2006 Annual Report

Public School Retirement System of the City of St. Louis

…to enhance the well being
and
financial security of its members.

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, 2007, the following individuals served on the Board of Trustees.

Appointed by the Board of Education

Christina Bennett
Marlene E. Davis
Paulette McKinney
Veronica C. O'Brien

Elected by Retired Members

Joseph Clark
Lois Jean Turner

Elected by Active Members

Louis C. Cross, III
Donald L. Glenn, Sr.
Kathryn Lamb
Katha L. McKinney
Cynthia Warren

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 Lead	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. CCA Strategies

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS
3641 OLIVE STREET, SUITE 300
ST. LOUIS, MO 63108-3601

OFFICE OF THE
EXECUTIVE DIRECTOR

PHONE: (314) 534-7444
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May, 2007

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, 2006. 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 present the information in a manner we believe that fairly represents the status of PSRSSTL.

The Year in Review

During 2006, we processed 223 new retirements and 106 applications for Supplemental Pension Benefits under the Sick Leave Conversion Program sponsored by St. Louis Public Schools. In addition, we processed more than 781 distributions for members who left PSRSSTL and we extended a hearty welcome to 469 new members.

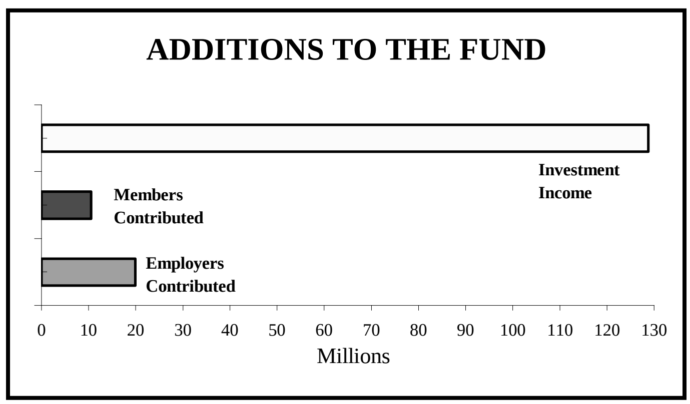
Financial Summary

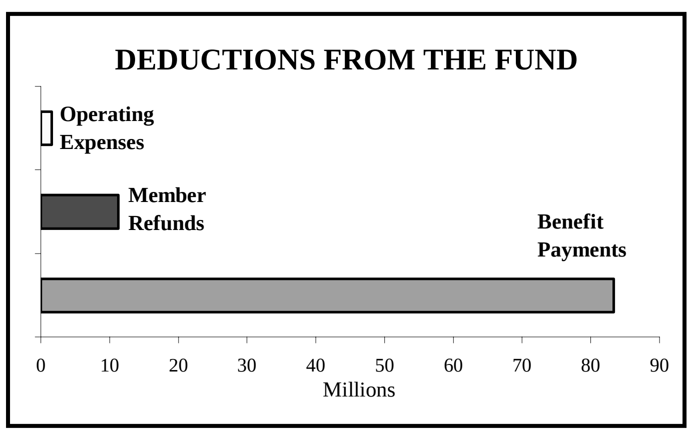
PSRSSTL management is responsible for maintaining appropriate internal accounting and procedural controls. These controls protect PSRSSTL assets from loss due to unauthorized use or disposition; provides a reasonable assurance that PSRSSTL executes its financial transactions in accordance with proper authorization; and ensures the accurate recording of transactions 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, 2006. This Annual Report contains those audited financial statements in their entirety. Summary financial information is as follows.

Net Assets as of 12-31-2005	$1,061,478,889
Additions	
Employer Contributions	19,887,885
Member Contributions	10,511,284
Net Investment Income (Loss)	128,774,730
Deductions	
Benefits Paid to Members	83,350,661
Refunds Paid to Members	11,252,780
Administrative Expenses	1,583,964
Net Assets as of 12-31-2006	$1,124,465,383

Additions and deductions from the fund are presented graphically below.



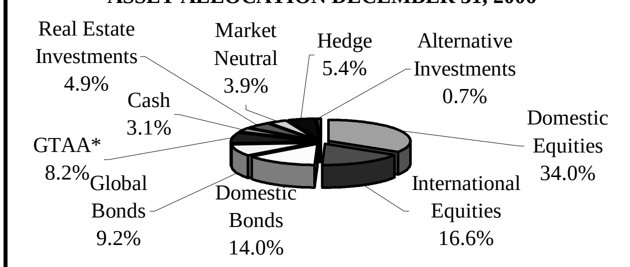


Investment Performance

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, 2006, PSRSSTL assets were broadly diversified as follows.

Domestic Equities	34.0%	
International Equities	16.6%	
Domestic Fixed Income	14.0%	
Global Fixed Income	9.2%	
GTAA*	8.2%	
Cash	3.1%	
Financial Composite		85.1%
Real Estate Investments		4.9%
Market Neutral		3.9%
Hedge Funds		5.4%
Alternative Investments		0.7%
Total Portfolio		100.0%



* GTAA – Global Tactical Asset Allocation

The overall return for PSRSSTL investments was 13.6% for fiscal year 2006 and 6.3% for fiscal year 2005. The higher investment return in fiscal year 2006 compared to fiscal year 2005 is reflective of the volatility in the financial markets. These positive increases in the investment returns for fiscal years 2006 and 2005 can be attributed to a sound 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. The return for fiscal year 2006 was well above the actuarially assumed 8.0% rate of return.

During 2006, the Core-S&P 500 increased 6.7% in the fourth quarter, capping off at 15.8% for the year. The Russell 2000 Growth Index was up 8.8 % in the fourth quarter and finished at 13.4% for the year.

Financial markets posted positive results in the last quarter of 2006. Domestic equity markets rose substantially, capping off three solid years of gain. PSRSSTL domestic bonds rose a respectable 7.2% in 2006 with a 6.6% return over the 5-year period.

In contrast, for year ending 2006, the Lehman Aggregate Bond Index rose 4.3% with a 5.1% return over the 5-year period.

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 26.3% and 32.2% respectively for 2006. Citigroup World Government Global Bonds Index performed satisfactorily during the fourth quarter which contributed to an overall gain of 7.8% for the year.

Focusing on the long-term PSRSSTL investment horizon, for the five-year period ending December 31, 2006, the PSRSSTL portfolio earned 9.4% ranking in the top 35% 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, 2006 indicated PSRSSTL was 91.8% funded on an actuarial basis and 91.8% 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 January 1, 2006, PSRSSTL benefit obligations and the assets available to satisfy those obligations are set forth as follows:

Total Projected Benefit Obligations $1,071,275,169

Net Assets Available for Benefits

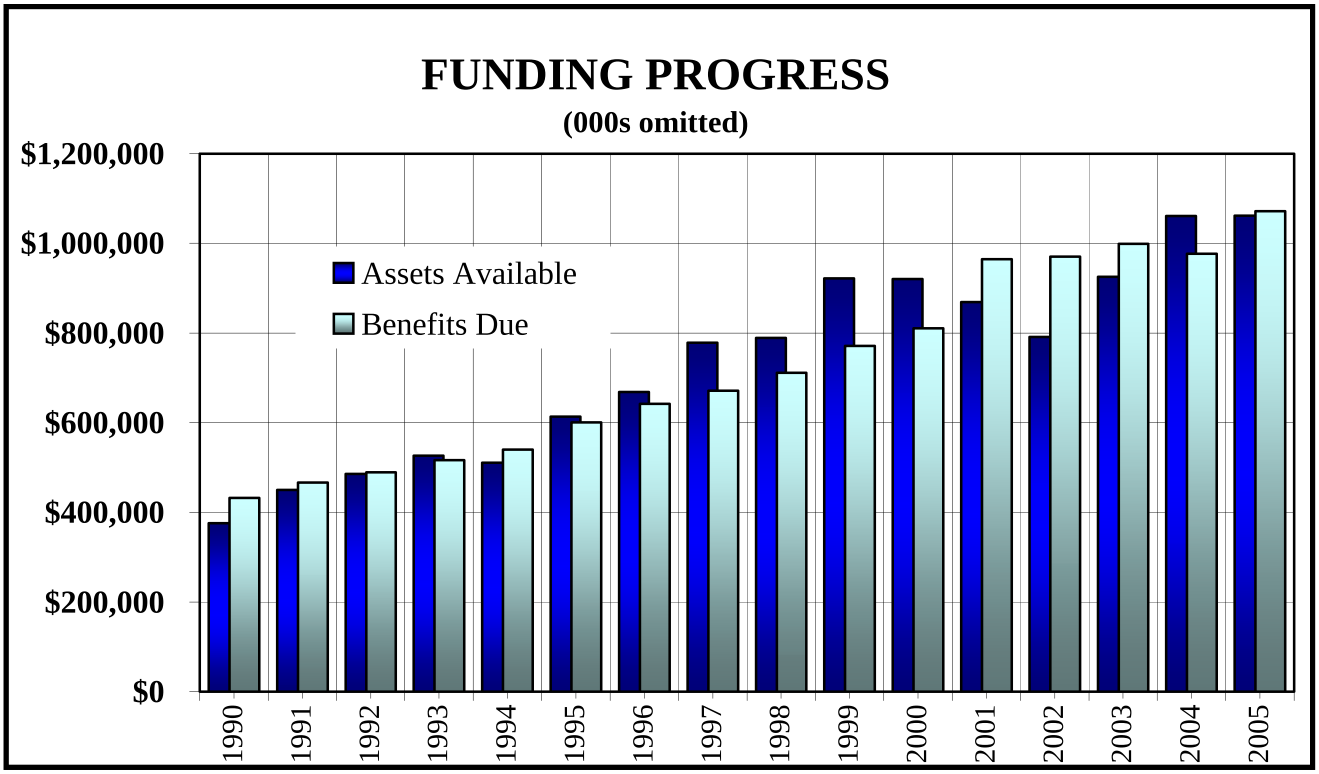
Actuarial Value of Assets $983,828,243

Market Value of Assets $983,828,243

Funding Ratio (Assets ÷ Obligations)

Actuarial Value Funding Ratio 91.8%

Market Value Funding Ratio 91.8%



As indicated in the Financial and Investment Sections of this report, the market value of PSRSSTL assets changed from $1,060,577,177 at the beginning of 2005 to $1,061,478,889 at the beginning of 2006.

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.

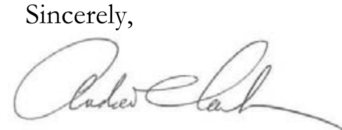
Detailed actuarial information is provided in the Actuarial Section of this report.

Acknowledgments & Reflections

I am thankful to serve a Board of Trustees that devotes enthusiasm and personal time to the PSRSSTL on a regular basis, and I am lucky to work with professional advisors that provide quality service to the Retirement System. I want to thank a hardworking staff that is loyal and dedicated. The staff's integrity and professionalism ensures that PSRSSTL operates efficiently and continues to be a strong dependable pension organization.

Furthermore, I want to thank you, our members and your employers; for you are the reason the Retirement System exists. Your devotion to education preserves the future of St. Louis and helps guarantee the stability of the PSRSSTL. Your financial contributions along with the return on prudent investments continue to allow the PSRSSTL to prosper. As we complete our sixty-third 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, 2006 AND 2005

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Huber, Ring, Helm & Co., P.C.
CPAs • Advisors

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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, 2006 and 2005 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 $11,623,301 and $15,243,782 (1% in 2006 and 1% in 2005 of plan net assets) as of December 31, 2006 and 2005, 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.

www.hrh-advantage.com
Offices located in St. Louis and O'Fallon, Missouri

An Independent Member Firm of DFK International
Member of Missouri and Illinois Societies of Certified Public Accountants and the American Institute of Certified Public Accountants

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, 2006 and 2005 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, 2006 and 2005 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., PC

St. Louis, Missouri
April 9, 2007

STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
CASH	$ 8,097,817	$ 7,863,658
BUILDING PROJECT	2,215,143	2,205,134
RECEIVABLES		
Accrued interest and dividends	4,309,827	4,601,937
Contributions	4,914	10,102
	4,314,741	4,612,039
INVESTMENTS, at fair value		
Cash equivalents	44,054,173	38,514,950
Bonds		
U.S. Government and agency issues	44,981,780	66,801,915
Corporate	92,714,940	80,801,056
Foreign investments	169,014,610	152,101,236
Common and preferred stocks	313,606,346	360,444,537
Mutual funds	385,706,954	291,258,639
Real estate partnerships - insurance contracts	49,214,004	42,604,405
	1,099,292,807	1,032,526,738
INVESTMENTS, at estimated fair value		
Real estate loans, first mortgages	47,625	63,304
INVESTMENTS, at cost		
Limited partnerships	5,635,495	2,633,668
Real estate partnerships - other	2,177,979	6,872,618
Venture capital partnerships	3,809,827	5,737,496
	11,623,301	15,243,782
Total investments	1,110,963,733	1,047,833,824
Total assets	1,125,591,434	1,062,514,655
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,126,051	982,834
Advance contributions received		52,932
Total current liabilities	1,126,051	1,035,766
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
(A schedule of funding progress is presented on page 19.)	$ 1,124,465,383	$ 1,061,478,889

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS
DECEMBER 31, 2006 AND 2005

ADDITIONS	**2006**	**2005**
Employer Contributions	19,887,885	$23,514,266
Member Contributions	10,511,284	10,515,674
	30,399,169	34,029,940
Net appreciation (depreciation) in fair value of investments		
Cash equivalents	1,506,867	1,070,169
Bonds		
U.S. Government and agency issues	1,879,464	1,706,136
Corporate	8,333,328	2,492,925
Income from foreign corporate and government bonds	20,166,144	(3,274,159)
Common and preferred stock	40,906,631	22,752,559
Mutual funds	53,287,978	30,233,783
Real estate loans	5,951	10,066
Limited partnerships	(249,203)	(206,558)
Real estate partnerships	8,261,118	6,954,269
Venture capital partnerships	(330,737)	5,822,225
	133,767,541	67,561,415
Less investment expense	4,992,811	4,212,361
Net investment income (loss)	128,774,730	63,349,054
Total additions	159,173,899	97,378,994
DEDUCTIONS		
Benefits paid		
Retirement and death benefits	80,638,120	73,994,518
Health care subsidies and supplemental payments	2,712,541	2,658,573
	83,350,661	76,653,091
Operating expenses	1,583,964	1,756,223
Contribution refunds due to death or resignation	11,252,780	18,067,968
Total deductions	96,187,405	96,477,282
NET INCREASE	62,986,494	901,712
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR AS REPORTED	**1,061,478,889**	**1,060,577,177**
END OF YEAR	**$ 1,124,465,383**	**$ 1,061,478,889**

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 University 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, 2006	January 1, 2005
Active members	5,156	5,549
Inactive members	952	548
Total members not retired	6,108	6,097
Retired members		
Service and survivors	3,771	3,328
Disability	255	278
	4,026	3,606
Total Membership	10,134	9,703

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

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.

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, 2006 and 2005.

Advanced Contributions Received

There were no advance contributions received at December 31, 2006. For the year ended December 31, 2005, advance 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 15.5% 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 administrative 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, 2006 and 2005, investments consisted of the following:

	2006	
	Market Value	Cost
Cash Equivalents	$ 44,054,173	$ 44,054,173
Bonds		
U.S. Government and agency issues	44,981,780	45,018,407
Corporate	92,714,940	92,793,263
Foreign investments	169,014,610	156,296,560
Common and preferred stocks	313,606,346	262,723,885
Mutual funds	385,706,954	296,014,822
Real estate partnerships - insurance contracts	49,214,004	40,525,048
	1,099,292,807	937,426,158
Real estate loans, first mortgages	47,625	47,625
Limited partnerships	5,635,495	5,635,495
Real estate partnerships - other	2,177,979	2,177,979
Venture capital partnerships	3,809,827	3,809,827
	11,623,301	11,623,301
	$ 1,110,963,733	$ 949,097,084

	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 investments	152,101,236	150,196,586
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

NOTES TO FINANCIAL STATEMENTS
NOTE 4 – OCCUPANCY EXPENSE

The System leased office space under an operating lease that expired in August 2006 at which time the lease was converted to a month-to-month basis. Rent expense for the years ended December 31, 2006 and 2005 was $83,456 and $80,973, respectively. The System moved to its newly constructed office, owned by the System, in January 2007.

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, 2006 and 2005, the System had approximately $9,097,000 and $8,200,000, 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, N.A. 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, 2006 was $13,748,275. A significant portion of the System's investments is held by US Bank of St. Louis, N.A.

On December 28, 2006, the System received $18,503,980 from the St. Louis Board of Education for the 2006 St. Louis Public Schools' annual regular pension contribution and sick leave conversion contribution. The funds were transferred from cash equivalents to investments on January 2, 2007.

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, 2006, 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	$ 62,639,679	6.5%

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

Credit Risk of Debt Securities

The System's rated debt investments as of December 31, 2006 were rated by Moody's Investor Services (Moody's) and the ratings are 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	$ 9,993,430	$ 1,110,561	$ 1,608,923
Foreign government and Corporate obligations	$ 75,485,026	$ 3,489,572	
United States Government Securities	$ 13,894,063		
Agency Securities	$ 3,385,681		
	$ 102,758,200	$ 4,600,133	$ 1,608,923

Rate Debt Instrument Value	A1	A2	A3
Corporate bonds and debentures	$ 2,790,986	$ 1,944,475	$ 689,656
Foreign government and Corporate obligations		$ 3,782,085	
United States Government Securities			
Agency Securities			
	$ 2,790,986	$ 5,726,560	$ 689,656

Rate Debt Instrument Value	BAA1	BAA2	BAA3
Corporate bonds and debentures	$ 1,185,056	$ 2,910,048	$ 5,357,991
Foreign government and Corporate obligations	$ 16,504		
United States Government Securities			
Agency Securities			
	$ 1,201,560	$ 2,910,048	$ 5,357,991

Rate Debt Instrument Value	BA1	BA2	BA3
Corporate bonds and debentures	$ 3,403,859	$ 2,717,721	$ 4,422,077
Foreign government and Corporate obligations			
United States Government Securities			
Agency Securities			
	$ 3,403,859.00	$ 2,717,721.00	$ 4,422,077.00

NOTE 5 – CONCENTRATION OF RISK (CONTINUED)
Credit Risk of Debt Securities (Continued)

NOTES TO FINANCIAL STATEMENTS

	Fair Quality Ratings		
Rate Debt Instrument Value	CA	CAA1	CAA2
Corporate bonds and debentures	$ 179,000	$ 6,690,125	$ 2,777,544
Foreign government and Corporate obligations			
United States Government Securities			
Agency Securities			
	$ 179,000	$ 6,690,125	$ 2,777,544

Rate Debt Instrument Value	CAA3	Unrated	
Corporate bonds and debentures	$ 337,750	$ 7,365,513	
Foreign government and Corporate obligations		$ 16,322,879	
United States Government Securities		$ 425,448	
Agency Securities		$ 27,216,468	
	$ 337,750	$ 51,330,308	

NOTES TO FINANCICAL STATEMENTS

NOTE 5 – CONCENTRATION OF RISK (CONTINUED)

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
Euros		$ 35,886,725	$ 18,349,978	$ 54,236,703
Franc		12,606,868	6,315,487	18,922,355
Deutsch		18,541,870	3,049,950	21,591,820
Swedish Korena		3,750,233	1,531,036	5,281,269
Australian Dollar		2,931,845	2,036,585	4,968,430
Norwegian Krone		3,704,919	2,184,099	5,889,018
Mexican Peso		5,331,420		5,331,420
Poland Zloty		5,264,115		5,264,115
Egyptian Pound			512,806	512,806
Peru Noevo Sol			1,460,255	1,460,255
Japanese Yen		11,078,071	6,653,680	17,731,751
Bulgarian Lev			1,532,132	1,532,132
Korean Won			4,287,237	4,287,237
Hong Kong Dollar			1,717,339	1,717,339
China Yuan			1,162,181	1,162,181
Canadian Dollar			1,079,090	1,079,090
Argentinian Peso			734,181	734,181
Bristish Pound			9,448,235	9,448,235
Pound Sterling			1,382,966	1,382,966
Various			6,481,307	6,481,307
	$	$ 99,096,066	$ 69,918,544	$ 169,014,610

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	$ 92,714,940	$ 701,916	$ 27,299,209
Foreign government and corporate obligations	99,096,066	1,660,342	60,979,677
United States Government Securities	14,379,631		3,359,858
Agency Securities	30,602,149	72	1,828,305
	$ 236,792,786	$ 2,362,330	$ 93,467,049

Investment Type	6 - 10 years	10+ years
Corporate bonds and debentures	$ 43,138,519	$ 21,575,296
Foreign government and corporate obligations	23,261,975	13,194,072
United States Government Securities	6,042,616	4,977,157
Agency Securities	1,455,285	27,318,487
	$ 73,898,395	$ 67,065,012

NOTES TO FINANCIAL STATEMENTS
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), for the construction of a new office building it intends to occupy. 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). At December 31, 2006, the balance remaining in escrow was $102,081. Management does not anticipate the remaining cost of the project to exceed the escrow balance. 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. As of December 31, 2006, the president of Grand Center, Inc. was no longer a board member.

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)
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
2006	983.8	1,122.6	138.8

Actuarial Valuation Date January 1,	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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
2006	87.6	227.0	61.1

See independent auditor's report on supplemental information.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Employer Contributions

Year Ended December 31,	Annual Required Contribution	Percent Contributed
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	121.4%
2006	14,414,133	*

* 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 CCSA Strategies at January 1, 2006. Additional information related to the above actuarial valuation follows:

Actuarial cost method:	Frozen entry age.
Rate of investment return:	8% for 2006 and 2005, 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:	RP-2000 Combined Healthy Lives 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 the 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, 2006, the UFAAL was re-determined. 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, 2006 AND 2005

	2006	2005
Actuarial services	$ 119,715	$ 147,400
Accounting and auditing fees	32,767	45,851
Computer programming and consultation	333,016	215,036
Convention, conferences, seminars		
Executive Director	3,039	
Trustees	29,859	20,637
Dues and subscriptions	10,067	3,146
Employee benefits	20,065	19,269
Furniture and equipment	20,601	10,749
Insurance - group hospitalization	44,665	44,221
Insurance - casualty and bonding	87,572	91,121
Legal fees and expense	55,043	77,418
Medical fees	1,215	1,586
Office repairs and maintenance	13,713	9,138
Office supplies and expense	8,008	11,739
Postage	59,171	81,829
Pension contribution	36,743	43,460
Printing and publishing	29,281	32,731
Rent	83,456	80,973
Salaries - administrative and clerical	496,082	504,243
Special Project consultation	33,039	252,785
Taxes, Payroll	38,018	38,679
Taxes, Real Estate	3,019	
Telephone	12,131	10,069
Miscellaneous expense	13,679	14,143
Total	$ 1,583,964	$ 1,756,223

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:

	2006	2005
Transportation and registration	$ 6,936	$ 7,362
Lodging, meals, and miscellaneous	22,923	13,275
Other		
Total	$ 29,859	$ 20,637

See independent auditor's report on supplemental information.

THE CAPITAL MARKET ENVIRONMENT

Domestic Stocks

The S&P Mid Cap 400 posted gains for calendar year 2006, with a return of 10.3%. Growth and Value stocks contributed to gains in year 2006 as shown by the Russell 1000 Growth Index, up 9.1% and the Russell 1000 Value Index, up 22.2%.

Domestic Bonds

Fixed income markets posted gains in 2006. The Lehman Aggregate Index was up 4.3% with a five-year return of 5.1%. MFC Global returned 3.2%, MDL Capital 4.0%, and Mellon Bond was up 4.3%.

Citigroup High Yield bonds were up 11.9% for the year with a 5-year average return of 10.2%.

International Markets

The international equity markets performed well with the MSCI EAFE Index up 26.3% while emerging markets equities gained more than 32.2%.

The Citigroup World Government Bond Index finished up 2006 on a positive note with a return of 6.1%.

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, 2006, the PSRSSTL fund gained 13.6%, with a ranking of 62 within the Investment Consultants' Cooperative (ICC) Universe of Public Funds. The ICC consisted of 180 funds with assets of $783 billion for this reporting period. For the five-year period ending December 31, 2006, PSRSSTL investment performance ranked in the upper 35% of the ICC Universe, earning a 9.4% return.

Investment performance by asset class for one-year and five-year periods ending December 31, 2006 is set forth below.

	One Year	Five Years
PSRS Total Portfolio	13.6%	9.4%
PSRS Domestic Equities	14.1%	9.0%
S&P Mid Cap 400	10.3%	10.9%
Median Public Fund	15.5%	9.1%
PSRS Domestic Bonds	7.2%	6.6%
Citigroup High Yield	11.9%	10.2%
Lehman Aggregate Index	4.3%	5.1%
MFC Global	5.2%	6.0%
Median Public Fund	4.6%	5.5%
PSRS International Equities	28.6%	15.0%
MSCI EAFE Index	26.3%	15.0%
MSCI Emerging Index	32.2%	26.7%
Median International Fund	26.6%	16.9%
PSRS Global Bonds	7.8%	11.6%
Citigroup World Government	6.1%	8.4%
Median Global Bonds	6.2%	8.8%

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 2006.

INVESTMENTS AS OF DECEMBER 31, 2006 (000s omitted)
ASSET ALLOCATION & INVESTMENT MANAGERS

		RELATIVE TO TOTAL PORTFOLIO							
	MANAGEMENT	MARKET VALUE		TARGET VALUE		VARIANCE		MARKET VALUE	
	STYLE	Value	%	Value	%	Value	%	Value	%
LARGE CAP GROWTH DOMESTIC EQUITIES		106,163	9.5%	111,899	**10.0%**	(5,736)	-0.5%		
Buford, Dixon, Harper & Sparrow	Large Cap Growth							19,308	18.2%
Intech	Large Cap Growth							31,857	30.0%
Monetary Management Group	Large Cap Growth							54,998	51.8%
LARGE CAP CORE DOMESTIC EQUITIES		58,573	5.2%	67,139	**6.0%**	(8,566)	-0.8%		
Batterymarch Financial	Large Cap Core							24,553	41.9%
Mellon Equity Index	Large Cap Core							34,020	58.1%
LARGE CAP VALUE DOMESTIC EQUITIES		93,731	8.4%	111,899	**10.0%**	(18,168)	-1.6%		
Chicago Equity Partners	Large Cap Value							59,068	63.0%
The Edgar Lomax Company	Large Cap Value							34,663	37.0%
MID CAP GROWTH DOMESTIC EQUITIES		31,839	2.8%	33,570	**3.0%**	(1,731)	-0.2%		
New Amsterdam Partners	Mid Cap Growth							31,839	100.0%
SMALL/MICRO CAP DOMESTIC EQUITIES		89,937	8.0%	89,519	**8.0%**	418	0.0%		
Westfield Capital Management	Small Cap Growth							29,350	32.6%
Systematic Financial Management	Small Cap Value							33,092	36.8%
Dimensional Fund Advisors	Small Cap Core							27,495	30.6%
GLOBAL ASSET ALLOCATION		92,088	8.2%	111,899	**10.0%**	(19,811)	-1.8%		
GMO Global Balanced AA								45,184	49.1%
Mellon GA								46,904	50.9%
INTERNATIONAL EQUITIES		185,430	16.6%	145,468	**13.0%**	39,962	3.6%		
Battermarch GI Emerging	Emerging Markets							51,180	27.6%
Causway	International Equities							71,610	38.6%
Fidelity	International Equities							62,640	33.8%
DOMESTIC BONDS		101,034	9.0%	111,899	**10.0%**	(10,865)	-1.0%		
Mellon Index Bond	Core Domestic Bonds							14,651	14.5%
MDL Capital	Core Domestic Bonds							19,214	19.0%
MFC	Core Domestic Bonds							67,169	66.5%
HIGH YIELD DOMESTIC BONDS		55,466	5.0%	55,949	**5.0%**	(483)	0.0%		
HSBC	High Yield Bonds							55,466	100.0%
GLOBAL BONDS		103,344	9.2%	89,519	**8.0%**	13,825	1.2%		
Mondrian	Global Bonds							103,344	100.0%
MARKET NEUTRAL STRATEGY		43,660	3.9%	44,759	**4.0%**	(1,099)	-0.1%		
Blue Rock	Market Neutral							43,660	100.0%
HEDGED STRATEGIES		59,982	5.4%	55,949	**5.0%**	4,033	0.4%		
K2	Hedge Funds							30,367	50.6%
Mariner	Hedge Funds							29,615	49.4%
REAL ESTATE		54,845	4.9%	55,949	**5.0%**	(1,104)	-0.1%		
Seven Funds & Residential Mortgages	Real Estate							54,845	100.0%
ALTERNATIVE INVESTMENTS		8,204	0.7%	33,570	**3.0%**	(25,365)	-2.3%		
Partnerships	Alternative Investments							8,204	100.0%
CASH *(Does Not Include Managers' Residual Cash)*	STIF	34,689	3.1%	0	**0.0%**	34,689	3.1%		
PSRSSTL	Cash							22,560	65.0%
Mellon Money Market	Cash							12,129	35.0%
TOTAL		**$1,118,985**	**100.0%**	**$1,118,985**	**100.0%**				

The target values shown above represent the adopted Asset Allocation Policy for 2006. A notable change in the PSRSSTL Asset Allocation Policy includes the movement to a Global Tactical Asset Allocation strategy from a Domestic Tactical Asset Allocation strategy.

DOMESTIC EQUITY INVESTMENTS

2006 Return	14.1%
Average Market Capitalization	$61,985,900
P/E Ratio	16.41
Price/Book Ratio	3.66
Five Year Earnings Growth Rate	22.63

Ten Largest Domestic Equity Holdings

Company	Dollar Value	Percent of Portfolio	Company	Dollar Value	Percent of Portfolio
Exxon Mobil Corp.	$7,961,784	2.1%	Johnson & Johnson	4,864,266	1.3%
J. P. Morgan Chase	5,818,756	1.5%	Pfizer Inc.	4,801,766	1.3%
Citigroup Inc.	5,663,984	1.5%	Bank of America Corp.	4,783,545	1.3%
Altria Group Inc.	5,354,392	1.4%	Microsoft	3,336,698	0.9%
Genereal Electric Co.	$5,331,436	1.4%	Bellsouth Corp	3,085,657	0.8%

Ten Best Performing Domestic Equity Holdings

Company	Return	Company	Return
Northwest Airls Corp.	501.4%	Bns Hldg. Inc. Cl	134.8%
Forgent Networks	229.2%	Terayon Communications	125.3%
Goamerica Inc. Com	151.1%	Sequenom Inc. Com	118.7%
Amrep Corp.	150.7%	Neomagic Corp. Com	115.8%
Praecis Pharmacuticals	139.5%	Sonic Foundry Inc.	101.7%

Ten Worst Performing Domestic Equity Holdings

Company	Return	Company	Return
Standard Management	-76.0%	Ibis Technology	-58.5%
Delta Woodside	-74.3%	Ipix Corp. Com.	-58.3%
Ivow Inc. Com.	-61.4%	Trenwick Group Inc.	-55.0%
Tripos Inc.	-60.5%	Tweeter Home Ent.	-53.5%
Wolverine Tube Inc.	-59.7%	Atlantis Plastics I	-51.7%

DOMESTIC BOND INVESTMENTS

PSRSSTL domestic bond investments had an average life of 8.42 years, a duration of 5.56 years, and an average quality rating of 6.77. During 2006, the PSRSSTL domestic bond portfolio earned 7.2%. Below are bond summary statistics for the quarter ending December 2006.

Bond Portfolio Average Maturity in Years	Percent of Portfolio
0.0 - 1.0	3.7%
1.0 - 3.0	11.9%
3.0 - 5.0	16.5%
5.0 - 10.0	39.2%
10.0 - 20.0	14.1%
20 +	5.6%
Unclassified	9.0%

Bond Portfolio Duration in Years	Percent of Portfolio
0.0 - 1.0	4.2%
1.0 - 3.0	17.0%
3.0 - 4.0	13.7%
4.0 - 6.0	28.4%
6.0 - 8.0	9.6%
8.0 +	18.2%
Unclassified	9.0%

Bond Portfolio Quality Rating	Percent of Portfolio
Government (10)	13.7%
Aaa(10)	11.1%
Aa(9)	1.5%
A(8)	4.5%
Baa(7)	6.5%
Below Baa(6-1)	41.8%
Other	20.9%

BROKERAGE FEES

Company	Commission Paid	Company	Commission Paid	Company	Commission Paid
Abel Noser	$617.25	Griswold Company	414.00	Needham	920.00
Access Securities	683.10	Guzman & Co.	295.20	Nesbitt Burns Securities	711.24
Adams Harkness & Hill	11.00	Harriss Nesbitt Corp	432.00	Oppenheimer	779.00
AG Edwards	220.00	Instinet	8,940.75	Pacific Equities Growth	1,104.00
American Technology Research	184.00	Investment Technology Group	14,758.62	Pipeline Trading Systems	150.00
Avondale Partners	256.00	ISI Group Inc.	393.80	Prudential Securities	1,770.90
B Trade Services LLC	250.00	Ivy Securities Inc.	712.00	Pulse Trading	436.00
Baird & Company	1,572.00	J P Morgan	3,327.92	Raymond James	585.76
Banc Boston Securities Inc.	2,897.75	Jackson partners	504.00	RBC Dominion Securities	824.19
Bear Stearns	6,082.48	Jefferies	9,101.81	Redwood Brokerage	84.00
Berstein Sanford & Co.	3,772.68	JMP Securities	620.56	Rochdale Seucirties	189.00
Blair, William	104.00	Jones Associates	1,085.02	Rosenblatt Securities Inc	2,412.13
BNY Dealer Clearance	5,380.50	Kauffman Brothers	472.12	Sandler O Neill	2,372.76
Bridge Trading	56.16	Keefe Bruyette	664.00	SBK brooks Investment	704.00
B-Trade Services	22.00	King C L & Associates	87.00	Schonefield Securities	1,608.00
Buckingham Research Group	188.00	Knight Securities LP	675.54	Scott McLeod USA INC	208.00
Cabera Capital markets	64.00	LaBranche Financial	2,870.50	Simmons & Company	182.64
Canaccord Adams Inc	140.00	Lazard Freres & Co	20.00	SMF Trading Inc.	210.00
Cantor Fitzgerald	14,726.75	Leerink Swank & Co.	$560.12	State Street Global markets	177,462.96
Capital Institution Services	7,109.23	Lehman Brothers	11,608.71	Stephen M Ferretti Inc.	236.00
Cheevers & Co., Inc.	1,064.00	Liquidnet Inc.	18,604.54	Stephens Inc.	476.00
CIBC World markets	1,775.04	Loop Capital Markets	376.00	Stifel Nicolaus	8.00
Citicorp Securities	2,112.25	Lynch Jones & Ryan	2,061.33	Suntrup Robinson Humphey	688.00
Cowen & Co.	2,630.78	Magna Securities	904.00	Think Equity Partners LLC	475.00
Craig Hallum	756.00	McDonald & Co.	364.00	Tullett Liberty Securities	92.30
Credit Suisse First Boston	9,445.87	Medford Financial Inc.	27.00	UBS Securities	10,280.22
Deutsche Bank Capital	6,539.84	Merrill Lynch Pierce Fenner	5,286.83	Unterburg harris	620.00
Direct Trading	3,559.02	Merriman Curhan Ford & Co.	444.00	Us Bancorp Piper jaffray	2,056.79
Dougherty Company	392.00	Midwest Research	1,492.00	Wachovia Capital markets	998.52
Ferris & Co.	1,463.46	Miletus Trading LLC	243.00	Wave Securities LLC	915.50
First Analysis Securities	336.00	Miller Tabak Roberts Securities	83.64	Wedbush Securities	256.00
First Clearing	16,762.50	Monness Crespi hardt	288.00	Weeden & Co.	7,562.66
Fox Pitt Kelton Inc.	1,222.23	Montgomery Securities	4.00	Weiss Peck and Greer	4,900.26
Friedman Billings & Ramsey	831.50	Morgan Equities Inc.	911.84	Whitaker Securities	90.00
Global Trading	89,457.61	Morgan Stanley	7,028.93	White Cap Trading LLC	60.20
Goldman Sachs	14,747.37	Nationsbank of Georgia	248.00	Williams Capital Group	1,622.00
	$197,432.37		$95,910.78		$224,052.03
				2006 Total Commissions	$517,395.18

MARKET VALUE OF ASSETS

Investment Category	As of December 31, 2004		As of December 31, 2005		As of December 31, 2006	
	Market Value	% of Total	Market Value	% of Total	Market Value	% of Total
Cash, Receivables, Cash Equivalents	$55,141,152	5.2%	$50,990,647	4.8%	$56,466,731	5.3%
Building Project		0.0%	2,205,134	0.2%	2,215,143	0.2%
U.S. Bonds, Bills and Mortgages	68,052,963	6.4%	66,801,915	6.3%	44,981,780	4.2%
Corporate Bonds	87,503,497	8.2%	80,801,056	7.6%	92,714,940	8.7%
Foreign Corporate & Government Bonds	110,270,524	10.4%	152,101,236	33.1%	169,014,610	33.1%
Common Stocks	360,491,905	34.0%	360,444,537	33.1%	313,606,346	33.1%
Mutual Funds	321,796,877	30.3%	291,258,639	27.4%	385,706,954	36.3%
Real Estate - Insurance Contracts	36,157,517	3.4%	42,604,405	4.0%	49,214,004	4.6%
Mortgages	93,325	0.0%	63,304	0.0%	47,625	0.0%
Alternative Investments *	22,031,393	2.1%	15,243,782	1.4%	11,623,301	1.1%
Total	**$1,061,539,153**	**100.0%**	**$1,062,514,655**	**100.0%**	**$1,125,591,434**	**100.0%**

* Carried at Cost Value

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS

ACTUARIAL VALUATION
AS OF JANUARY 1, 2006

February
2007

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 several changes in actuarial assumptions and methods from those used in the prior actuarial valuation. The mortality table was changed as a result of the five-year experience study. The Unfunded Frozen Actuarial Accrued Liability (UFAAL) was redetermined and set equal to the current actual Unfunded Actuarial Accrued Liability as of January 1, 2006. In keeping with a fresh start on the UFAAL, the Actuarial Value of Assets was set equal to the market value of assets as of January 1, 2006. The net effect of the above changes and the actuarial experience of the system, the Annual Required Contribution rate increased to 7.63% from 6.45%.

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 2007. The dollar amount of the actual contribution increased to $17,311,658 for 2007 from $14,414,133 for 2006. As a percentage of covered compensation the contribution rate for 2007 increased to 7.63% from 6.45% for 2006.

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 2007, the annual normal cost is $4,986,360 or 2.20% of the covered payroll of $227,035,801.

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, 2006. This portion of the contribution only changes to reflect changes in benefits or changes in actuarial assumptions and methods. The UFAAL amortization payment for 2007 is $12,325,298 or 5.43% of the covered payroll.

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, 2006

ANNUAL REQUIRED CONTRIBUTION

2006	Board of Education	Harris-Stowe State College	Retirement System	Charter Schools	Total
Normal Cost Contribution	$ 4,667,580	$ 1,425	$ 9,888	$ 307,467	$ 4,986,360
Actuarial Accrued Liability Contribution	11,537,337	3,522	24,442	759,997	12,325,298
Annual Required Contribution	$ 16,204,917	$ 4,947	$ 34,330	$1,067,464	$ 17,311,658
Covered Payroll	212,521,330	64,876	450,221	13,999,374	227,035,801
ARC as % of Covered Payroll	7.63%	7.63%	7.63%	7.63%	7.63%
2005*					
Normal Cost Contribution	$ 0	$ 0	$ 0	$ 0	$ 0
Actuarial Accrued Liability Contribution	14,299,464	4,184	36,743	1,150,081	15,490,472
Annual Required Contribution	$ 14,299,464	$ 4,184	$ 36,743	$1,150,081	$ 15,490,472
Covered Payroll	221,718,075	64,876	569,706	17,832,398	240,185,055
ARC as % of Covered Payroll	6.45%	6.45%	6.45%	6.45%	6.45%

SYSTEM ASSETS	January 1, 2006	January 1, 2005*
Expense and Contingency Reserve	$ 77,650,646	$ 72,286,064
Market Value, excluding Expense & Contingency Reserve	983,828,243	988,291,113
Actuarial Value	983,828,243	935,328,638
SYSTEM LIABILITIES		
Unfunded Actuarial Accrued Liability	$ 138,755,532	$ 161,197,858
Actuarial Present Value of Projected Accrued Benefits	1,071,275,169	989,291,113
FUNDING RATIO		
Actuarial Value Funding Ratio	91.8%	94.6%
Market Value Funding Ratio	91.8%	99.9%

**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, 2005 was performed. On the basis of that analysis, several actuarial assumptions were changed effective with the January 1, 2006 valuation. The next scheduled experience analysis is for the five-year period ending December 31, 2010.

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 actuarial value of assets was "fresh-started" as of January 1, 2006 and set equal to the market value of assets as of that date. 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 Frozen 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, 2006, UFAAL was redetermined.

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, from January 1, 2006.

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 RP-2000 Combined Healthy Lives Mortality Table for males and females is used for active members, retired members and beneficiaries.

Disability Mortality - The RP-2000 Combined Healthy Lives Mortality Table for males and females is used for active members, with ages set up five years.

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	Withdrawal Rate 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 Membership	Withdrawal Rate Males	Withdrawal Rate 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 25% 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 Age	Withdrawal Rates Males	Withdrawal Rates Females	Disability Rates Males	Disability Rates Females	Retirement 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 Male	Age	Death Rate Female	Death Rate Male	Age	Death Rate Female
.000773	35	.000475	.037834	75	.028106
.001079	40	.000706	.064368	80	.045879
.001508	45	.001124	.110757	85	.077446
.002138	50	.001679	.183408	90	.131682
.003624	55	.002717	.267491	95	.194509
.006747	60	.005055	.344556	100	.237467
.012737	65	.009706	.397886	105	.293116
.022206	70	.016742	.400000	110	.400000

DISABLED LIFE MORTALITY RATES

Death Rate Male	Age	Death Rate Female	Death Rate Male	Age	Death Rate Female
.000773	30	.000475	.064368	75	.045879
.001079	35	.000706	.110757	80	.077446
.001508	40	.001124	.183408	85	.131682
.002138	45	.001679	.267491	90	.194509
.003624	50	.002717	.344556	95	.237467
.006747	55	.005055	.397886	100	.293116
.012737	60	.009706	.397886	105	.364617
.022206	65	.016742	.400000	110	.400000
.037834	70	.028106	1.000000	115	1.000000

ACTUARIAL BALANCE SHEET

Actuarial Assets

Actuarial value of present assets		$ 983,828,243
Actuarial present value of future member contributions		89,653,915
Actuarial present value of future employer contributions for:		
Normal Costs		37,050,928
Actuarial Accrued Liability		138,755,532
Total present and future assets		$ 1,249,288,618

Actuarial Liabilities

Actuarial present value of benefits now payable		$ 629,564,195
Actuarial present value of benefits payable in the future		
Active members – New Plan	434,674,834	
Active members -- Old Plan	0	
Active members -- DROP	153,260,099	
Members on leave of absence without pay	9,355,899	
Terminated members	22,433,591	
Total payable in the future		619,724,423
Total liabilities for benefits		$ 1,249,288,618

PROJECTED BENEFIT OBLIGATION FUNDING STATUS

Projected Benefit Obligation at January 1, 2006:

Retired members and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	$ 661,353,685
Current active members:	
Accumulated member contributions, including interest	90,001,111
Employer-financed vested benefits	317,721,355
Employer-financed non-vested benefits	2,199,018
Total Projected Benefit Obligation	$1,071,275,169

At January 1, 2006, the Projected Benefit Obligation was funded as follows:

Net assets available for benefits at actuarial value	$ 983,828,243
Unfunded Projected Benefit Obligation	87,446,926
Actuarial value funding ratio	91.8%
Net assets available for benefits at market value	$ 983,828,243
Unfunded Projected Benefit Obligation	87,446,926
Market value funding ratio	91.8%

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)
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
2006	90,001,111	661,353,685	319,920,373	983,828,243	100	100	73

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 page 31 of this Report and 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 12.43% on an actuarial value basis, 4.43% above the assumed rate of return of 8.0% for 2005. A portion of the rate of return was due to an adjustment to increase the actuarial value to equal the market value as of January 1, 2006. Prior to the adjustment the rate of return on an actuarial value basis would have been 8.90%, 0.90% above the assumed rate of return of 8.00%. In accordance with Rule XI, $0 was added to the investment contingency portion of the Reserve, because the preliminary actuarial rate of return would not have 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 6.15%, also presented on page 38 of this Report.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial value of assets as of January 1, 2005	$ 935,328,638
(2)	Member contributions	10,515,944
(3)	Employer contributions	23,514,266
(4)	Benefit payments and expenses	96,477,282
(5)	Investment increment at 8.0%	71,387,838
(6)	Expected actuarial value on January 1, 2006:	
	(1) + (2) + (3) - (4) + (5)	944,269,404
(7)	Market value of assets on January 1, 2006	1,061,478,889
(8)	Expense and Contingency Reserve on January 1, 2006	77,650,646
(9)	Adjustment to the Contingency Reserve on January 1, 2006	0
(10)	Excess of market value over expected actuarial value: (7) – (8) – (6)	39,558,839
(11)	Market value adjustment: 100% x (10)	39,558,839
(12)	Actuarial Value of Assets as of January 1, 2006: (6) + (11)	983,828,243

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
2006	32,534,770	45,115,876	77,650,646

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, 2005	$ 1,060,577,177
(ii)	B = Market Value of Assets as of January 1, 2006	1,061,478,889
(iii)	C = Contributions during the period	34,030,210
(iv)	D = Disbursements during the period	96,477,282
(v)	Rate of Return: $\frac{B - A + D - C}{A + \frac{1}{2}(C - D)}$	6.15%
(vi)	Actuarial Assumed Rate of Return for 2005	8.00%
(vii)	Difference between actual and assumed rates of return: (v) – (vi)	-1.85%

(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, 2005	$ 935,328,638
(ii)	I = Income Allocated as of January 1, 2006	110,946,677
(iii)	C = Contributions during the period, time-weighted	5,749,863
(iv)	D = Disbursements during the period, time-weighted	48,238,641
(v)	Rate of Return: $\frac{I}{A + C - D}$	12.43%
(vi)	Actuarial Assumed Rate of Return for 2005	8.00%
(vii)	Difference between actual and assumed rates of return: (v) – (vi)	4.43%

MEMBERSHIP AND BENEFITS PAID AS OF JANUARY 1, 2006

	Males	Females	Total
Active Members			
Regular Active Members	1,173	3,598	4,771
DROP	74	311	385
Total Active Members	1,247	3,909	5,156
Inactive Members (Terminated or Leave of Absence without Pay)	394	558	952
Total Members Not Retired	1,641	4,467	6,108
Retired Members and Beneficiaries			
Retired Members and Contingent Annuitants	964	2,505	3,469
Survivors	44	258	302
Disabled Members	77	178	255
Total Retired Members and Beneficiaries	1,085	2,941	4,026
Total Membership	2,726	7,408	10,134

NUMBER OF RETIRED MEMBERS AND BENEFICIARIES

Option	Service Benefit	Disability Benefit	Survivor Benefit
0	2,963	214	302
1	133	16	0
2	81	4	0
3	143	11	0
4	141	4	0
5	5	4	0
6	3	2	0
Total	**3,469**	**255**	**302**

AMOUNT OF ANNUAL BENEFIT

Option	Service Benefit	Disability Benefit	Survivor Benefit
0	$56,522,232	$2,085,182	$2,513,081
1	2,034,754	213,149	0
2	1,521,023	68,806	0
3	2,624,097	111,406	0
4	3,145,636	67,894	0
5	112,785	41,823	0
6	32,518	8,917	0
Total	**$65,993,045**	**$2,597,177**	**$2,513,081**

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, 2006 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 the determination of 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.

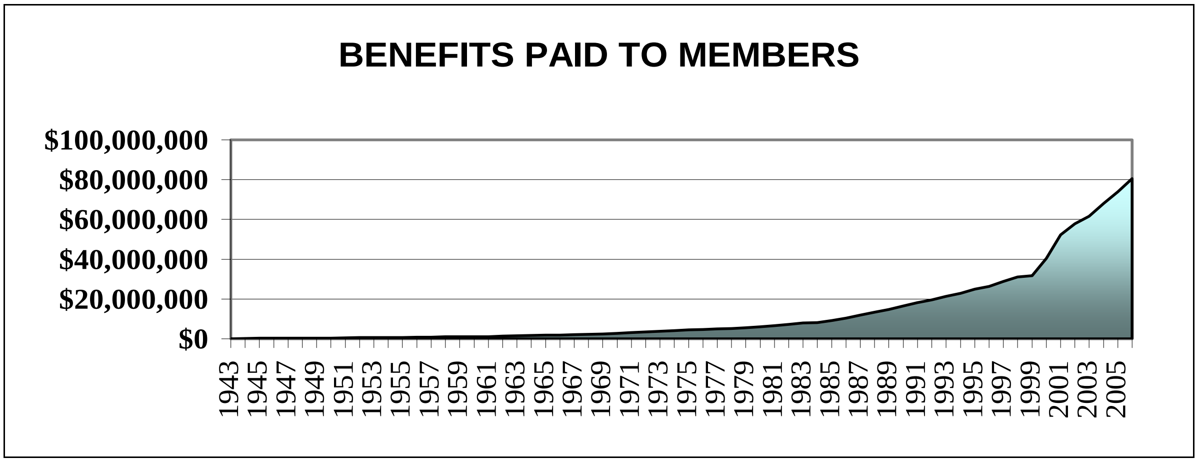
Surviving spouses of deceased retired members are eligible to retain health care insurance after the death of the member.

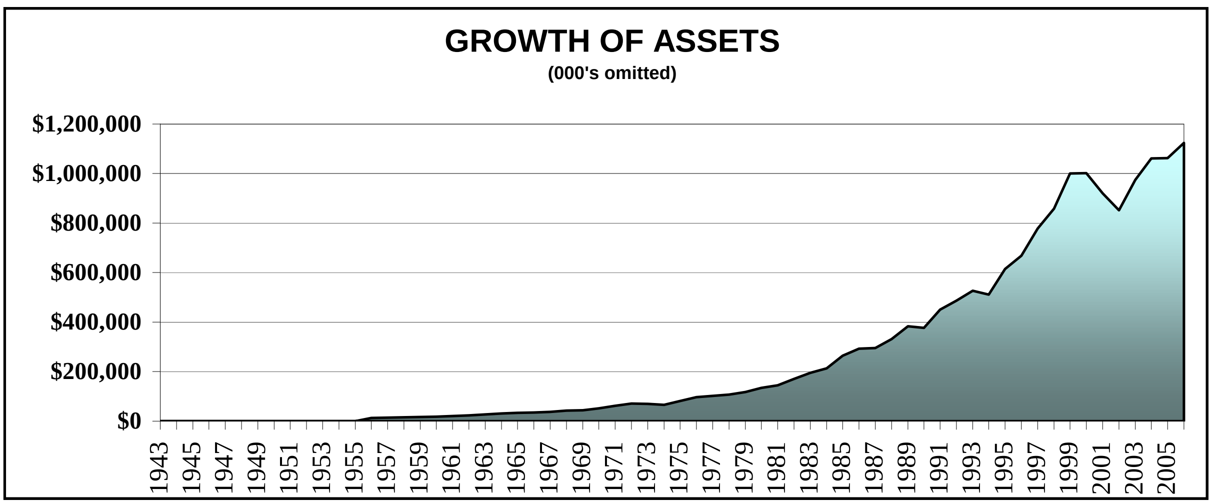
Surviving spouses of deceased active members who elect to receive monthly benefit payments under Option 1 may also be eligible for health insurance coverage for themselves and for otherwise eligible children of deceased active members.

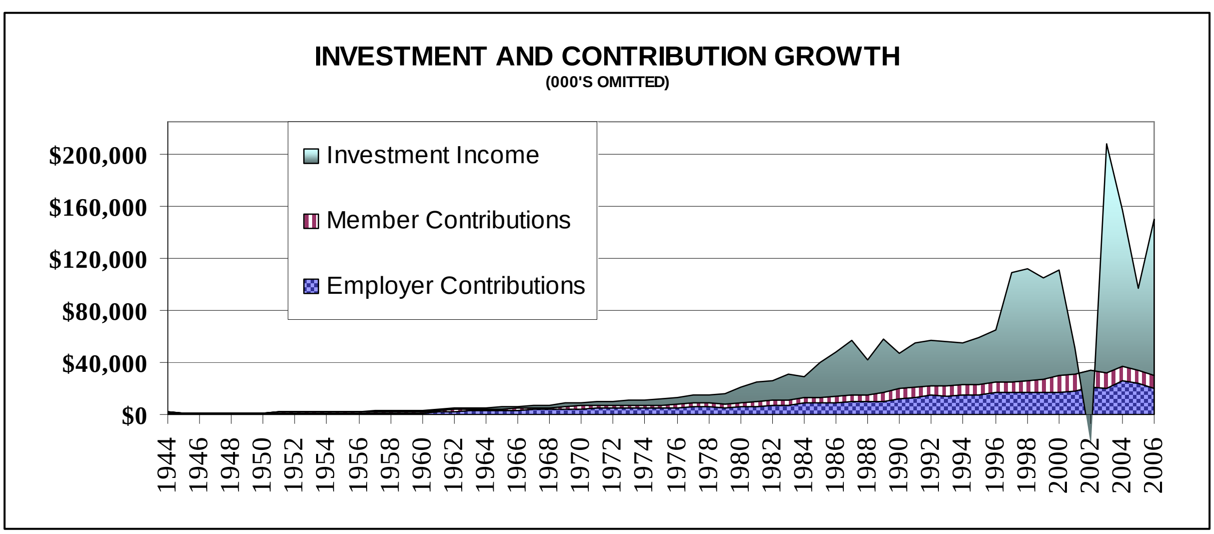
COLAs

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.







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