair value of investments		
Cash equivalents	1,070,169	341,329
Bonds		
U.S. Government and agency issues	1,706,136	4,414,347
Corporate	2,492,925	14,445,756
Income from foreign corporate and government bonds	(3,274,159)	12,810,252
Common and preferred stock	22,752,559	46,217,305
Mutual funds	30,233,783	39,295,775
Real estate loans	10,066	11,889
Limited partnerships	(206,558)	(592,346)
Real estate partnerships	6,954,269	1,185,697
Venture capital partnerships	5,822,225	4,972,447
	67,561,415	123,102,451
Less investment expense	4,212,361	3,590,775
Net investment income (loss)	63,349,054	119,511,676
Total additions	97,378,994	156,744,146
DEDUCTIONS		
Benefits paid		
Retirement and death benefits	73,994,518	68,008,801
Health care subsidies and supplemental payments	2,658,573	2,593,142
	76,653,091	70,601,943
Operating expenses	1,756,223	1,391,243
Contribution refunds due to death or resignation	18,067,968	13,274,756
Total deductions	96,477,282	85,267,942
NET INCREASE	901,712	71,476,204
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR AS REPORTED	**1,060,577,177**	**989,100,973**
END OF YEAR	**$ 1,061,478,889**	**$ 1,060,577,177**

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, of 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, 2005	January 1, 2004
Active members	5,549	6,074
Inactive members	548	509
Total members not retired	6,097	6,583
Retired members		
Service and survivors	3,328	3,418
Disability	278	282
	3,606	3,700
Total Membership	9,703	10,283

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.

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

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

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.

Contributions Receivable

Contributions receivable consists of amounts due from members and employers for contributions which were due, according to terms of the plan, by December 31, 2005 and 2004.

Advanced Contributions Received

Advanced contributions received consist of certain contributions received prior to the due date of January 31, 2006.

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 national or international exchanges 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) because these amounts cannot be determined without incurring excessive costs.

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.

NOTES TO FINANCIAL STATEMENTS
NOTE 3 – INVESTMENTS

At December 31, 2005 and 2004, investments consisted of the following:

	2005	
	Market Value	Cost
Cash equivalents	$ 38,514,950	$ 38,514,950
Bonds		
U.S. Government and agency issues	66,801,915	68,122,214
Corporate	80,801,056	82,277,117
Foreign corporate and government bonds	91,171,180	92,582,259
Foreign common stock	60,930,056	57,614,327
Common and preferred stocks	360,444,537	301,980,428
Mutual funds	291,258,639	213,058,212
Real estate partnerships - insurance contracts	42,604,405	38,792,131
	1,032,526,738	892,941,638
Real estate loans, first mortgages	63,304	63,304
Limited partnerships	2,633,668	2,633,668
Real estate partnerships - other	6,872,618	6,872,618
Venture capital partnerships	5,737,496	5,737,496
	15,243,782	15,243,782
	$ 1,047,833,824	$ 908,248,724

	2004	
	Market Value	Cost
Cash equivalents	$ 42,809,647	$ 42,809,647
Bonds		
U.S. Government and agency issues	68,052,963	67,609,624
Corporate	87,503,497	87,034,111
Foreign corporate and government bonds	110,270,524	96,790,981
Common and preferred stocks	360,491,905	289,420,902
Mutual funds	321,796,877	192,559,607
Real estate partnerships - insurance contracts	36,157,517	35,586,744
	1,027,082,930	811,811,616
Real estate loans, first mortgages	93,325	93,325
Limited partnerships	5,772,973	5,772,973
Real estate partnerships - other	9,451,298	9,451,298
Venture capital partnerships	6,807,122	6,807,122
	22,031,393	22,031,393
	$ 1,049,207,648	$ 833,936,334

NOTES TO FINANCIAL STATEMENTS
NOTE 4 – FUTURE MINIMUM LEASE PAYMENTS

The System leases office space under an operating lease expiring in August 2006. Rent expense for the years ended December 31, 2005 and 2004 was $80,973 and $80,500, respectively. Approximate future minimum lease payments for the remaining term of the lease are as follows:

Year	Minimum Lease Payments
2006	48,620

NOTE 5 – CONCENTRATION OF RISK

During 2005, the Public School Retirement System of the City of St. Louis adopted Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3 (GASB 40). The adoption of GASB 40 modifies certain financial statement disclosure requirements. The new standard enhances the deposit and investment risk disclosures by updating the custodial credit risk disclosure requirements of GASB 3 and addressing other common risks, including concentrations of credit risk, interest rate risk, foreign currency risk, and investment rate risk. The implementation of GASB 40 had no effect on the financial statement amounts.

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, 2005 and 2004, the System had approximately $8,200,000 and $7,915,000, respectively, in cash on deposit at US Bank. These balances were insured by the Federal Deposit Insurance Corporation ("FDIC") for $100,000. A portion of the remaining balances is collateralized by US Bank's assets held jointly in the name of US Bank, NA and the System, held by the Federal Reserve Bank of Cleveland as Trustee. Regulations require that government entities, in case of bank failure, have collateral to cover losses that could exceed the FDIC limit of $100,000. The market value of the collateralized securities at December 31, 2005 was $11,072,573. A significant portion of the System's investments are held by US Bank of St. Louis, N.A.

On December 30, 2005, the System received $22,027,860 from the St. Louis Board of Education for the 2005 St. Louis Public Schools' annual regular pension contribution and sick leave conversion contribution. The funds were transferred from cash equivalents to investments on January 3, 2006.

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.

Concentration of Credit Risk

At December 31, 2005, 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 5% or more of net assets held in trust for pension benefits.

Mutual Funds	Fair Value	Percentage of Total Investments
Fidelity Trust Company	$ 67,305,535	6.4%

NOTES TO FINANCIAL STATEMENTS
NOTE 5 – CONCENTRATION OF RISK (CONTINUED)

Credit Risk of Debt Securities

The System's rated debt investments as of December 31, 2005 were rated by Moody's Investor Services (Moody's) and the ratings presented using the Moody's rating scale. The System's policy to limit credit risk is that fixed income securities shall be limited to those with a Moody's rating of investment grade (BBB/Baa) or better.

Fair Quality Ratings

Rate Debt Instrument Value	AAA	AA2	AA3
Corporate bonds and debentures	$ 5,281,321	$ 1,014,759	$ 743,552
Foreign government and corporate obligations	64,619,395	3,654,324	
United States Government Securities	35,620,090		
Agency Securities	21,027,959		
	$ 126,548,765	$ 4,669,083	$ 743,552

Rate Debt Instrument Value	A1	A2	A3
Corporate bonds and debentures	$ 1,876,969	$ 1,247,997	$ 316,262
Foreign government and corporate obligations			
United States Government Securities			
Agency Securities			
	$ 1,876,969	$ 1,247,997	$ 316,262

	BAA1	BAA2	BAA3
Corporate bonds and debentures	$ 2,242,554	$ 4,410,780	$ 5,076,325
Foreign government and corporate obligations			
United States Government Securities			
Agency Securities			
	$ 2,242,554	$ 4,410,780	$ 5,076,325

	BA1	BA2	BA3
Corporate bonds and debentures	$ 2,480,462	$ 3,229,231	$ 4,130,579
Foreign government and corporate obligations			
United States Government Securities			
Agency Securities			
	$ 2,480,462	$ 3,229,231	$ 4,130,579

NOTES TO FINANCIAL STATEMENTS
NOTE 5 – CONCENTRATION OF RISK (CONTINUED)

Credit Risk of Debt Securities (Continued)

	B1	B2	B3
Corporate bonds and debentures	$ 8,029,363	$ 11,176,633	$ 15,757,143
Foreign government and corporate obligations			
United States Government Securities			
Agency Securities			
	$ 8,029,363	$ 11,176,633	$ 15,757,143

	CA	CAA1	CAA2
Corporate bonds and debentures	$ 381,750	$ 5,767,463	$ 1,796,825
Foreign government and corporate obligations			
United States Government Securities			
Agency Securities			
	$ 381,750	$ 5,767,463	$ 1,796,825

	CAA3	Unrated
Corporate bonds and debentures	$ 563,690	$ 5,277,398
Foreign government and corporate obligations		22,926,348
United States Government Securities		5,390,364
Agency Securities		4,763,502
	$ 563,690	$ 38,357,612

Foreign Currency Risk

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

Currency	Short-Term	Debt	Equity	Total
Danish Krone		$ 3,064,188		$ 3,064,188
Euros		66,013,709		66,013,709
Japanese Yen		4,579,295		4,579,295
Franc		3,350,257		3,350,257
Swedish Krona		14,192,618		14,192,618
	$	$ 91,200,067	$	$ 91,200,067

NOTES TO FINANCICAL STATEMENTS
NOTE 5 – CONCENTRATION OF RISK (CONTINUED)

Interest Rate Risk

The System does not have a formal policy to limit interest rate risk. Risk of loss arises from changes in interest rates which have significant affects on fair values of investments.

Investment Type	Fair Value	< 1 year	1 - 5 years
Corporate bonds and debentures	$ 80,801,056	$ 5,266,277	$ 14,819,583
Foreign government and corporate obligations	91,200,067	4,877,511	41,795,715
United States Government Securities	21,718,696	2,469,220	6,286,423
Agency Securities	45,083,219		8,505,370
	$ 238,803,038	$ 12,613,008	$ 71,407,091

Investment Type	6 - 10 years	10+ years
Corporate bonds and debentures	$ 47,509,315	$ 13,205,881
Foreign government and corporate obligations	33,913,897	10,612,944
United States Government Securities	7,950,393	5,012,660
Agency Securities	4,745,708	31,832,141
	$ 94,119,313	$ 60,663,626

NOTE 6 - COMMITMENTS

On September 19, 2005, the Public School Retirement System of the City of St. Louis, (the owner) entered into a construction escrow agreement with Owen Financial Services, Inc., (the contractor). The Public School Retirement System of the City of St. Louis deposited $2,198,008 with Old Republic Title Company of St. Louis, (the escrowee). Funds may only be disbursed by the escrowee with the approval of the owner based upon the percentage of work completed by the contractor. The contract is a design/build contract which conveys the land to the owner upon certain contingencies being fulfilled.

The land is located at 3641 Olive Street in the City of St. Louis and was purchased by Owen Financial Services, Inc. from Grand Center, Inc. The president of Grand Center, Inc. is a board member of the Public School Retirement System of the City of St. Louis. Management believes that no conflict of interest exists in relation to the purchase since the president of Grand Center, Inc. refrained from participation and discussion of the purchase.

SCHEDULE OF FUNDING PROGRESS (in millions)

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)
1990	373.3	460.7	87.4
1991	395.7	472.5	76.8
1992	427.7	502.0	74.3
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
2002	861.1	1,069.8	208.7
2003	873.3	1,063.2	189.9
2004	902.0	1,074.3	172.3
2005	935.3	1,084.4	149.1

Actuarial Valuation Date January 1,	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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
2002	80.5	243.9	85.6
2003	82.1	283.9	66.9
2004	84.0	255.3	67.5
2005	86.3	240.2	62.1

See independent auditor’s report on supplemental information.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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%
2002	19,076,442	100.6%
2003	19,517,288	101.2%
2004	19,210,506	132.0%
2005	19,364,705	*

* To be determined at the end of the year.

The information presented in the required supplemental schedules was determined as part of the actuarial valuation prepared by W. Alfred Hayes and Company at January 1, 2005. Additional information related to the above actuarial valuation follows:

Actuarial cost method:	Frozen entry age.
Rate of investment return:	8% for 2005 and 2004, net of expenses.
Turnover or withdrawal rates:	Various by age and year of membership based on actual experience
Turnover or withdrawal rates:	of the System.
Mortality or death rates:	1983 Group Annuity Mortality Tables for males and females is used for active and 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, at the rate of 4.5 % per year.
Asset valuation method:	The assumed yield method of valuing assets, less the expense and contingency reserve.

The Unfunded Actuarial Accrued Liability (UFAAL) was originally determined and frozen as of January 1, 1981. Effective January 1, 2002, the UFAAL was redetermined. The difference between the original UFAAL and the new UFAAL will be phased in over five (5) years and the UFAAL will be amortized over thirty (30) years.

See independent auditor's report on supplemental information.

SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Actuarial services	$ 147,400	$ 261,280
Accounting and auditing fees	45,851	39,067
Computer programming and consultation	215,036	76,115
Convention, conferences, seminars		
Executive Director		2,168
Trustees	20,637	24,447
Dues and subscriptions	3,146	3,386
Employee benefits	19,269	19,660
Furniture and equipment	10,749	
Insurance - group hospitalization	44,221	39,393
Insurance - casualty and bonding	91,121	57,273
Legal fees and expense	77,418	63,624
Medical fees	1,586	1,843
Office repairs and maintenance	9,138	10,418
Office supplies and expense	11,739	15,074
Postage	81,829	57,657
Pension contribution	43,460	30,005
Printing and stationery	32,731	23,129
Rent	80,973	80,500
Salaries - administrative and clerical	504,243	511,811
Special Project consultation	252,785	
Payroll taxes	38,679	37,696
Telephone	10,069	8,773
Miscellaneous expense	14,143	27,924
Total	$ 1,756,223	$ 1,391,243

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:

	2005	2004
Transportation and registration	$ 7,362	$ 10,443
Lodging, meals, and miscellaneous	13,275	14,004
Other		
Total	$ 20,637	$ 24,447

See independent auditor's report on supplemental information.

THE CAPITAL MARKET ENVIRONMENT

Domestic Stocks

The S&P 400 was positive for calendar year 2005, posting a return of 12.6%. Growth and value stocks contributed to gains in year 2005 as shown by the Russell 1000 Growth Index, up 5.3% and the Russell 1000 Value Index, up 7.1%.

Domestic Bonds

Fixed income markets posted small gains in 2005. The Lehman Aggregate Index was up 2.4% for the year with John Hancock up 3.2%, MDL Capital up 1.3%, and Mellon Bond up 2.5%.

Citigroup high-yield bonds were also up 2.1% for the year with a 5-year average return of 8.9%.

International Markets

The international equity markets performed well with the MSCI EAFE Index up 13.5% while emerging markets equities gained more than 34.1%.

The Citigroup World Government Bond Index performed poorly for the year with a loss of -6.9%.

INVESTMENT PERFORMANCE

Investment Goals

PSRSSTL has a well-diversified investment portfolio with long-term goals of earning an 8.6% return. Over the short-term (three to five years), PSRSSTL 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, 2005, the PSRSSTL *portfolio* returned 6.3%, with a ranking of 71 within the Investment Consultants' Cooperative (ICC) Universe of Public Funds. For the five-year period ending December 31, 2005, PSRSSTL investment performance ranked in the upper 21% of the ICC Universe, earning a 6.2% return.

Investment performance by asset class for one-year and five-year periods ending December 31, 2005 is set forth below.

	One Year	Five Years
PSRS Total Portfolio	6.3%	6.2%
PSRS Domestic Equities	6.9%	5.0%
S&P 400	12.6%	8.6%
Median Public Fund	7.5%	4.5%
PSRS Domestic Bonds	2.9%	6.8%
Lehman Aggregate Index	2.4%	5.9%
Median Public Fund	2.8%	6.2%
PSRS International Equities	17.4%	N/A
MSCI EAFE Index	13.5%	4.6%
MSCI Emerging Index	34.1%	19.2%
Median International Fund	16.2%	8.8%
PSRS Global Bonds	-9.0%	10.0%
Citigroup World Government	-6.9%	6.9%
Median Global Bonds	-3.8%	7.6%

INVESTMENT STATISTICS

The Investment Information Section of this report provides statistical information about the PSRSSTL investment managers, securities held in the portfolio, and brokerage fees paid in 2005.

ASSET ALLOCATION AND INVESTMENT MANAGERS
AS OF DECEMBER 31, 2005 (000s omitted)

	MANAGEMENT STYLE	RELATIVE TO TOTAL PORTFOLIO: MARKET VALUE Value	%	TARGET VALUE Value	%	VARIANCE Value	%	MARKET VALUE Value	%
LARGE CAP GROWTH DOMESTIC EQUITIES		97,722	9.3%	104,831	**10.0%**	(7,109)	-0.7%		
Buford, Dixon, Harper & Sparrow	Large Cap Growth							17,404	17.8%
Intech	Large Cap Growth							29,488	30.2%
Monetary Management Group	Large Cap Growth							50,830	52.0%
LARGE CAP CORE DOMESTIC EQUITIES		54,973	5.2%	94,348	**9.0%**	(39,375)	-3.8%		
Batterymarch Financial	Large Cap Core							25,604	46.6%
Mellon Equity Index	Large Cap Core							29,369	53.4%
LARGE CAP VALUE DOMESTIC EQUITIES		56,842	5.4%	52,416	**5.0%**	4,426	0.4%		
Chicago Equity Partners	Large Cap Value							35,334	62.2%
The Edgar Lomax Company	Large Cap Value							21,508	37.8%
MID CAP GROWTH DOMESTIC EQUITIES		37,441	3.6%	31,449	**3.0%**	5,992	0.6%		
New Amsterdam Partners	Mid Cap Growth							37,441	100.0%
SMALL/MICRO CAP DOMESTIC EQUITIES		115,466	11.0%	104,831	**10.0%**	10,635	1.0%		
Westfield Capital Management	Small Cap Growth							36,599	31.7%
Systematic Financial Management	Small Cap Value							41,318	35.8%
Dimensional Fund Advisors	Small Cap Core							37,549	32.5%
TACTICAL ASSET ALLOCATION		84,216	8.0%	83,865	**8.0%**	351	0.0%		
Boston Trust Company	Balanced Fund							84,216	100.0%
INTERNATIONAL EQUITIES		174,029	16.6%	136,280	**13.0%**	37,749	3.6%		
Battermarch GI Emerging	Emerging Markets							44,827	25.8%
Causway	International Equities							61,896	35.6%
Fidelity	International Equities							67,306	38.7%
DOMESTIC BONDS		99,775	9.5%	104,831	**10.0%**	(5,056)	-0.5%		
Mellon Bond	Core Domestic Bonds							15,560	15.6%
MDL Capital	Core Domestic Bonds							18,461	18.5%
John Hancock	Core Domestic Bonds							65,754	65.9%
HIGH YIELD DOMESTIC BONDS		52,388	5.0%	52,416	**5.0%**	(28)	0.0%		
HSBC	High Yield Bonds							52,388	100.0%
GLOBAL BONDS		95,869	9.1%	104,831	**10.0%**	(8,962)	-0.9%		
Mondrian	Global Bonds							95,869	100.0%
MARKET NEUTRAL STRATEGY		41,249	3.9%	41,932	**4.0%**	(683)	-0.1%		
Blue Rock	Market Neutral							21,171	51.3%
First Quadrant	Market Neutral							20,078	48.7%
HEDGED STRATEGIES		55,417	5.3%	52,416	**5.0%**	3,001	0.3%		
K2	Hedge Funds							27,961	50.5%
Mariner	Hedge Funds							27,456	49.5%
REAL ESTATE		48,236	4.6%	52,416	**5.0%**	(4,180)	-0.4%		
Seven Funds & Residential Mortgages	Real Estate							48,236	100.0%
ALTERNATIVE INVESTMENTS		7,762	0.7%	31,449	**3.0%**	(23,687)	-2.3%		
Partnerships	Alternative Investments							7,762	100.0%
CASH *(Does Not Include Managers' Residual Cash)*	STIF	26,926	2.6%	0	**0.0%**	26,926	2.6%		
Arch Fund	Cash							23,579	87.6%
Melon Money Market	Cash							3,347	12.4%
TOTAL		**$1,048,311**	**100.0%**	**$1,048,311**	**100.0%**				

The target values shown above represent the adopted Asset Allocation Policy, that were funded when the portfolio was restructured during the first six months of 2004. Notable changes in the PSRSSTL Asset Allocation Policy include the addition of Market Neutral and Hedge Fund strategies as well as a modest increase to Real Estate and the decision to fund the Emerging Markets allocation.

DOMESTIC EQUITY INVESTMENTS

2005 Return	6.9%
Average Market Capitalization	$45,925,750
P/E Ratio	17.52
Price/Book Ratio	3.89
Five Year Earnings Growth Rate	14.77

Ten Largest Domestic Equity Holdings

Company	Dollar Value	Percent of Portfolio	Company	Dollar Value	Percent of Portfolio
Exxon Mobil Corp.	$5,914,542	1.7%	J. P. Morgan Chase	3,356,602	0.9%
Altria Group Inc.	4,745,851	1.3%	Johnson & Johnson	3,334,148	0.9%
Genereal Electric Co.	4,577,010	1.3%	Proctor & Gamble	3,139,592	0.9%
Citigroup Inc.	3,816,130	1.1%	Texas Instruments	2,911,811	0.8%
Pfizer Inc.	$3,671,871	1.0%	UnitedHealth Group	2,891,493	0.8%

Ten Best Performing Domestic Equity Holdings

Company	Return	Company	Return
Infosonics Corp	264.9%	Continental Airls	120.5%
Allied Holdings Inc	172.7%	Novavax Inc	120.0%
PW Eagle Co	167.3%	Spherix Inc	115.6%
Midwest Express	164.8%	Apac Teleservices	105.6%
Zevex Intl Inc	43.9%	Jennifer Convs Inc	105.3%

Ten Worst Performing Domestic Equity Holdings

Company	Return	Company	Return
Arlington Hospital	-99.4%	Flyi Inc.	-89.2%
MCSI Inc.	-98.0%	Boyds Collections	-87.1%
Badger Paper Mills	-95.4%	Integrated Elec.	-80.4%
Robotic Vision Sys.	-91.5%	Ultimate Electronic	-80.0%
Garderburger Inc.	-91.0%	Prg-Schultz Intl	-79.7%

DOMESTIC BOND INVESTMENTS

PSRSSTL domestic bond investments had an average maturity of 8.10 years, duration of 5.43 years, and an average quality rating of 7.02. During 2005, the PSRSSTL domestic bond portfolio earned 2.9%. Below are bond summary statistics for the quarter ending December 2005.

Bond Portfolio Average Maturity in Years	Percent of Portfolio
0.0 - 1.0	4.6%
1.0 - 3.0	16.1%
3.0 - 5.0	16.0%
5.0 - 10.0	35.2%
10.0 - 20.0	17.9%
20 +	2.8%
Unclassified	7.4%

Bond Portfolio Duration in Years	Percent of Portfolio
0.0 - 1.0	5.3%
1.0 - 3.0	20.9%
3.0 - 4.0	11.9%
4.0 - 6.0	23.2%
6.0 - 8.0	11.5%
8.0 +	19.8%
Unclassified	7.4%

Bond Portfolio Quality Rating	Percent of Portfolio
Government (10)	23.4%
Aaa(10)	6.4%
Aa(9)	1.2%
A(8)	3.0%
Baa(7)	8.7%
Below Baa(6-1)	37.9%
Other	19.4%

BROKERAGE FEES

American Technolog Research	160.00	Instinet	5,701.19	Pershing	85.00
Avian Securities, Inc.	16.00	Investment Technology Group	4,462.50	Presursor Group Inc.	20.00
Avondale Partners	100.00	ISI Group Inc.	1,441.00	Prudential Securities	2,537.80
B Trade Service	614.18	Ivy Securities, Inc.	95.00	Pulse Trading LLC	2,807.25
Baird & Company	1,569.99	J P Morgan	2,902.02	Raymond James	64.00
BancBoston Securities	2,287.11	Jefferies Inc.	6,857.97	RBC Dominion Securities	2,008.10
Bear Stearns	4,123.86	JMP Securities	412.00	Rochdale Securities Corp.	231.00
Berean Capital Inc.	976.00	Johnson Rice	148.00	Rosenblatt Securities Inc.	1,980.00
Bernstein, Sanford & Co	5,172.25	Jones Associates	5,759.46	Roth Capital partners LLC	270.08
BNY/ITC Dealer	19,358.06	Kauffman Brothers	376.00	Sandlr Oneill	1,156.00
Boston Instit. Service	289.80	Keefe Bruyette	934.50	SBK Brooks Investment Corp.	305.00
Bridge Trading-Ernst Co.	2,382.20	Knight Securities LP	352.94	Scotti McLeod USA	96.00
Buckinham Research Groupp	84.00	LaBranche Financial	525.65	Simmons & Company	44.00
C E Untrberg Towbin	100.00	Leerink Swann & Co.	1,110.16	Standard/Poor Securities	460.00
Cabrera Capital markets	460.00	Legg Mason Wood Walker	1,034.44	State Street Global Markets	164,907.04
Cantor Fitzgerald	11,887.09	Lehman Brothers	6,291.00	Suntrup Robinson & Humphrey	100.16
Capital Institution Service	5,622.00	Liquidnet Inc.	17,739.32	Thinkequity Partners LLC	1,394.40
Cheevers & Co., Inc.	1,795.00	Loop Capital Markets	865.00	Tullett Liberty Securities	159.25
CIBC World markete corp	875.12	Magna Securities	615.00	UBS Securities Inc.	7,545.32
Citicorp Securities	3,909.50	McDonald & co.	1,449.00	Unterburg Harris	572.00
Cowen & Co	355.60	Medford Financial	791.00	US Bancorp Piper jaffray	6,108.50
Craig Hallum Will	156.00	Merrill Lynch	6,161.93	Wachovia Capital Markets	4,729.00
Credit Suisse First Bston	9,284.14	Merriman Curhan Ford & Co.	300.00	Wave Securities LLC	566.00
Credit Lonnais	54.00	Midwest Research Securities	840.00	Wedbush Securities Inc.	1,532.00
Dematteo Monness LLC	298.40	Miletus Trading	500.75	Weeden & Co.	7,248.19
Deutsche Bank Capital	19,604.08	MJSK Inc	120.00	Weiss Peck & Greer	4,070.00
Direct Trading	90.95	Montgomery Securities	156.00	Wells Fargo Securities LLC	28.00
Ferris & Co	2,632.00	Moors & Cabots	104.00	Westminster resources	964.00
Fidelity Capital Markets	18.00	Morgan Equities Inc.	344.00	Whitaker Securities	255.00
First Analysis Securities	256.00	Morgan Stanley	6,050.65	White Cap Trading LLC	70.00
First Clearing	14,121.00	MS Howells & Co.	4.00	Williams Capital Group	1,365.00
Fox Pitt Kelton Inc.	334.76	National Financial Services	20.00		
Friedman Billings Ramsey	1,474.98	Nationsbank of Georgia	1,139.40		
Gardner Rich	515.00	Needham	559.00		
Global	174,923.60	Nesbitt Burns Securities	40.00		
Goldman Sachs	11,838.86	Next Generation	44.00		
Griswold Company	710.50	Nutmeg Securities	84.00		
Sub Total	$303,517.55	Sub Total	$92,309.16	Sub Total	$214,302.37
				Total Commissions Paid	$610,129.08

MARKET VALUE OF ASSETS

Investment Category	As of December 31, 2003		As of December 31, 2004		As of December 31, 2005	
	Market Value	% of Total	Market Value	% of Total	Market Value	% of Total
Cash, Receivables, Cash Equivalents	$54,995,063	5.6%	$55,141,152	5.2%	$50,990,647	4.8%
Building Project		0.0%		0.0%	2,205,134	0.2%
U.S. Bonds, Bills and Mortgages	97,451,454	9.8%	68,052,963	6.4%	66,801,915	6.3%
Corporate Bonds	125,806,789	12.7%	87,503,497	8.2%	80,801,056	7.6%
Foreign Corporate & Government Bonds	105,190,045	10.6%	110,270,524	33.1%	152,101,236	33.1%
Common Stocks	404,008,767	40.8%	360,491,905	33.1%	360,444,537	33.1%
Mutual Funds	170,285,419	17.2%	321,796,877	30.3%	291,258,639	27.4%
Real Estate - Insurance Contracts	1,156,835	0.1%	36,157,517	3.4%	42,604,405	4.0%
Mortgages	111,156	0.0%	93,325	0.0%	63,304	0.0%
Alternative Investments *	31,110,813	3.1%	22,031,393	2.1%	15,243,782	1.4%
Total	**$990,116,341**	**100.0%**	**$1,061,539,153**	**100.0%**	**$1,062,514,655**	**100.0%**

* Carried at Cost Value

This page is intentionally left blank.

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS

ACTUARIAL VALUATION
AS OF JANUARY 1, 2005

DECEMBER
2005

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 is based on the same actuarial assumptions and actuarial cost method as were sued in the prior actuarial valuation. The System had favorable actuarial experience for the year ending December 31, 2004, resulting in a decrease in the Annual Required Contribution rate to 6.00% from 7.58%. The primary factors producing the favorable experience were lower than expected salary increases and a net investment return on an actuarial basis of 8.68%, which was above the 8.00% assumed rate of return for 2004.

As a part of the package to increase benefits in 2001, 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 2006. The dollar amount of the actual contribution decreased to $14,414,133 for 2005 from $19,364,705 for 2004. As a percentage of covered compensation the contribution rate for 2005 decreased to 6.00% from 7.58% for 2004. Under the actuarial funding method used to determine the contribution, actuarial gains 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 2005, the annual normal cost is $0 or 0.00% of the covered payroll of $240,185,055.

The actuarial accrued liability contribution is determined as the amount necessary to amortize the remaining Unfunded Frozen Actuarial Accrued Liability (UFAAL) over a period of 30 years. As a modification to the actuarial cost method, the Board of Trustees acted to redetermine the UFAAL effective January 1, 2002 and to phase in the difference between the new and old UFAAL over a five-year period. This portion of the contribution only changes to reflect changes in benefits or changes in actuarial assumptions and methods. The UFAAL was decreased by $15,174,627 as the adjustment of the 5-year phase-in of the redetermined UFAAL. The Board of Trustees also adopted a 30-year amortization period for the UFAAL, replacing the 30 to 50 year periods applying to the original UFAAL and supplements.

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, 2005

ANNUAL REQUIRED CONTRIBUTION

2005	Board of Education	Harris-Stowe State College	Retirement System	Charter Schools	Total
Normal Cost Contribution	$ 0	$ 0	$ 0	$ 0	$ 0
Actuarial Accrued Liability Contribution	13,305,881	3,893	34,190	1,070,169	19,364,705
Annual Required Contribution	$ 13,305,881	$ 3,893	$ 34,190	$1,070,169	$ 19,364,705
Covered Payroll	221,718,075	64,876	569,706	17,832,398	240,185,055
ARC as % of Covered Payroll	6.00%	6.00%	6.00%	6.00%	6.00%
2004*					
Normal Cost Contribution	$ 3,428,196	$ 904	$ 7,996	$ 125,785	$ 3,562,881
Actuarial Accrued Liability Contribution	15,204,478	4,010	35,464	557,872	15,801,824
Annual Required Contribution	$ 18,632,674	$ 4,914	$ 43,460	$ 683,657	$ 19,364,705
Covered Payroll	245,666,358	64,796	573,002	9,013,818	255,317,974
ARC as % of Covered Payroll	7.58%	7.58%	7.58%	7.58%	7.58%

SYSTEM ASSETS	January 1, 2005	January 1, 2004
Expense and Contingency Reserve	$ 72,286,064	$ 63,788,756
Market Value, excluding Expense & Contingency Reserve	1,060,577,177	925,312,217
Actuarial Value	935,328,638	901,996,455
SYSTEM LIABILITIES		
Unfunded Actuarial Accrued Liability	$ 149,080,664	$ 172,263,173
Actuarial Present Value of Projected Accrued Benefits	976,897,316	998,767,881
FUNDING RATIO		
Actuarial Value Funding Ratio	95.7%	90.3%
Market Value Funding Ratio	101.6%	92.6%

**Prior year shown for comparison purposes only.*

ACTUARIAL METHODOLOGY
INTRODUCTION

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

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

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

ACTUARIAL ASSUMPTIONS

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

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

An analysis of the experience of the Retirement System for the five-year period ending December 31, 2000 was performed. On the basis of that analysis, several actuarial assumptions were changed effective with the January 1, 2002 valuation. The next scheduled experience analysis is for the five-year period ending December 31, 2005.

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.

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

ACTUARIAL METHODOLOGY (continued)

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 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, 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. Supplements are determined by computing the change in the actuarial accrued liability as of the valuation date coincident with or next following the change. The UFAAL was originally determined and frozen as of January 1, 1981. Effective January 1, 2002, UFAAL was redetermined and the difference between the new and old UFAAL will be phased in over five years.

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.

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 "actuarial accrued liability contribution" is the payment required to amortize the UFAAL over 30 years.

ACTUARIAL ASSUMPTIONS

The following actuarial assumptions were used in the valuation:

Interest – 8% per annum, net of expenses.

Salary Scale – Salaries are assumed to increase at the rate of 4.5% per year.

Mortality – The 1983 Group Annuity Mortality Table for males and females is used for active members, retired members and beneficiaries.

Disability Mortality — Disability mortality rates are based on the actual experience of the Retirement System.

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

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

Year of	Withdrawal Rate	
Membership	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. 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.

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 (continued)

ACTIVE MEMBER RATES OF DECREMENT

Attained	Withdrawal Rates		Disability Rates		Retirement
Age	Males	Females	Males	Females	Rate
20	15.00%	15.00%	.000%	.000%	0.00%
25	12.50%	12.50%	.000%	.000%	0.00%
30	9.00%	9.00%	.040%	.040%	0.00%
35	7.00%	7.00%	.040%	.040%	0.00%
40	6.00%	6.00%	.080%	.075%	0.00%
45	3.00%	3.00%	.150%	.100%	0.00%
50	2.00%	2.00%	.200%	.150%	0.00%
55	1.50%	1.50%	.450%	.250%	5.00%
60	1.00%	1.00%	.550%	.325%	7.50%
65	0.00%	0.00%	.000%	.000%	35.00%
70	0.00%	0.00%	.000%	.000%	100.00%

NON-DISABLED LIFE MORTALITY RATES

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

DISABLED LIFE MORTALITY RATES

(PER 1,000 DISABLED PENSIONERS)

	Death Rate			Death Rate	
Male	Age	Female	Male	Age	Female
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

Actuarial Assets

Actuarial value of present assets		$ 935,328,638
Actuarial present value of future member contributions		89,633,820
Actuarial present value of future employer contributions for:		
Normal Costs		-11,564,266
Actuarial Accrued Liability		149,080,664
Total present and future assets		$ 1,162,478,856

Actuarial Liabilities

Actuarial present value of benefits now payable		$ 510,116,899
Actuarial present value of benefits payable in the future		
Active members – New Plan	439,018,810	
Active members -- Old Plan	0	
Active members -- DROP	204,579,632	
Members on leave of absence without pay	2,201,524	
Terminated members	6,561,991	
Total payable in the future		652,361,957
Total liabilities for benefits		$ 1,162,478,856

PROJECTED BENEFIT OBLIGATION FUNDING STATUS

Projected Benefit Obligation at January 1, 2005:

Retired members and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	$ 518,880,414
Current active members:	
Accumulated member contributions, including interest	89,710,662
Employer-financed vested benefits	365,681,664
Employer-financed non-vested benefits	2,624,576
Total Projected Benefit Obligation	$ 976,897,316

At January 1, 2005, the Projected Benefit Obligation was funded as follows:

Net assets available for benefits at actuarial value	$ 935,328,638
Unfunded Projected Benefit Obligation	41,568,678
Actuarial value funding ratio	95.7%
Net assets available for benefits at market value	$ 995,647,013
Unfunded Projected Benefit Obligation	-18,749,697
Market value funding ratio	101.9%

PRIORITIZED SOLVENCY TEST

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

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

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

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

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

	Actuarial Present Value of Credited Projected Benefits						
	(1)	(2)	(3)				
Valuation Date January 1	Active Members' Accumulated Contributions	Retirants, Inactive Members & Beneficiaries	Active Members (Employer-Financed)	Actuarial Value of Assets	Percent of Present Value Covered by Valuation Assets (1)	(2)	(3)
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
2002	116,506,785	476,104,516	372,221,726	861,128,076	100	100	72
2003	115,570,837	492,633,382	361,818,972	873,260,102	100	100	73
2004	106,021,476	528,287,121	364,459,284	901,996,455	100	100	73
2005	89,710,662	518,880,414	368,306,240	935,328,638	100	100	89

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". The method is discussed on pages 28 and 29 of this Report and the development of the actuarial value of assets is shown in the table below. An important element in the development of the actuarial value of assets is the Expense and Contingency Reserve (called the Expense Fund prior to 1988). The amount of the Reserve is determined pursuant to a policy adopted by the Board of Trustees. The history of the Reserve is presented on page 37 of this Report.

As shown on page 38 of this Report, the fund had a rate of return of 8.68% on an actuarial value basis. This was 0.68% above the assumed rate of return of 8.0% for 2004. In accordance with Rule XI, $7,355,900 was added to the investment contingency portion of the Reserve, because the preliminary actuarial rate of return exceeded the assumed rate of return by more than 1%.

The rate of return on an actuarial value basis is intended to be a stable rate of return and fluctuate less than rates of return on book or market value basis. Thus, the rate of return on an actuarial basis is not always a fair measure of the investment performance of the fund. Another indicator of actual performance during the year is the rate of return on a market value basis of 12.504%, also presented on page 38 of this Report.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial value of assets as of January 1, 2004	$ 901,996,455
(2)	Member contributions	10,825,664
(3)	Employer contributions	25,351,817
(4)	Benefit payments and expenses	85,267,942
(5)	Investment increment at 8.0%	69,182,025
(6)	Expected actuarial value on January 1, 2005:	
	(1) + (2) + (3) - (4) + (5)	922,088,019
(7)	Market value of assets on January 1, 2005	1,060,577,177
(8)	Expense and Contingency Reserve on January 1, 2005	64,930,164
(9)	Adjustment to the Contingency Reserve on January 1, 2005	7,355,900
(10)	Excess of market value over expected actuarial value: (7) – (8) – (6)	66,203,094
(11)	Market value adjustment: 20% x (10)	13,240,619
(12)	Actuarial Value of Assets as of January 1, 2005: (6) + (11)	935,328,638

EXPENSE AND CONTINGENCY RESERVE

Effective January 1, 1996 the Board of Trustees revised Rule XI, which governs the determination of the amount of the Expense and Contingency Reserve. The expense portion of the Reserve is the sum of:

(1) The estimated annual operating expenses for the ensuing year:

(2) An amount equal to the liability for non-insurance supplements;

(3) An amount equal to the liability for insurance supplements for those members participating in the program on January 1; and

(4) The estimated amount of insurance supplements to be paid for members expected to retire and participate in the program during the ensuing year.

The contingency portion of the Reserve is intended to cover significant shortfall in the rate of return. When a shortfall of more than 1% occurs, the Reserve is used to reduce the amount of the shortfall. When the rate of return exceeds the assumed rate of return by more than 1%, an addition is made to the Reserve according to a formula in Rule XI.

Below is a history of the Expense and Contingency Reserve:

January 1	Expense Reserve	Investment Contingency Reserve	Total Expense and Contingency Reserve
1996	$ 33,702,346	$ 0	$ 33,702,346
1997	25,403,190	5,220,821	30,624,011
1998	30,891,555	24,100,041	54,991,596
1999	22,142,759	45,972,067	68,114,826
2000	27,992,032	50,003,862	77,995,894
2001	29,837,776	50,003,743	79,841,519
2002	23,527,529	50,003,743	73,531,272
2003	24,952,255	37,759,976	62,712,231
2004	26,028,780	37,759,976	63,788,756
2005	27,170,188	45,115,876	72,286,064

INVESTMENT PERFORMANCE

There are several different methods of approximating the rates of return on investments of the Trust Fund. Following is a brief comparison of the actuarial assumed rate of return as compared with rates of return on Market and Actuarial Value bases:

(a) Market Value Basis

The rate of return on a Market Value Basis is the ratio of the appreciation (or depreciation) of assets less contributions plus disbursements to the Market Value at the beginning of the year plus the average of the receipts and disbursements made during the year. This may be approximated as follows:

(i)	A = Market Value of Assets as of January 1, 2004	$ 989,100,973
(ii)	B = Market Value of Assets as of January 1, 2005	1,060,577,177
(iii)	C = Contributions during the period	36,177,481
(iv)	D = Disbursements during the period	85,267,942
(v)	Rate of Return: $\dfrac{B - A + D - C}{A + \frac{1}{2}(C - D)}$	12.50%
(vi)	Actuarial Assumed Rate of Return for 2004	8.00%
(vii)	Difference between actual and assumed rates of return: (v) – (vi)	4.50%

(b) Actuarial Value Basis

The rate of return on an Actuarial Value Basis is approximated using the same method as the Market Value Basis:

(i)	A = Actuarial Value of Assets as of January 1, 2004	$ 901,996,455
(ii)	I = Income Allocated as of January 1, 2005	75,066,744
(iii)	C = Contributions during the period, time-weighted	5,940,327
(iv)	D = Disbursements during the period, time-weighted	42,633,971
(v)	Rate of Return: $\dfrac{I}{A + C - D}$	8.68%
(vi)	Actuarial Assumed Rate of Return for 2004	8.00%
(vii)	Difference between actual and assumed rates of return: (v) – (vi)	0.68%

MEMBERSHIP AND BENEFITS PAID AS OF JANUARY 1, 2005

	Males	Females	Total
ACTIVE MEMBERS			
Old Plan	0	0	0
New Plan	1,360	3,623	4,983
DROP	115	451	566
Total Active	1,475	4,074	5,549
INACTIVE MEMBERS			
Terminated or Leave of Absence Without Pay	134	414	548
Total Members Not Retired	1,609	4,488	6,097
RETIRED MEMBERS AND BENEFICIARIES			
Retired Members and Contingent Annuitants	870	2,191	3,061
Survivors	40	227	267
Disabled Members	85	193	278
Total Retired Members and Beneficiaries	995	2,611	3,606
TOTAL MEMBERSHIP	2,604	7,099	9,703

NUMBER OF RETIRED MEMBERS AND BENEFICIARIES

Option	Service Benefit	Disability Benefit	Survivor Benefit	TSA Benefit
0	2,613	241	267	49
1	123	14	0	4
2	80	4	0	1
3	118	8	0	2
4	122	4	0	0
5	3	4	0	0
6	2	3	0	0
Total	**3,061**	**278**	**267**	**56**

AMOUNT OF ANNUAL BENEFIT

Option	Service Benefit	Disability Benefit	Survivor Benefit	TSA Benefit
0	$45,674,032	$2,259,788	$2,242,183	$163,317
1	1,831,011	194,141	0	15,656
2	1,479,846	68,806	0	1,009
3	2,123,723	83,275	0	9,996
4	2,649,298	64,157	0	0
5	98,296	67,384	0	0
6	21,945	58,419	0	0
Total	**$53,878,151**	**$2,795,970**	**$2,242,183**	**$189,978**

Background

The Public School Retirement System of the City of St. Louis (PSRSSTL) 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 PSRSSTL are also covered by Social Security, and are eligible for full Social Security benefits in addition to their benefits from PSRSSTL.

PSRSSTL benefits are funded by a combination of member contributions, employer contributions, and investment earnings on PSRSSTL 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 PSRSSTL as of December 31, 2003 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 PSRSSTL Rules and Regulations. In any circumstance where there appears to be a discrepancy between this summary and actual statutes or PSRSSTL 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 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.

PSRSSTL Funding

PSRSSTL 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 PSRSSTL 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

PSRSSTL makes a variety of medical, dental, and vision insurance plans available to retired members, their spouses, and eligible dependent children. PSRSSTL 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.

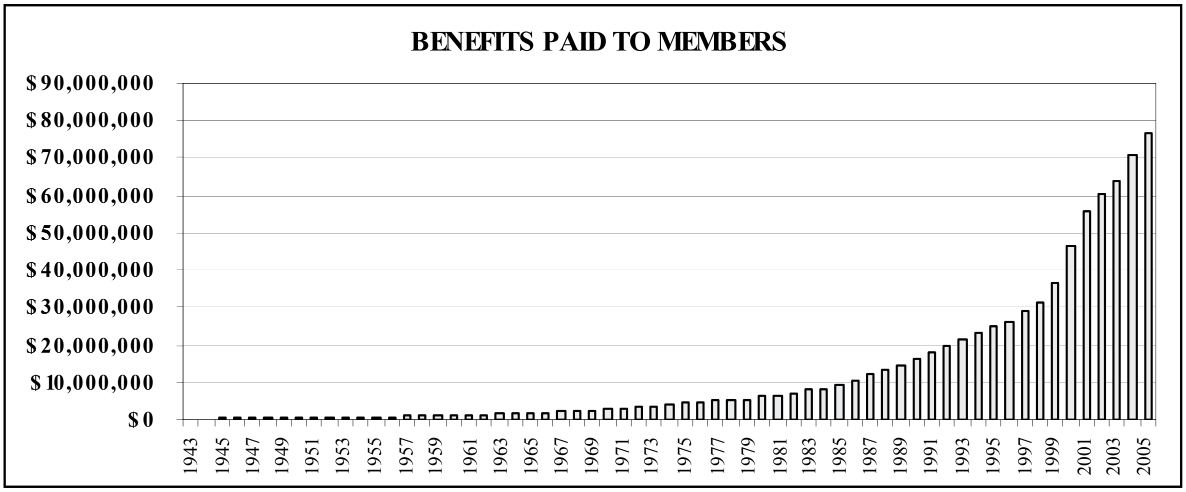
Surviving spouses of deceased retired members are eligible to retain health care insurance after the death of the member.

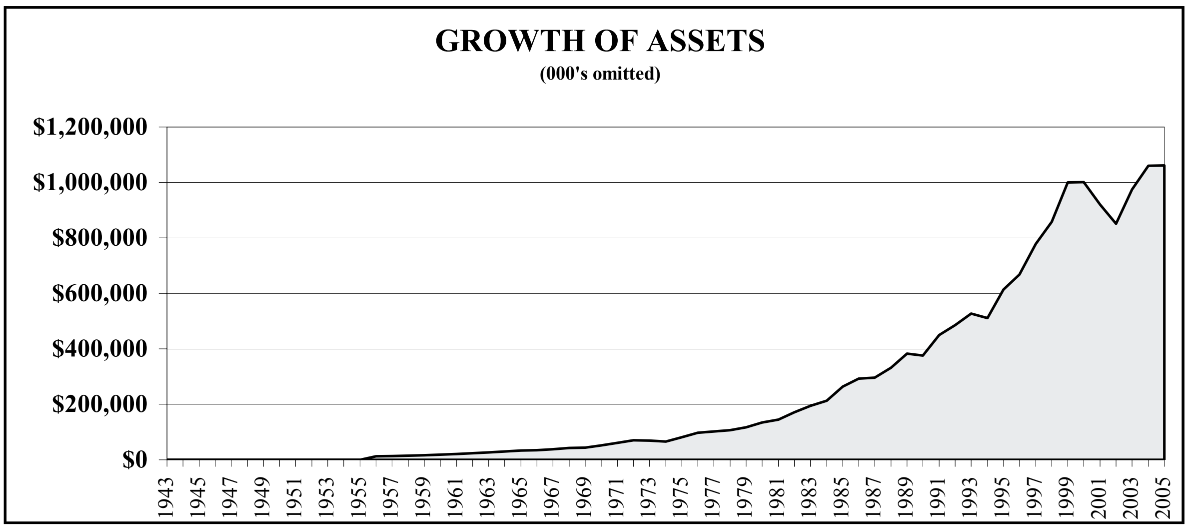
Surviving spouses of deceased active members who elect to receive monthly benefit payments under Option 1 may also be eligible for health insurance coverage for themselves and for otherwise eligible children of deceased active members.

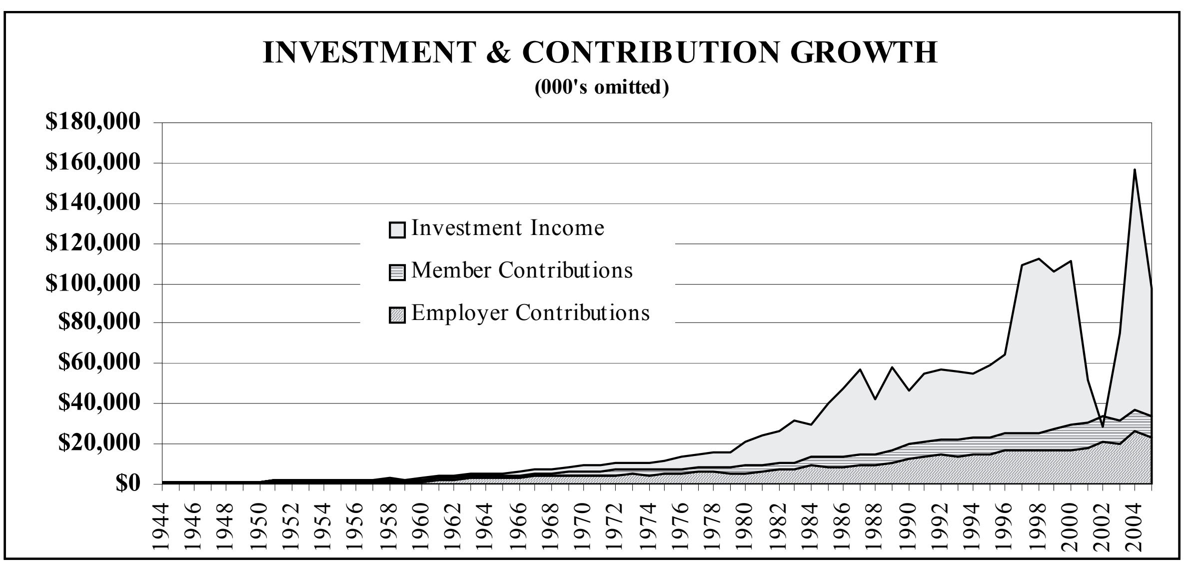
COLAs

Cost of Living Adjustments (COLAs) are paid to retired members and surviving beneficiaries when such COLAs are approved by both the Board of Education and the Board of Trustees.

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.







This page is intentionally left blank.

This page is intentionally left blank.

Celebrating Excellence!
PSRSSTL