2008 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 has the fiduciary responsibility for the general administration and investment of PSRSSTL's assets. The St. Louis Public Schools Board of Education appoints four trustees; the members of the Public School Retirement System of the City of St. Louis (PSRSSTL) elect seven. 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. Office term length is four years. At June 30, 2009, 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	Terry Mayes
Insurance Benefits Specialist	John Henderson
Member Services Lead	Angela Johnson
Member Services Specialist	Stephanie L. Johnson
Customer Service Representative	Terri Beckwith
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. JP Morgan Chase & Co.

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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June, 2009

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, 2008. 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 2008, we processed 281 new retirements and 137 applications for Supplemental Pension Benefits under the Sick Leave Conversion Program sponsored by St. Louis Public Schools. In addition, we processed more than 899 distributions for members who left PSRSSTL and we extended a hearty welcome to 403 new members.

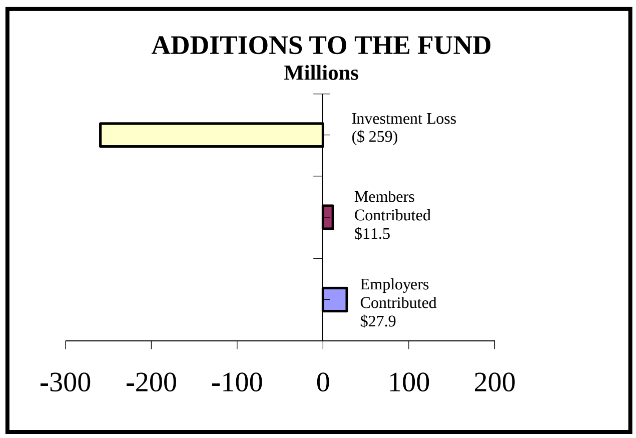
Financial Summary

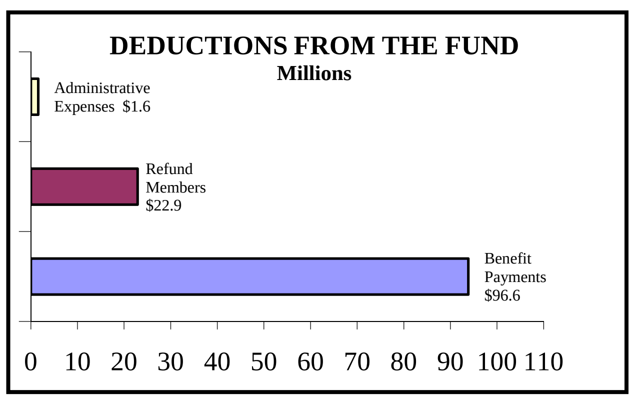
PSRSSTL management is responsible for maintaining appropriate internal accounting and procedural controls. These controls help to protect PSRSSTL assets from loss due to unauthorized use or disposition, provide a reasonable assurance that PSRSSTL executes its financial transactions in accordance with proper authorization, and ensure 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, 2008. This Annual Report contains those audited financial statements in their entirety. Summary financial information is as follows.

Net Assets as of 12-31-2007	$1,150,960,911
Additions	
Employer Contributions	27,853,996
Employee Contributions	11,537,258
Net Investment Income (Loss)	(259,438,859)
Deductions	
Benefits Paid to Members	(96,633,132)
Refunds Paid to Members	(22,910,310)
Administrative Expenses	(1,576,880)
Net Assets as of 12-31-2008	$809,792,984

Below is a graphic representation of the Additions and Deductions from the fund.





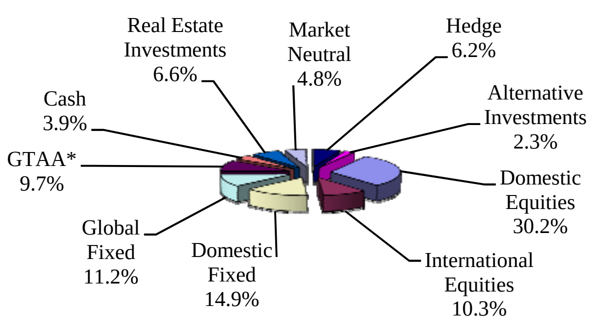
Investment Performance

Proper asset allocation helps to control volatility and increases 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, 2008, PSRSSTL assets were broadly diversified as follows.

Domestic Equities	30.15%	
International Equities	10.33%	
Domestic Fixed Income	14.91%	
Global Fixed Income	11.17%	
GTAA*	9.66%	
Cash	3.90%	
Financial Composite		80.13%
Real Estate Investments		6.60%
Market Neutral		4.81%
Hedge		6.15%
Altetrnate Investments		2.31%
Total Portfolio		100.00%

ASSET ALLOCATION DECEMBER 31, 2008



*GTAA – Global Tactical Asset Allocation

The overall return for PSRSSTL portfolio was -24.7% for fiscal year 2008 and 9.2% for fiscal year 2007. The investment loss in fiscal year 2008 compared to the gain in fiscal year 2007 is reflective of the current global recession and volatility in the financial markets. The overall stability of the fund during these uncertain times can be attributed to a sound PSRSSTL Asset Allocation Policy and active management by the Board of Trustees. By retaining quality investment managers, PSRSSTL ensures future solvency as it continues to focus on long-term investment objectives.

During 2008, the Core-S&P 500 decreased -21.9% in the fourth quarter, capping off at -37.0% for the year. The Russell 2000 Growth Index was down -27.4 % in the fourth quarter and finished at -38.5% for the year.

Financial markets posted negative results in the last quarter of 2008. For the year ending December 31, 2008, PSRSSTL domestic equities decreased -36.7% and PSRSSTL domestic bonds were down -11.9% with a 2.0% return over the 5-year period.

In contrast, for year ending 2008, the Lehman Aggregate Bond Index rose 5.2% with a 4.7% return over the 5-year period.

International stock markets performed poorly for the year with the MSCI EAFE (the benchmark for international equities) and MSCI Emerging Market Indices posting negative returns of -43.4% and -53.3% respectively for 2008. The Citigroup World Government Global Bond Index performed well during the fourth quarter contributing to an overall gain of 10.9% for the year.

Focusing on the long-term PSRSSTL investment horizon, for the five-year period ending December 31, 2008, the PSRSSTL portfolio earned 2.3% ranking it in the top 34% of public plans.

Additional investment information can be found 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 sponsoring employers should make to PSRSSTL during the upcoming year so sufficient assets are available for benefit payments in the future.

The annual valuation as of January 1, 2008 indicated PSRSSTL was 89.9% funded on an actuarial basis and 94.7% 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, 2008, PSRSSTL benefit obligations and the assets available to satisfy those obligations are set forth as follows:

Total Projected Benefit Obligations $1,128,363,288

Net Assets Available for Benefits

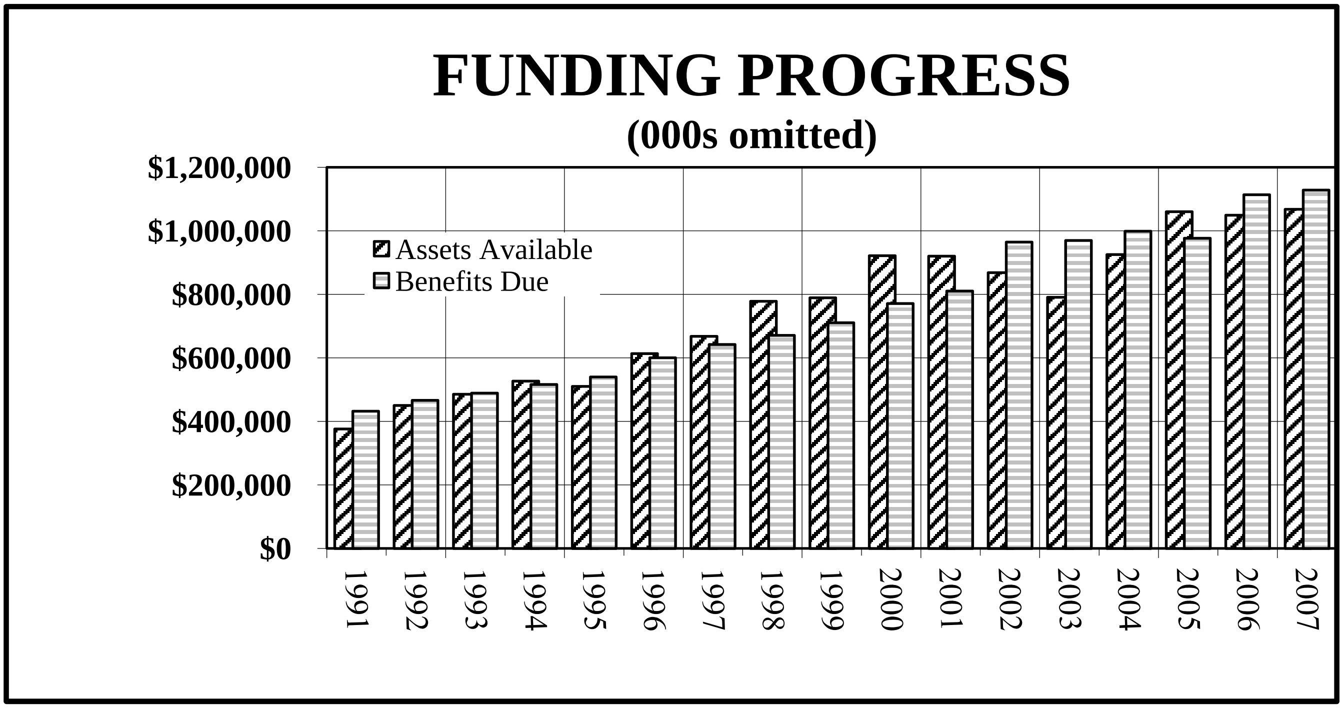
Actuarial Value of Assets $1,014,923,381

Market Value of Assets $1,068,241,121

Funding Ratio (Assets ÷ Obligations)

Actuarial Value Funding Ratio 89.9%

Market Value Funding Ratio 94.7%



As indicated in the Financial and Investment Sections of this report, the market value of PSRSSTL assets changed from $1,124,465,3839 at the beginning of 2007 to $1,150,960,911 at the beginning of 2008.

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.

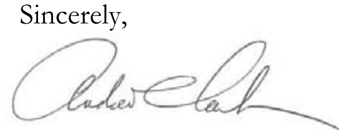
Acknowledgments & Reflections

I am thankful for the effort, time and energy our Board of Trustees freely contributes to ensure the stability and solvency of PSRSSTL. Although investment markets have been challenging over the past year, the Board's untiring efforts continue to solidify the financial foundation of PSRSSTL. By taking their fiduciary responsibilities seriously, the Trustees help ensure future member benefits for years to come.

Our professional advisors are of the highest regard and consistently provide the tools necessary for proper decision-making. It is a privilege to work with such skilled individuals who continue to provide superior service to the Retirement System. I want to thank the staff for their dedication to PSRSSTL. The staff's integrity and professionalism helps ensure that PSRSSTL operates efficiently and continues to be a strong dependable pension organization.

Furthermore, I want to thank you, our members and employers for your confidence and support. We exist to serve you. Your commitment to education provides hope for a prosperous future. Your financial contributions and investment returns continue to allow PSRSSTL to thrive and helps guarantee the stability of the Retirement System. As we complete our sixty-fifth year, we will continue to look forward to future opportunities to invest on behalf of the membership for a lifetime of financial security.

Sincerely,



Andrew Clark
Executive Director

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS

FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

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, 2008 and 2007 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 $23,149,131 and $13,781,497 (2% in 2008 and 1% in 2007 of plan net assets) as of December 31, 2008 and 2007, 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, 2008 and 2007 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, 2008 and 2007 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 22 - 23 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 the schedules of operating expenses found on pages 24-25, 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.

Hueler, Rung, Helm & Co., P.C.

St. Louis, Missouri
July 20, 2009

STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
CASH	$ 11,071,218	$ 9,711,703
PROPERTY and BUILDING, net	2,191,259	2,242,885
RECEIVABLES		
Accrued interest and dividends	7,364,199	5,010,412
INVESTMENTS, at fair value		
Cash equivalents	38,503,339	37,810,347
Bonds		
U.S. Government and agency issues	34,315,500	33,923,065
Corporate	71,568,956	91,593,979
Foreign investments	118,785,919	161,158,260
Common and preferred stocks	209,068,466	336,024,232
Mutual funds	242,606,336	405,583,124
Real estate partnerships - insurance contracts	51,997,538	55,314,250
	766,846,054	1,121,407,257
INVESTMENTS, at estimated fair value		
Real estate loans, first mortgages	9,808	16,340
INVESTMENTS, at cost		
Limited partnerships	19,805,266	10,153,468
Real estate partnerships - other	2,177,979	2,177,979
Venture capital partnerships	1,165,886	1,450,050
	23,149,131	13,781,497
Total investments	790,004,993	1,135,205,094
Total assets	810,631,669	1,152,170,094

LIABILITIES

	2008	2007
CURRENT LIABILITIES		
Accounts payable and accrued expenses	838,685	1,209,183
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
(A schedule of funding progress is presented on page 21.)	$ 809,792,984	$ 1,150,960,911

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ADDITIONS		
Employer Contributions		
St. Louis Public Schools	$ 19,091,518	$ 16,204,917
Charter Schools	3,145,999	887,976
Harris Stowe State University		4,947
Retirement System	47,364	34,330
Sick leave conversion	5,569,115	5,313,438
Employee Contributions		
St. Louis Public Schools	9,860,195	10,048,646
Charter Schools	1,648,908	717,333
Retirement System	28,155	25,601
	39,391,254	33,237,188
Net appreciation (depreciation) in fair value of investments		
Cash equivalents	948,946	1,323,395
Bonds		
U.S. Government and agency issues	3,493,973	3,466,665
Corporate	(21,343,359)	3,897,495
Foreign investments	(12,691,578)	20,508,954
Common and preferred stock	(124,537,128)	24,714,386
Mutual funds	(100,122,557)	45,673,491
Real estate loans	1,832	3,876
Limited partnerships	1,574,141	(575,771)
Real estate partnerships	(2,642,947)	7,710,138
Venture capital partnerships	294,541	1,507,872
	(255,024,136)	108,230,501
Less investment expense	4,414,723	5,199,595
Net investment income	(259,438,859)	103,030,906
Net additions (depreciation)	(220,047,605)	136,268,094
DEDUCTIONS		
Benefits paid		
Retirement and death benefits	93,852,021	86,928,394
Health care subsidies and supplemental payments	2,781,111	2,726,258
	96,633,132	89,654,652
Operating expenses	1,576,880	1,558,874
Contribution refunds due to death or resignation	22,910,310	18,559,040
Total deductions	121,120,322	109,772,566
INCREASE (DECREASE) IN PLAN NET ASSETS	$ (341,167,927)	$ 26,495,528

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, 2008	January 1, 2007
Active members	5,021	5,010
Inactive members	1,635	1,488
Total members not retired	6,656	6,498
Retired members		
Service and survivors	4,178	3,820
Disability	278	264
	4,456	4,084
Total Membership	11,112	10,582

Benefits

Upon retirement at age 65 (or at any age if age plus years of credited service total 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.

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. Management has elected to defer the application of Financial Accounting Standards Board Interpretation FIN 48, "Accounting for Uncertain Tax Positions", in accordance with Financial Accounting Standards Board Staff Position FIN 48-3. The System will continue to follow Financial Accounting Standard 5, "Accounting for Contingencies", until it adopts FIN 48.

Method Used to Value Investments

Unless otherwise noted, investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 7 for discussion of fair value measurements. 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.

Property and Equipment

The System records property and building at cost while expenditures for normal repairs and maintenance are charged to operations as incurred. The System elected the straight-line method for the depreciation of the building over the estimated life of 40 years.

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 to be immaterial in relation to the total assets of the System.

NOTES TO FINANCIAL STATEMENTS
NOTE 3 – INVESTMENTS

At December 31, 2008 and 2007, investments consisted of the following:

	2008	
	Fair Value	Cost
Cash Equivalents	$ 38,503,339	$ 38,503,339
Bonds		
U.S. Government and agency issues	34,315,500	33,284,388
Corporate	71,568,956	104,013,506
Foreign investments	118,785,919	141,574,188
Common and preferred stocks	209,068,466	269,965,849
Mutual funds	242,606,336	226,669,309
Real estate partnerships - insurance contracts	51,997,538	45,905,286
	766,846,054	859,915,865
Real estate loans, first mortgages	9,808	9,808
Limited partnerships	19,805,266	19,805,266
Real estate partnerships - other	2,177,979	2,177,979
Venture capital partnerships	1,165,886	1,165,886
	23,149,131	23,149,131
	$ 790,004,993	$ 883,074,804

	2007	
	Fair Value	Cost
Cash Equivalents	$ 37,810,347	$ 37,810,347
Bonds		
U.S. Government and agency issues	33,923,065	33,068,505
Corporate	91,593,979	95,893,129
Foreign investments	161,158,260	151,170,690
Common and preferred stocks	336,024,232	295,460,046
Mutual funds	405,583,124	270,546,091
Real estate partnerships - insurance contracts	55,314,250	43,448,287
	1,121,407,257	927,397,095
Real estate loans, first mortgages	16,340	16,340
Limited partnerships	10,153,468	10,153,468
Real estate partnerships - other	2,177,979	2,177,979
Venture capital partnerships	1,450,050	1,450,050
	13,781,497	13,781,497
	$ 1,135,205,094	$ 941,194,932

NOTES TO FINANCIAL STATEMENTS
NOTE 4 – OCCUPANCY EXPENSE

The System moved to its newly constructed office, owned by the System, in January 2007. Occupancy expense for the years ended December 31, 2008 and 2007 was $22,826 and $15,914, respectively.

NOTE 5 – RISKS AND UNCERTAINTIES

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, 2008 and 2007, the System had approximately $11,872,000 and $10,057,000, respectively, in cash on deposit at US Bank. These balances were insured by the Federal Deposit Insurance Corporation ("FDIC") for $250,000. 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 $250,000. The market value of the collateralized securities at December 31, 2008 was $14,568,361. A significant portion of the System's investments is held by US Bank of St. Louis, N.A.

On December 28, 2008, the System received $24,574,436 from the St. Louis Board of Education for the 2008 St. Louis Public Schools' annual regular pension contribution and sick leave conversion contribution.

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, 2008, 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
GMO Global Balanced Fund	$ 43,067,653	5.5%
The Bank of New York Mellon	47,802,781	6.1%
Real Estate Investments		
UBS Global Asset Management	51,997,538	6.6%

NOTES TO FINANCICAL STATEMENTS
NOTE 5 – RISKS AND UNCERTAINTIES (CONTINUED)

Credit Risk of Debt Securities

The System's rated debt investments as of December 31, 2008 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 the overall average quality of each high-grade domestic fixed income portfolio shall be AA or better and the average quality rating of securities held in a domestic high-yield portfolio shall be B or better. The overall average quality of each global fixed income portfolio shall be A or better, non-rated issues are allowed as long as the quality is sufficient to maintain the overall average rating noted.

	Fair Quality Ratings		
Rate Debt InstrumentValue	AAA	AA1	AA2
Corporate bonds and debentures	$ 5,424,034	$ -	$ 1,154,657
Foreign government and corporate obligations	48,751,283	3,839,922	8,914,637
United States Government Securities	11,372,390		
Agency Securities	279,398		
	$ 65,827,105	$ 3,839,922	$ 10,069,294
	AA3	A1	A2
Corporate bonds and debentures	$ 585,417	$ 1,120,677	$ 3,018,799
Foreign government and corporate obligations	47,679	1,617,971	6,536,079
United States Government Securities			
Agency Securities			
	$ 633,096	$ 2,738,648	$ 9,554,878
	A3	BAA1	BAA2
Corporate bonds and debentures	$ 1,695,032	$ 2,253,266	$ 4,406,714
Foreign government and corporate obligations	2,891,656	5,179,473	434,700
United States Government Securities			
Agency Securities			
	$ 4,586,688	$ 7,432,739	$ 4,841,414

NOTES TO FINANCIAL STATEMENTS
NOTE 5 – RISKS AND UNCERTAINTIES (CONTINUED)
Credit Risk of Debt Securities (Continued)

	Fair Quality Ratings		
Rate Debt InstrumentValue	BAA3	BA1	BA2
Corporate bonds and debentures	$ 5,410,062	$ 2,350,322	$ 2,065,884
Foreign government and corporate obligations			247,000
United States Government Securities			
Agency Securities			
	$ 5,410,062	$ 2,350,322	$ 2,312,884
	BA3	B1	B2
Corporate bonds and debentures	$ 5,053,673	$ 5,489,832	$ 6,847,957
Foreign government and corporate obligations	216,000	64,000	352,025
United States Government Securities			
Agency Securities			
	$ 5,269,673	$ 5,553,832	$ 7,199,982
	B3	CAA1	CAA2
Corporate bonds and debentures	$ 4,301,956	$ 6,005,415	$ 2,654,215
Foreign government and corporate obligations	239,000	240,600	84,750
United States Government Securities			
Agency Securities			
	$ 4,540,956	$ 6,246,015	$ 2,738,965
	CAA3	CA	C
Corporate bonds and debentures	$ 1,326,209	$ 707,494	$ 578,386
Foreign government and corporate obligations		55,000	
United States Government Securities			
Agency Securities			
	$ 1,326,209	$ 762,494	$ 578,386
	Unrated		
Corporate bonds and debentures	$ 9,118,957		
Foreign government and corporate obligations	6,083,503		
United States Government Securities	6,227,320		
Agency Securities	16,256,511		
	$ 37,686,291		

NOTES TO FINANCICAL STATEMENTS

NOTE 5 – RISKS AND UNCERTAINTIES (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	Debt	Equity	Total
Euros	$ 36,195,377	$ 16,307,815	$ 52,503,192
Franc		1,325,915	1,325,915
Deutsch	5,147,796		5,147,796
Swedish Korena		1,264,514	1,264,514
Australian Dollar	1,840,261	402,279	2,242,540
Norwegian Krone	1,109,432		1,109,432
Mexican Peso	3,667,831		3,667,831
Danish Krone	665,925		665,925
Poland Zloty	4,620,377		4,620,377
Hungarian Forint	1,087,488		1,087,488
Japanese Yen	8,514,286	5,119,621	13,633,907
Korean Won		791,791	791,791
Hong Kong Dollar		289,123	289,123
Canadian Dollar		1,667,579	1,667,579
Bristish Pound		1,368,824	1,368,824
Pound Sterling	1,851,092	2,578,669	4,429,761
Various	21,722,545	1,247,379	22,969,924
	$ 86,422,410	$ 32,363,509	$ 118,785,919

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	$ 71,568,957	$ 1,777,564	$29,132,185
Foreign government and corporate obligations	85,795,277	1,173,488	28,754,852
United States Government Securities	17,779,591		6,140,890
Agency Securities	16,535,909		
	$ 191,679,734	$ 2,951,052	$64,027,927

Investment Type	6 - 10 years	10+ years
Corporate bonds and debentures	$ 23,106,000	$17,553,208
Foreign government and corporate obligations	38,439,446	17,427,491
United States Government Securities	5,308,355	6,330,346
Agency Securities	279,398	16,256,511
	$ 67,133,199	$57,567,556

NOTES TO FINANCIAL STATEMENTS
NOTE 6 – PROPERTY AND BUILDING

Property and Building as of December 31, 2008 and 2007 consist of:

	2008	2007
Land	$ 229,451	$ 229,451
Building	2,065,061	2,065,061
	2,294,512	2,294,512
Less accumulated depreciation	103,253	51,627
Total Property and Building	$2,191,259	$2,242,885

NOTE 7 – FAIR VALUE MEASUREMENTS

On January 1, 2008, the System adopted Statement of Financial Accounting Standards No. 157 ("SFAS No. 157") which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels explained below:

Level 1 Valuations based on unadjusted quoted prices available for identical assets in active markets that the plan has the ability to access.

Level 2 Valuations based on quoted prices in markets that are not active, or for which all significant inputs are observable, either directly or indirectly, or derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The adoption of SFAS No. 157 did not have any impact on the System's statements of plan net assets or the changes therein.

The assets' fair value measurement levels within the fair value hierarchy are based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2008.

U.S. Treasury obligations, other government obligations, common stocks, corporate and foreign bonds: Valued based upon the quoted market value as of the last business day of the year as determined by the System's independent investment custodians.

Mutual Funds: Valued at quoted market prices valued at the net asset value of shares held by the System at year end.

NOTES TO FINANCICAL STATEMENTS
NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

Money Market Accounts: Valued based on yields currently available on comparable securities of issuers with similar credit rating.

Limited Partnerships: The investments in the limited partnerships are stated at cost as determined by the partnerships' management.

Real Estate Partnerships – Insurance Contracts: These investments are stated at fair value as determined by the insurance companies.

Real Estate Partnerships – Other: These investments are stated at cost.

Joint Ventures: These investments are stated at cost as determined by K-1's received by the System.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the System believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the System's assets that are measured at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3
U.S. Treasury and other government obligations	$ 34,315,500		
Corporate bonds	71,568,956		
Foreign investments	118,785,919		
Common stocks	209,068,466		
Mutual funds	242,606,336		
Money market accounts		$ 38,503,339	
Real estate loans, first mortgages		9,808	
Real estate partnerships - insurance contracts			$ 51,997,538
Limited partnerships			19,805,266
Real estate partnerships - other			2,177,979
Venture capital partnerships			1,165,886
	$ 676,345,177	$ 38,513,147	$ 75,146,669

NOTES TO FINANCIAL STATEMENTS
NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value or cost value of the System's Level 3 assets for the year ended December 31, 2008.

	Insurance Contracts	Limited Partnerships at cost
Balance, beginning of the year	$ 55,314,250	$ 10,153,468
Purchases, sales, issuances, and settlements (net)		8,081,339
Investment income (net)	2,246,256	
Realized gains (losses)	210,742	1,570,458
Unrealized losses relating to instruments still held at the reporting date	(5,773,710)	
Balance, end of year	$ 51,997,538	$ 19,805,265

	Real Estate Partnerships at cost	Venture Capital Partnerships at cost
Balance, beginning of the year	$ 2,177,979	$ 1,450,050
Purchases, sales, issuances, and settlements (net)		(87,508)
Investment income (net)		(196,656)
Balance, end of year	$ 2,177,979	$ 1,165,886

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)
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
2007	1,003.4	1,150.2	146.8
2008	1,014.9	1,158.9	144.0

Actuarial Valuation Date January 1,	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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
2007	87.2	222.4	66.0
2008	87.6	225.2	63.9

See independent auditor’s report on supplemental information.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Employer Contributions		
Year Ended December 31,	Annual Required Contribution	Percent Contributed
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	114.9%
2007	17,311,658	129.7%
2008	21,021,316	*

* 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 J. P. Morgan Chase & Co. at January 1, 2008. Additional information related to the above actuarial valuation follows:

Actuarial cost method:	Frozen entry age.
Rate of investment return:	8% for 2008 and 2007, 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, 2008 AND 2007

	2008	2007
Actuarial services	$ 191,810	$ 119,650
Accounting and auditing fees	59,553	41,867
Computer programming and consultation	138,842	220,337
Convention, conferences, seminars		
Executive Director	4,598	3,148
Trustees	23,371	39,262
Depreciation expense	51,627	51,627
Dues and subscriptions	4,820	93
Employee benefits	11,795	7,655
Furniture and equipment	2,434	18,385
Insurance - group hospitalization	57,931	43,392
Insurance - casualty and bonding	96,668	99,212
Legal fees and expense	57,407	59,504
Medical fees	600	2,311
Office repairs and maintenance	30,435	46,802
Office supplies and expense	22,336	17,360
Postage	67,557	84,689
Pension contribution	47,364	34,330
Printing and publishing	32,967	36,667
Occupancy Expense	22,826	15,914
Salaries - administrative and clerical	504,438	486,638
Special Project consultation	37,944	18,972
Taxes, Payroll	38,589	37,228
Taxes, Real Estate (Refund)	-	(236)
Telephone	13,223	13,518
Utilities	32,775	25,809
Miscellaneous expense	24,970	34,740
Total	$ 1,576,880	$ 1,558,874

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:

	2008	2007
Transportation and registration	$ 10,538	$ 9,860
Lodging, meals, and miscellaneous	12,833	29,402
Other		
Total	$ 23,371	$ 39,262

See independent auditor's report on supplemental information.

THE CAPITAL MARKET ENVIRONMENT

Domestic Stocks

The S&P Mid Cap 400 posted losses for calendar year 2008, with a return of -36.2%. Growth stocks contributed to decreases in year 2008 as shown by the Russell 1000 Growth Index, down -38.4%, whereas value stocks, indicated by the Russell 1000 Value Index were down -36.9%.

Domestic Bonds

Fixed income markets were mixed in 2008. The Lehman Aggregate Index was up 5.2% with a five-year return of 4.7%. MFC Global was down -7.2% and Mellon Bond was up 7.5%.

Citigroup High Yield bonds were down -17.2% for the year with a 5-year average return of -0.9%.

International Markets

The international equity markets performance corresponded with the MSCI EAFE Index, which was down -43.4% while emerging markets equities were down -53.3%.

The Citigroup World Government Bond Index finished 2008 on a positive note with a return of 10.9%.

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, 2008, the total PSRSSTL portfolio posted a loss of -24.7%, ranking 35th within the Investment Consultants' Cooperative (ICC) Universe of Public Funds. For the five-year period ending December 31, 2008, the total PSRSSTL portfolio ranked 34th with a 2.3% return.

Investment performance by asset class for one-year and five-year periods ending December 31, 2008 is set forth below.

	One Year	Five Years
PSRS Total Portfolio	-24.7%	2.3%
PSRS Domestic Equities	-36.7%	-1.4%
S&P Mid Cap 400	-36.2%	-0.1%
Median Public Fund	-36.7%	-1.4%
PSRS Domestic Bonds	-11.9%	2.0%
Citigroup High Yield	-17.2%	-0.9%
Lehman Aggregate Index	5.2%	4.7%
MFC Global	-7.2%	2.4%
Median Public Fund	0.3%	3.9%
PSRS International Equities	-45.5%	3.6%
MSCI EAFE Index	-43.4%	1.7%
MSCI Emerging Index	-53.3%	7.7%
Global Equity Median	-40.1%	3.4%
PSRS Global Bonds	10.3%	6.6%
Citigroup World Government	10.9%	6.0%
Global Bond Median	-2.1%	5.0%

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 2008.

INVESTMENTS AS OF DECEMBER 31, 2008 (000s omitted)
ASSET ALLOCATION & INVESTMENT MANAGERS

	MANAGEMENT STYLE	RELATIVE TO TOTAL PORTFOLIO						MARKET VALUE	
		MARKET VALUE		TARGET VALUE		VARIANCE			
		Value	%	Value	%	Value	%	Value	%
LARGE CAP GROWTH DOMESTIC EQUITIES		73,871	9.4%	78,795	**10.0%**	(4,924)	-0.6%		
Buford, Dixon, Harper & Sparrow	Large Cap Growth							14,852	20.1%
Intech	Large Cap Growth							20,534	27.8%
Monetary Management Group	Large Cap Growth							38,485	52.1%
LARGE CAP CORE DOMESTIC EQUITIES		25,080	3.2%	47,277	**6.0%**	(22,197)	-2.8%		
Batterymarch Financial	Large Cap Core							16,875	67.3%
Mellon Equity Index	Large Cap Core							8,205	32.7%
LARGE CAP VALUE DOMESTIC EQUITIES		60,705	7.7%	78,795	**10.0%**	(18,090)	-2.3%		
Chicago Equity Partners	Large Cap Value							38,194	62.9%
The Edgar Lomax Company	Large Cap Value							22,511	37.1%
MID CAP GROWTH DOMESTIC EQUITIES		20,925	2.7%	23,639	**3.0%**	(2,714)	-0.3%		
New Amsterdam Partners	Mid Cap Growth							20,925	100.0%
SMALL/MICRO CAP DOMESTIC EQUITIES		56,952	7.2%	63,036	**8.0%**	(6,084)	-0.8%		
Westfield Capital Management	Small Cap Growth							19,713	34.6%
Systematic Financial Management	Small Cap Value							20,749	36.4%
Dimensional Fund Advisors	Small Cap Core							16,490	29.0%
GLOBAL ASSET ALLOCATION		76,152	9.7%	78,795	**10.0%**	(2,643)	-0.3%		
GMO Global Balanced AA								43,068	56.6%
Mellon GA								33,084	43.4%
INTERNATIONAL EQUITIES		81,430	10.3%	102,434	**13.0%**	(21,004)	-2.7%		
Battermarch GL Emerging	Emerging Markets							14,737	18.1%
Causeway	International Equities							32,550	40.0%
Pyramis	International Equities							34,143	41.9%
DOMESTIC BONDS		79,853	10.1%	78,795	**10.0%**	1,058	0.1%		
Earnest	Core Domestic Bonds							21,096	26.4%
Mellon Index Bond	Core Domestic Bonds							6,513	8.2%
MFC	Core Domestic Bonds							52,244	65.4%
HIGH YIELD DOMESTIC BONDS		37,601	4.8%	39,398	**5.0%**	(1,797)	-0.2%		
HSBC	High Yield Bonds							37,601	100.0%
GLOBAL BONDS		88,045	11.2%	63,036	**8.0%**	25,009	3.2%		
Mondrian	Global Bonds							88,045	100.0%
MARKET NEUTRAL STRATEGY		37,925	4.8%	31,518	**4.0%**	6,407	0.8%		
Blue Rock	Market Neutral							37,925	100.0%
HEDGED STRATEGIES		48,476	6.2%	39,398	**5.0%**	9,078	1.2%		
K2	Hedge Funds							23,074	47.6%
Mariner	Hedge Funds							25,402	52.4%
REAL ESTATE		51,998	6.6%	39,398	**5.0%**	12,600	1.6%		
UBS Trumbull Property Funds	Real Estate							51,998	100.0%
ALTERNATIVE INVESTMENTS		18,206	2.3%	23,639	**3.0%**	(5,432)	-0.7%		
Private Equity	Alternative Investments							18,206	100.0%
CASH *(Does Not Include Managers' Residual Cash)*	STIF	30,732	3.9%	0	**0.0%**	30,732	3.9%		
PSRSSTL	Cash Accounts							30,283	98.5%
Mellon Money Market	Pensions							449	0.0%
TOTAL		**$787,951**	**100.0%**	**$787,951**	**100.0%**				

The target values shown above represent the Asset Allocation Policy adopted in 2006.

DOMESTIC EQUITY INVESTMENTS

2008 Return	-36.7%
Average Market Capitalization	$48,785,300
P/E Ratio	10.11
Price/Book Ratio	2.59
Five Year Earnings Growth Rate	20.16

Ten Largest Domestic Equity Holdings

Company	Dollar Value	Percent of Portfolio	Company	Dollar Value	Percent of Portfolio
Exxon Mobil Corp.	6,938,664	3.0%	AT & T Inc.	2,968,361	1.3%
Johnson & Johnson	4,307,760	1.8%	Abbott Labs	2,945,384	1.3%
Pfizer Inc.	3,420,474	1.5%	Wells Fargo & Co. NE	2,718,616	1.2%
Chevron Corp.	3,400,919	1.5%	J. P. Morgan Chase	2,583,442	1.1%
Proctor & Gamble Co.	3,071,774	1.3%	International Business	2,341,079	1.0%

Ten Best Performing Domestic Equity Holdings

Company	Return	Company	Return
Northfield Labs Inc.	253.6%	Emergent Biosolutions	99.5%
Memory Pharmaceuticals	203.9%	Airtran Hldgs. Inc.	82.7%
Image Entmt. Inc.	120.0%	Ultralife Batteries	73.0%
Lannet Inc.	117.4%	Wachovia Corp.	59.8%
Maxygen Inc.	110.9%	Nektar Therapeutics	54.9%

Ten Worst Performing Domestic Equity Holdings

Company	Return	Company	Return
Transmeridian Expl.	-94.0%	Edge Pete Corp. Del.	-91.1%
Spectrum Brands Inc.	-93.5%	Pier 1 Imports Inc.	-91.0%
S & K Famous Brands	-92.7%	Bauer Eddie Hldgs. I	-90.5%
Noble Intl. Ltd.	-92.7%	Regent Communications	-89.9%
Midway Games Inc.	-92.0%	Champion Enterprise	-89.9%

DOMESTIC BOND INVESTMENTS

PSRSSTL domestic bond investments had an average life of 6.60 years, a duration of 4.61 years, and an average quality rating of 6.89. During 2008, the PSRSSTL domestic bond portfolio was down -11.9%. Below are bond summary statistics for the quarter ending December 2008.

Bond Portfolio Yield to Maturity	Percent of Portfolio
0.0 - 5.0	28.4%
5.0 - 7.0	7.6%
7.0 - 9.0	8.5%
9.0 - 11.0	9.3%
11.0 - 13.0	9.2%
13+	29.6%
Unclassified	7.4%

Bond Portfolio Average Life	Percent of Portfolio
0.0 - 1.0	2.5%
1.0 - 3.0	14.5%
3.0 - 5.0	15.7%
5.0 - 10.0	54.7%
10.0 - 20.0	1.7%
20.0 +	3.6%
Unclassified	7.4%

Bond Portfolio Quality Rating	Percent of Portfolio
Government (10)	13.2%
Aaa(10)	10.3%
Aa(9)	1.6%
A(8)	6.8%
Baa(7)	12.8%
Below Baa	39.0%
Other	16.3%

BROKERAGE FEES

Company	Commission Paid	Company	Commission Paid	Company	Commission Paid
Abel Noser	$9,445.50	First Clearing	$26,242.58	Natexis Bleichroe	$49.78
ABN AMRO	56.87	Fox Pitt Kelton Inc.	683.04	NCB	201.39
ABG Securities	225.55	Friedman Billings & Ramsey	2,962.50	Needham & Company	4,896.00
Access Securities	325.14	Goldman Sachs	11,429.06	Nomura Securities	1,151.99
Aqua Securities	368.00	Goodbody	520.60	NY Fix Transaction Services	2,214.00
Baird & Company	2,977.21	G-Trade SVCS	46.54	Oppenheimer & Co.	2,065.96
Banco Santander	129.38	Guzman & Company	3,077.78	Penson Financial Services	1,224.00
Bank of America Securities LLC	2,273.00	HSBC Securities	332.59	Pershing Securities	431.30
Barclays Capital	244.00	Instinet	6,847.03	PGR Securities	60.00
Bear Stearns Securities Corp.	4,061.74	Intermobiliare	195.44	Pipeline Trading Services	490.42
Bloomberg Tradebook	513.00	Investment Techonology Group	12,703.12	Piper Jaffray	1,008.80
BMO Capital Markets	1,432.15	ISI Group Inc.	338.86	Pulse Trading	755.33
BNP Paribas	189.85	Ivy Securities Inc.	92.00	Raymond James	1,182.00
BNY Convergex	10,172.04	J P Morgan	5,950.57	RBC Capital Markets	1,741.17
Brean Murray Foster	185.50	Jackson Partners	381.00	Ridge Clearing	16.00
Broadcort Cap Corp	34,795.44	Jackson Securities	280.00	Rochdale Securities	345.00
Buckingham Research Group	644.92	Jeffries & Company	5,423.80	Rosenblatt Securities Inc	3,707.49
Cabrera Capital Markets	970.00	JMP Securities	336.00	Roth Capital Partners	72.00
Calyon Securities	89.02	Jones Trading Institutional	1,045.50	Samsung	356.36
Canaccord Adams Inc.	161.00	Keefe Bruyette & Woods	733.72	Sandler O Neill	1,919.25
Canadian IMP	2,031.07	Kepler	199.27	Sanford C. Bernstein & Co.	3,168.99
Cantor Fitzgerald	3,896.84	Kellogg Partners	504.00	Santander	320.74
Capital Institutional Services	24,656.57	Keybanc Capital Markets	300.00	Scotia Cap	21.34
Cazenove Capital Mgmt	116.68	King CL & Associates	1,257.00	Simmons & Company	184.00
Cheevers & Co., Inc.	2,192.00	Knight Equity Markets	858.04	SIS Segainter	15.67
Citigroup Global Markets	10,643.46	LaBranche Financial	648.43	Skandinaviska	16.62
Clearview Correspondent Svcs	386.25	Lazard Capital Markets	680.97	SMF Trading Inc.	272.91
Collins Stew	31.14	Leerink Swann & Co.	1,270.20	Societe Gen	1,543.10
Cowen & Co.	2,451.15	Lehman Brothers	4,385.10	State Street	70,983.21
Craig Hallum	572.00	Liquidnet Inc.	30,685.72	Stifel Nicolaus	1,025.00
CR Argricole	1,047.56	Longbow Securities LLc	420.00	Suntrust Capital Markets, Inc	1,193.75
Credit Suisse Securities USA	7,469.02	Loop Capital Markets	288.00	Thinkpanmure LLC	370.75
DAIWA	311.97	Macquarie Securites	433.63	Thomas Weisel Partners	1,795.42
Davy Stockbrokers	571.10	Magna Securities	24.00	UBS	7,690.60
Deutsche Bank Securities	8,859.96	Melvin Securities	522.00	Wachovia Capital	1,159.00
Direct Trading Institutional	2,880.12	Merrill Lynch	7,987.76	Weeden & Co.	4,717.56
DNB Nor Bk	136.82	Merriman Curhan Ford & Co.	659.00	White Cap Trading LLC	292.55
Dresner Kleinwort	189.14	Merrion Cap	51.89	William Blair & Co.	296.00
Exane SA	566.75	Mizuho Securities USA	232.73	Williams Capital Group	1,182.00
FIMAT Preferred LLC	318.50	Morgan Stanley	11,555.48		
				2008 Total Commissions	$401,309.81

MARKET VALUE OF ASSETS

Investment Category	As of December 31, 2006 Market Value	% of Total	As of December 31, 2007 Market Value	% of Total	As of December 31, 2008 Market Value	% of Total
Cash, Receivables, Cash Equivalents	$56,466,731	5.0%	$52,532,462	4.6%	$56,938,756	4.9%
Property and Building	2,215,143	0.2%	2,242,885	0.2%	2,191,259	0.2%
U.S. Government and Agency Issues	44,981,780	4.0%	33,923,065	2.9%	34,315,500	3.0%
Corporate Bonds	92,714,940	8.2%	91,593,979	7.9%	71,568,956	6.2%
Foreign Corporate & Government Bonds	169,014,610	15.0%	161,158,260	33.1%	118,785,919	33.1%
Common Stocks	313,606,346	27.9%	336,024,232	33.1%	209,068,466	33.1%
Mutual Funds	385,706,954	34.3%	405,583,124	35.2%	242,606,336	21.1%
Real Estate - Insurance Contracts	49,214,004	4.4%	55,314,250	4.8%	51,997,538	4.5%
Mortgages	47,625	0.0%	16,340	0.0%	9,808	0.0%
Alternative Investments *	11,623,301	1.0%	13,781,497	1.2%	23,149,131	2.0%
Total	**$1,125,591,434**	**100.0%**	**$1,152,170,094**	**100.0%**	**$810,631,669**	**100.0%**

* Carried at Cost Value

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE CITY OF ST. LOUIS

ACTUARIAL VALUATION
AS OF JANUARY 1, 2008

December
2008

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 methods from those used in the prior actuarial valuation. Overall, the system had moderately unfavorable demographic experience for 2007, which offset the moderately favorable investment expense. The system's actuarial rate of return was 8.54%, which is 0.54% more than the assumed rate of return of 8.00%. The rate of return reflects an addition of $6,502,164 to the Investment Contingency Reserve, increasing the margin to offset future adverse investment experience. The net effect was to increase the Annual Required Contribution rate from 9.45% to 9.51%.

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 2009. The dollar amount of the actual contribution increased to $21,406,949 for 2009 from $21,021,316 for 2008. As a percentage of covered compensation, the contribution rate for 2009 increased to 9.51% from 9.45% for 2008.

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 2009, the annual normal cost is $8,376,753 or 3.72% of the covered payroll of $225,190,968.

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 2009 is $13,030,196 or 5.79% 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.
Vice-President

SUMMARY OF PRINCIPAL RESULTS OF THE ACTUARIAL VALUATION AS OF JANUARY 1, 2008

ANNUAL REQUIRED CONTRIBUTION

2008	Board of Education	Harris-Stowe State College	Retirement System	Charter Schools	Total
Normal Cost Contribution	$ 7,542,167	$ 2,655	$ 20,346	$ 811,585	$ 8,376,753
Actuarial Accrued Liability Contribution	11,731,983	4,129	31,649	1,262,435	13,030,196
Annual Required Contribution	$ 19,274,150	$ 6,784	$ 51,995	$2,074,020	$ 21,406,949
Covered Payroll	202,754,929	71,363	546,968	21,817,708	225,190,968
ARC as % of Covered Payroll	9.51%	9.51%	9.51%	9.51%	9.51%
2007*					
Normal Cost Contribution	$ 7,140,467	$ 2,523	$ 17,715	$ 701,531	$ 7,862,236
Actuarial Accrued Liability Contribution	11,951,051	4,223	29,649	1,174,157	13,159,080
Annual Required Contribution	$ 19,091,518	$ 6,746	$ 47,364	$1,875,688	$ 21,021,316
Covered Payroll	201,971,702	71,363	501,066	19,843,158	222,387,289
ARC as % of Covered Payroll	9.45%	9.45%	9.45%	9.45%	9.45%

SYSTEM ASSETS	January 1, 2008	January 1, 2007*
Expense and Contingency Reserve	$ 89,221,944	$ 80,597,356
Market Value, excluding Expense & Contingency Reserve	1,150,960,911	1,124,465,383
Actuarial Value	1,014,923,381	1,003,438,983
SYSTEM LIABILITIES		
Unfunded Actuarial Accrued Liability	$ 143,997,732	$ 146,834,356
Actuarial Present Value of Projected Accrued Benefits	1,128,363,288	1,114,100,609
FUNDING RATIO		
Actuarial Value Funding Ratio	89.9%	90.1%
Market Value Funding Ratio	94.7%	94.2%

**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 participant'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 1, 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 participant data are used to forecast the amount of benefits to be paid. Assumptions for survival among retired participants 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 participants 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, participant 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 participant 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, participant 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 participant 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 participant) 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 participants 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	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 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	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
.000444	30	.000264	.037834	75	.028106
.000773	35	.000475	.064368	80	.045879
.001079	40	.000706	.110757	85	.077446
.001508	45	.001124	.183408	90	.131682
.002138	50	.001679	.267491	95	.194509
.003624	55	.002717	.344556	100	.237467
.006747	60	.005055	.397886	105	.293116
.012737	65	.009706	.400000	110	.364617
.022206	70	.016742	.400000	115	.400000

DISABLED LIFE MORTALITY RATES

Death Rate			Death Rate		
Male	Age	Female	Male	Age	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 (At January 1, 2008)

Actuarial Assets

Actuarial value of present assets		$ 1,014,923,381
Actuarial present value of future member contributions		90,892,000
Actuarial present value of future employer contributions for:		
Normal Costs		62,755,268
Actuarial Accrued Liability		143,997,732
Total present and future assets		$ 1,312,568,381

Actuarial Liabilities

Actuarial present value of benefits now payable		$ 739,670,635
Actuarial present value of benefits payable in the future		
Active members – New Plan	455,241,408	
Active members -- Old Plan	1,759,282	
Active members -- DROP	74,560,734	
Members on leave of absence without pay	8,905,504	
Terminated members	32,430,818	
Total payable in the future		572,897,746
Total liabilities for benefits		$ 1,312,568,381

PROJECTED BENEFIT OBLIGATION FUNDING STATUS

Projected Benefit Obligation at January 1, 2008:

Retired members and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	$ 781,006,957
Current active members:	
Accumulated member contributions, including interest	98,112,123
Employer-financed vested benefits	246,955,471
Employer-financed non-vested benefits	2,288,737
Total Projected Benefit Obligation	$1,128,363,288

At January 1, 2008, the Projected Benefit Obligation was funded as follows:

Net assets available for benefits at actuarial value	$ 1,014,923,381
Unfunded Projected Benefit Obligation	113,439,907
Actuarial value funding ratio	89.9%
Net assets available for benefits at market value	$ 1,068,241,121
Unfunded Projected Benefit Obligation	60,122,157
Market value funding ratio	94.7%

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)
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
2007	96,223,413	712,467,372	305,409,824	1,003,428,903	100	100	64
2008	98,112,123	781,006,957	249,244,208	1,014,923,381	100	100	54

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 33 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 39 of this Report.

As shown on page 40 of this Report, the fund had a rate of return of 8.54% on an actuarial value basis, 0.54% above the assumed rate of return of 8.0% for 2007. Prior to the adjustment for a transfer to the Investment Contingency Reserve, the rate of return on an actuarial value basis would have been 9.36%. 1.36 % above the assumed rate of 8.0%. In accordance with Rule X, $6,502,164 was added to the investment contingency portion of the reserve, because the preliminary actuarial rate of return would 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 9.49%, also presented on page 40 of this Report.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

(1)	Actuarial value of assets as of January 1, 2007	$ 1,003,438,983
(2)	Member contributions	10,791,580
(3)	Employer contributions	22,445,608
(4)	Benefit payments and expenses	109,722,566
(5)	Investment increment at 8.0%	76,315,879
(6)	Expected actuarial value on January 1, 2008:	
	(1) + (2) + (3) - (4) + (5)	1,003,219,484
(7)	Market value of assets on January 1, 2008	1,150,960,911
(8)	Expense and Contingency Reserve on January 1, 2008	82,719,780
(9)	Adjustment to the Contingency Reserve on January 1, 2008	6,502,164
(10)	Excess of market value over expected actuarial value: (7) – (8) – (6)	58,519,483
(11)	Market value adjustment: 100% x (10)	11,703,897
(12)	Actuarial Value of Assets as of January 1, 2008: (6) + (11)	$ 1,014,923,381

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 X.

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
2007	29,864,946	50,732,410	80,597,356
2008	31,987,370	57,234,574	89,221,944

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, 2007	$ 1,124,465,383
(ii)	B = Market Value of Assets as of January 1, 2008	1,150,960,911
(iii)	C = Contributions during the period	33.237,188
(iv)	D = Disbursements during the period	109,772,566
(v)	Rate of Return: $\frac{B - A + D - C}{A + ½(C - D)}$	9.49%
(vi)	Actuarial Assumed Rate of Return for 2007	8.00%
(vii)	Difference between actual and assumed rates of return: (v) – (vi)	1.49%

(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, 2007	$ 1,003,438,983
(ii)	I = Income Allocated as of January 1, 2008	81,517,612
(iii)	C = Contributions during the period, time-weighted	5,839,778
(iv)	D = Disbursements during the period, time-weighted	54,886,283
(v)	Rate of Return: $\frac{I}{A + C - D}$	8.54%
(vi)	Actuarial Assumed Rate of Return for 2007	8.00%
(vii)	Difference between actual and assumed rates of return: (v) – (vi)	0.54%

MEMBERSHIP AND BENEFITS PAID AS OF JANUARY 1, 2008

	Males	Females	Total
Active Members			
Regular Active Members	1,178	3,676	4,854
DROP	28	139	167
Total Active Members	1,206	3,815	5,021
Inactive Members (Terminated or Leave of Absence without Pay)	540	1,095	1,635
Total Members Not Retired	1,746	4,910	6,656
Retired Members and Beneficiaries			
Retired Members and Contingent Annuitants	1,053	2,761	3,814
Survivors	54	310	278
Disabled Members	83	195	278
Total Retired Members and Beneficiaries	1,190	3,266	4,456
Total Membership	2,936	8,176	11,112

NUMBER OF RETIRED MEMBERS AND BENEFICIARIES

Option	Service Benefit	Disability Benefit	Survivor Benefit	Totals
0	3,229	232	364	3,825
1	146	19	-	165
2	87	4	-	91
3	165	12	-	177
4	169	4	-	173
5	10	4	-	14
6	7	3	-	10
7	1	-	-	1
Total	3,814	278	364	4,456

AMOUNT OF ANNUAL BENEFIT

Option	Service Benefit	Disability Benefit	Survivor Benefit	Totals
0	$ 68,874,025	$ 2,386,572	$ 3,220,297	$ 74,480,894
1	2,579,101	253,758	-	2,832,859
2	1,846,151	70,513	-	1,916,664
3	3,263,979	120,957	-	3,384,936
4	4,077,494	69,382	-	4,146,876
5	235,983	42,846	-	278,829
6	156,752	14,201	-	170,953
7	30,849	-	-	30,849
Total	$ 81,064,334	$ 2,958,229	$ 3,220,297	$ 87,242,860

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 July 1, 2008 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.

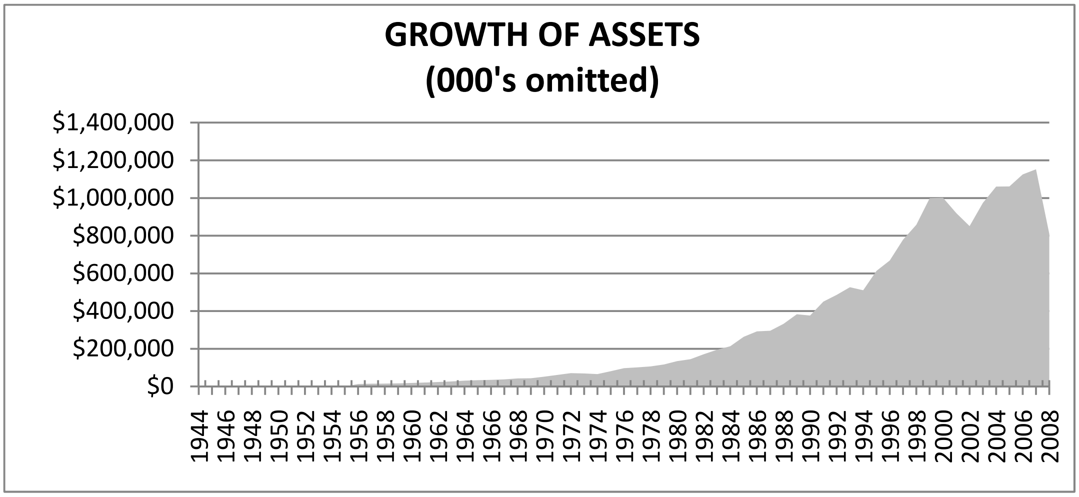
Surviving spouses of deceased retired members are eligible to retain health care insurance after the death of the member.

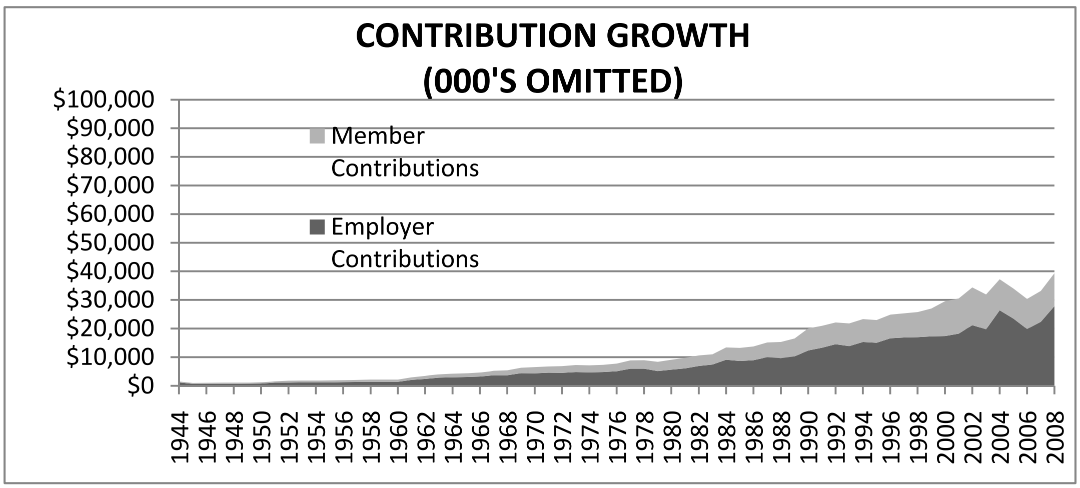
Surviving spouses of deceased active members who elect to receive monthly benefit payments under Option 1 may also be eligible for health insurance coverage for themselves and for otherwise eligible children of deceased active members.

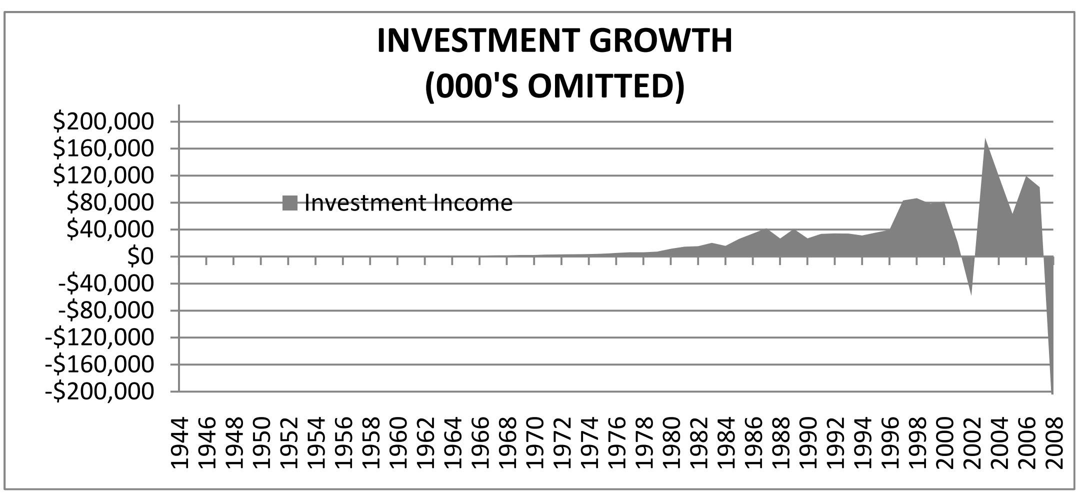
COLAs

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 where applicable.

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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PSRSSTL