

# MOSERS



**Missouri State Employees' Retirement System  
A Component Unit of the State of Missouri  
Summary Annual Financial Report  
Fiscal Year Ended June 30, 1998**

## Letter from MOSERS' Board of Trustees



*Seated left to right:*

Sen. John Russell, Jacquelyn White, Bob Holden (Vice Chairman), Bryan Ornburn

*Standing left to right:*

Richard Hanson, Donald Martin, Thomas Hodges (Chairman), Sen. John Scott,  
Rep. Bill Skaggs, Joseph Bednar, Rep. Richard Franklin

September 1, 1998

Dear Members:

On behalf of the Board of Trustees, I am pleased to present the MOSERS' Summary Annual Report for the fiscal year ended June 30, 1998. Beyond providing information on the financial status and investment activity of the plan, this report is one of our most important vehicles for communicating with plan members. Toward that end, it is our hope that you find the report format easy to use and the information to be relevant.

The performance of the financial markets, coupled with the asset allocation of the fund, led to strong investment returns for fiscal year 1998. This exceptional performance, in turn, led to a significant increase in the funding ratio of the plan. In summary, your retirement system is well funded, and the decisions of the Board of Trustees and MOSERS' staff have resulted in a very successful investment program.

During this past year, the Board of Trustees' membership changed with the departure of Janette Lohman and the addition of Jackie White. Many positive changes were witnessed during the five years that Janette served as a trustee, and her dedication to our plan members was very evident in her decision making. We will miss working with Janette but look forward to working with Jackie in the coming years.

In closing, I wish to thank the staff at MOSERS for their dedicated service. I am continually impressed, as are the other members of the board, with the professionalism, the commitment to our mission, and the customer focus displayed by all the employees at MOSERS. Their extra effort is greatly appreciated.

If, after viewing this summary, you have any questions or would like a copy of MOSERS' Comprehensive Annual Financial Report for fiscal year 1998, please contact us at MOSERS, P.O. Box 209, Jefferson City, MO 65102, (800) 827-1063.

Sincerely,

Thomas Hodges, Chairman  
Board of Trustees

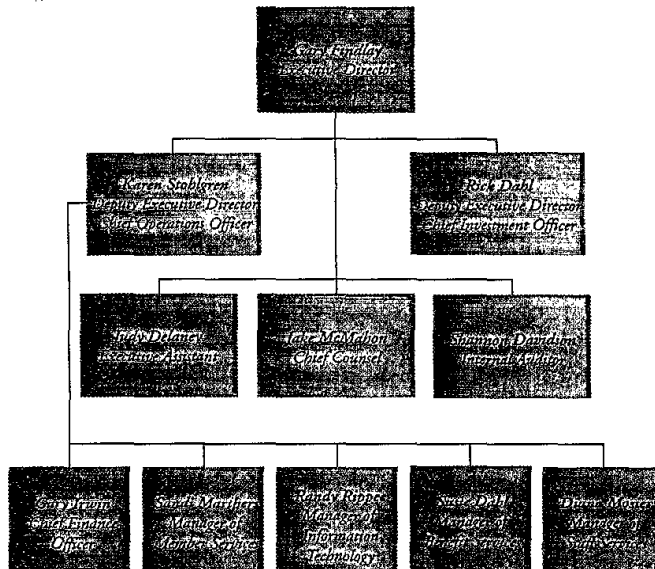
## MOSERS' Mission

To play an integral role in the future financial security of plan participants by promptly and courteously delivering quality benefits and information which members value and trust through professional plan administration and prudent management of system assets.

## Administrative Organization



*Pictured left to right:* Randy Rippee, Diana Mosier, Jake McMahon, Gary Irwin, Gary Findlay, Karen Stohlgren, Rick Dahl, Judy Delaney, Shannon Davidson, Susie Dahl, Sandi Marthers



## *New Facility*

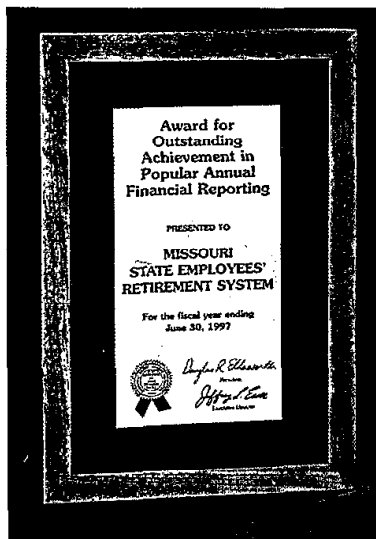


MOSERS moved to its new facility at 907 Wildwood Drive in March 1998. The building was specifically designed for MOSERS to improve the potential for providing quality customer service and to satisfy the organization's growing space needs. MOSERS initiated the planning and design of the project in 1996 with Simon Walther, Inc. (SWI), an architectural and interior design firm based in Columbia, Missouri. SWI provided total design services for the project. Kidwell Construction, of Kingdom City, Missouri, was awarded the construction contract in March 1997.

Building decisions were guided by the project's mission statement which was based, first, on providing plan participants with a welcoming, professional environment favorable to planning for retirement (privacy was a primary factor in addressing the confidentiality needs of our

members); and secondly, to provide employees with efficient and pleasant work surroundings which facilitate productivity, workflow, and communication – while incorporating technology, natural light, and open space in the structure. Quality and value were highly emphasized in that philosophy.

The building is approximately 27,000 square feet and is situated on three acres. The heavily wooded and sloping site was conducive to the design of a large main level office and a smaller lower level for support services. The building is steel framed and has a pre-cast concrete exterior with a textured base and barrel-vaulted roofs at the entrances. The building was designed with a multi-purpose meeting room which allows for onsite training and seminars, as well as board meetings.



## *Outstanding Achievement in Popular Annual Financial Reporting*

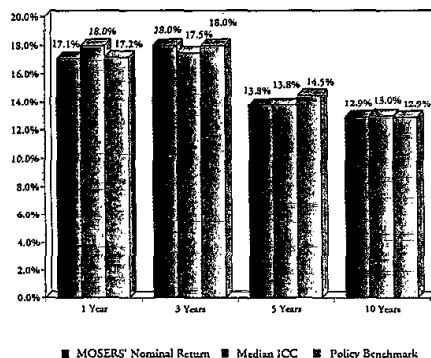
The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to MOSERS for its summary annual report for the fiscal year ended June 30, 1997. This prestigious national award recognizes popular reports for creativity, presentation, understandability and reader appeal, and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to GFOA for evaluation.

## Investments

MOSERS is one of the 200 largest employee benefit funds in the United States with total assets in excess of \$4.5 billion. During the year, the asset base grew by over \$650 million with the total fund generating returns of 17.1%. MOSERS' return was less than the median fund in the Independent Consultants Cooperative (ICC) universe of public pension plans having assets in excess of \$1 billion. The ICC is a cooperative consisting of thirteen independent investment consultants across the United States and one major custodial bank that collectively provides performance data in order to create a universe of peer returns.

While MOSERS' return was less than our peers on a one-year basis, historically this has been a favorable comparison. Additionally, the fund did perform close to the system's 17.2% policy benchmark return. The policy benchmark return is the return that would have been achieved had MOSERS passively implemented the fund's policy asset mix decision through index funds. Once again, as in FY96 and FY97, we experienced an outstanding year in asset growth and are pleased with the results.

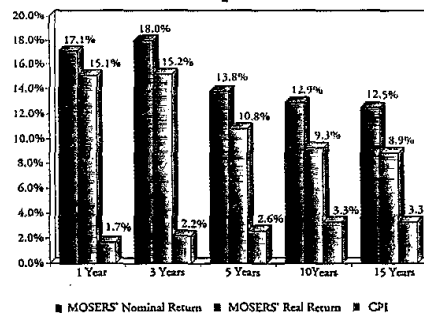
The graph below shows one year results as described above and also includes total fund return comparisons for three, five, and ten year time periods. All returns are computed in accordance with the Association of Investment Management and Research (AIMR) reporting standards and are shown on a net of fees basis.



### Investment Objective

The investment objective established by the board, as a long-term goal, is to achieve a real rate of return of at least 4.0% per year. The real rate of return is defined as the rate by which the total return on system assets exceeds the

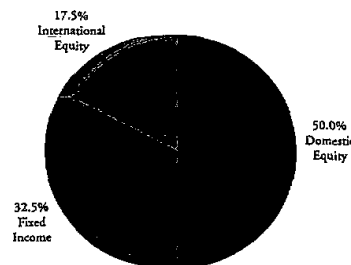
inflation rate. As can be seen from the following graph, this objective was achieved in the current fiscal year (FY98) and has been successfully achieved over longer periods of time.



### Strategic Asset Allocation

By asset class, MOSERS' assets are divided among domestic equity, international equity, and domestic fixed income investments. It is common practice to diversify portfolios by allocating investments among asset classes in order to improve the risk/return profile of the fund. Studies indicate that over 90% of an investment portfolio's return can be attributed to the asset allocation decision.

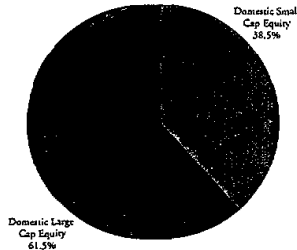
MOSERS' policy asset mix is depicted in the pie chart below.



### Summary of Domestic Equity Investments

U.S. stocks, with a target allocation of 50%, are employed by the fund primarily because their historical return premiums over inflation, if realized in the future, will help preserve and enhance the fund's ability to achieve a long-term real rate of return in excess of the 4.0% objective set by the board. The MOSERS' U.S. stock investment portfolio emphasizes equity securities issued by publicly held corporations domiciled in the United States.

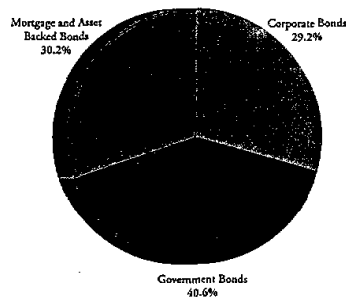
As of June 30, 1998, the MOSERS' U.S. stock portfolio had a market value of \$2.347 billion representing 51.3% of the total fund. Large cap stocks represented 61.5% of the total domestic equity assets while medium/small cap stocks represented 38.5% as depicted in the graph below.



#### Summary of Fixed Income Investments

Domestic fixed income, with a target allocation of 32.5%, serves to diversify the equity risk component within the fund. Bonds have traditionally been regarded as a hedge in a disinflationary or deflationary environment. In most periods, fixed income has provided returns substantially in excess of the inflation rate, although not of the magnitude of equity returns. The cash flow predictability of bonds, however, makes the asset class less volatile than equities.

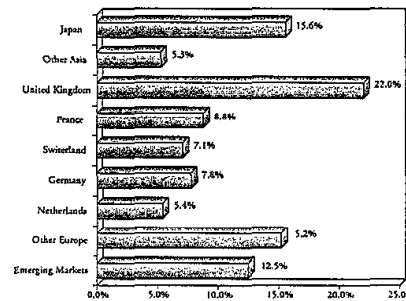
As of June 30, 1998, the MOSERS' domestic fixed income portfolio had a market value of \$1.488 billion representing 30.8% of the total fund. Government bonds represented 40.6% of the total fixed income assets, corporate bonds represented 29.2%, while mortgages and asset backed bonds represented 30.2% as depicted in the graph below.



#### Summary of International Equity Investments

Non-U.S. stocks, with a target allocation of 17.5%, are employed by the fund primarily because their historical return premiums versus inflation, if realized in the future, will help preserve and enhance the fund's ability to achieve a long-term rate of return in excess of the 4% objective set by the board. Non-U.S. stocks are also attractive for the diversification benefits they provide to the portfolio. By incorporating non-U.S. stocks into the asset mix, MOSERS expects to achieve overall equity returns which are comparable to that of a U.S. stock portfolio while reducing overall portfolio risk.

As of June 30, 1998, the MOSERS' non-U.S. stock portfolio had a market value of \$804 million representing 17.6% of the total fund. The country weights of the non-U.S. portfolio are shown in the graph below.



#### Summary of Cash Investments

Cash investments are employed by the fund to meet liquidity needs and to provide MOSERS' managers a vehicle for investment of funds during brief periods between the sale of an existing security and the purchase of a replacement. This portfolio generally represents between 1% and 2% of the total funds' assets.

#### Summary of "Other" Investments

Included in this portfolio is a guaranteed investment contract (GIC), shares in a real estate commingled fund, three real estate properties, and a small amount of residual venture capital investments. The GIC represents approximately 30% of this portfolio and will mature in FY99. MOSERS' venture capital investments were first funded in 1985, after the industry had posted several years of extraordinary returns. Due to the high management expenses and the illiquidity associated with venture investments, MOSERS has made no new allocations since 1990. The remaining real estate in this portfolio is expected to be sold during FY99.

## Actuarial

### Fund Determined Sound

Gabriel, Roeder, Smith & Company, MOSERS' actuarial consultant, performed the annual actuarial valuation and determined that MOSERS' assets cover approximately 85.6% of the actuarial accrued liabilities - a strong reserve position.

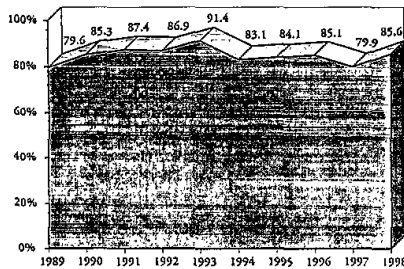
On June 30, 1998, the total accrued liability for the Missouri State Employees' Plan was \$4.92 billion, an increase of approximately 10% over 1997. A pension plan's accrued liability is the current value of future promised benefit payments

based on service rendered to date. On June 30, 1998, this liability was \$.71 billion over the \$4.21 billion actuarially calculated value of total assets. The 85.6% funding level determined from this information represents an increase of 5.7% over 1997.

What do these figures mean? Comparing assets to accrued liabilities is a good way to measure the strength of a retirement plan. This comparison shows a plan's ability to pay projected benefits with today's dollars. According to MOSERS' actuarial consultant, the plan is strong and sound.

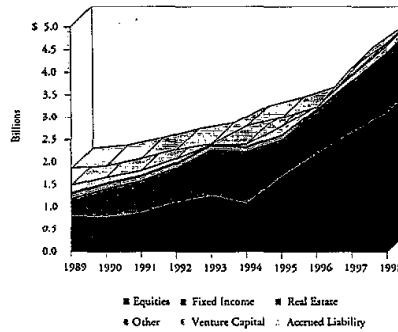
### Valuation Assets as Percents of Pension Liabilities

Ten Years Ended June 30, 1998



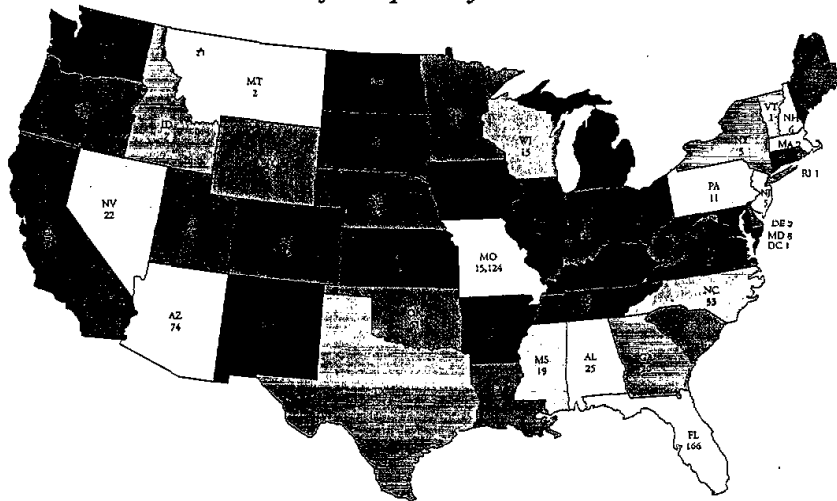
### Pension Trust Funds Net Assets vs. Pension Liabilities

Ten Years Ended June 30, 1998



## Statistical

### Benefit Recipients by Location



## Financial Statements

Missouri State Employees' Retirement System  
*Statements of Plan Net Assets*  
*Pension Trust Funds*  
 As of June 30, 1998

	Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
<i>Assets</i>				
Cash and short-term investments	\$ 115,325,040	\$ 281,362	\$ 0	\$ 115,606,402
<i>Receivables</i>				
State contributions	12,824,096	45,073	0	12,869,169
State reimbursements	0	0	981,598	981,598
Due from other plan	981,598	0	0	981,598
Investment income	22,874,523	55,808	0	22,930,331
Investment sales	169,070,205	412,485	0	169,482,690
Other	84,912	207	0	85,119
Total receivables	205,835,334	513,573	981,598	207,330,505
<i>Investments, at fair value</i>				
U.S. Treasury securities	528,432,183	1,289,231	0	529,721,414
Corporate bonds	363,062,193	885,773	0	363,947,966
Government bonds & Gov't mortgage-backed securities	371,072,900	905,317	0	371,978,217
Real estate equity	6,807,558	16,609	0	6,824,167
Common stock	2,293,616,834	5,595,800	0	2,299,212,634
International EAFE index fund	349,775,952	853,358	0	350,629,310
Preferred stock	2,921,360	7,127	0	2,928,487
Convertible bonds	2,552,208	6,227	0	2,558,435
Venture capital	403,218	984	0	404,202
Closed end-real estate fund	1,529,411	3,731	0	1,533,142
Guaranteed investment contracts	4,030,983	9,834	0	4,040,817
Collateralized mortgage obligation	35,004,670	85,402	0	35,090,072
Foreign currency	4,438,717	10,829	0	4,449,546
International equities	462,144,743	1,127,507	0	463,272,250
U.S. dollar denominated international corporate bonds	11,007,629	26,856	0	11,034,485
Total investments	4,436,800,559	10,824,585	0	4,447,625,144
Securities lending collateral	330,805,962	807,077	0	331,613,039
<i>Fixed assets</i>				
Land	199,865	488	0	200,353
Building and building improvements	4,274,766	10,429	0	4,285,195
Furniture, fixtures, and equipment	2,552,532	6,227	0	2,558,759
	7,027,163	17,144	0	7,044,307
Accumulated depreciation	(1,873,520)	(4,571)	0	(1,878,091)
Total fixed assets	5,153,643	12,573	0	5,166,216
Prepaid expenses and other	11,406	28	0	11,434
Total assets	5,093,931,944	12,439,198	981,598	5,107,352,740
<i>Liabilities</i>				
Administrative expense payables	2,169,691	5,293	0	2,174,984
Due to other plan	0	0	981,598	981,598
Investment purchases	179,253,272	437,329	0	179,690,601
Securities lending collateral	330,754,845	806,952	0	331,561,797
Real estate security deposits	43,657	107	0	43,764
Employee vacation liability	127,798	312	0	128,110
Total liabilities	512,349,263	1,249,993	981,598	514,580,854
Net assets held in trust for pension benefits	\$ 4,581,582,681	\$ 11,189,205	\$ 0	\$ 4,592,771,886

Note: Financial statements for the Internal Service Fund are not included in this summary annual report.



## Financial Statements

Missouri State Employees' Retirement System  
*Statements of Changes in Plan Net Assets*  
*Pension Trust Funds*  
 Year Ended June 30, 1998

	Missouri State Employees' Plan	Administrative Law Judges' and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
<i>Additions</i>				
<i>Contributions</i>				
State contributions	\$ 152,090,687	\$ 564,295	\$ 0	\$ 152,654,982
Member purchases of service credit	1,035,738	0	0	1,035,738
State reimbursement of non-funded benefits	0	0	11,433,457	11,433,457
Employer contributions service transfers	36,908	0	0	36,908
Total contributions	<u>153,163,333</u>	<u>564,295</u>	<u>11,433,457</u>	<u>165,161,085</u>
<i>Investment income</i>				
<i>From investing activities</i>				
Net appreciation in fair value of investments	532,718,193	1,299,724	0	534,017,917
Interest	84,788,935	206,868	0	84,995,803
Dividends	48,248,465	117,717	0	48,366,182
Other	199,706	487	0	200,193
Total investing activity income	<u>665,955,299</u>	<u>1,624,796</u>	<u>0</u>	<u>667,580,095</u>
<i>Investment activity expenses:</i>				
Management fees	(5,324,361)	(12,990)	0	(5,337,351)
Custody fees	(499,532)	(1,219)	0	(500,751)
Consultant fees	(203,723)	(497)	0	(204,220)
Performance measurement fees	(67,186)	(164)	0	(67,350)
Total investment activity expenses	<u>(6,094,802)</u>	<u>(14,870)</u>	<u>0</u>	<u>(6,109,672)</u>
Net income from investing activities	<u>659,860,497</u>	<u>1,609,926</u>	<u>0</u>	<u>661,470,423</u>
<i>From securities lending activities</i>				
Securities lending income	21,912,371	53,462	0	21,965,833
<i>Securities lending expenses:</i>				
Borrower rebates	(19,608,918)	(47,842)	0	(19,656,760)
Management fees	(682,992)	(1,666)	0	(684,658)
Total securities lending expenses	<u>(20,291,910)</u>	<u>(49,508)</u>	<u>0</u>	<u>(20,341,418)</u>
Net income from securities lending activities	<u>1,620,461</u>	<u>3,954</u>	<u>0</u>	<u>1,624,415</u>
Total net investment income	<u>661,480,958</u>	<u>1,613,880</u>	<u>0</u>	<u>663,094,838</u>
Miscellaneous income	14,925	36	0	14,961
Total additions	<u>814,659,216</u>	<u>2,178,211</u>	<u>11,433,457</u>	<u>828,270,884</u>
<i>Deductions</i>				
Benefits	140,808,101	677,213	11,433,457	152,918,771
Benefit adjustments	8,453,580	0	0	8,453,580
Contribution refunds	1,514	0	0	1,514
Administrative expense	4,500,944	10,981	0	4,511,925
Legal settlement expense	18,998	46	0	19,044
Total deductions	<u>153,783,137</u>	<u>688,240</u>	<u>11,433,457</u>	<u>165,904,834</u>
Net increase	<u>660,876,079</u>	<u>1,489,971</u>	<u>0</u>	<u>662,366,050</u>
<i>Net assets held in trust for pension benefits:</i>				
Beginning of year	3,920,706,602	9,699,234	0	3,930,405,836
End of year	<u>\$ 4,581,582,681</u>	<u>\$ 11,189,205</u>	<u>\$ 0</u>	<u>\$ 4,592,771,886</u>

Note: Financial statements for the Internal Service Fund are not included in this summary annual report.

## 1998 Legislative Review

### *House Bill 971*

On July 13, 1998, Governor Mel Carnahan signed into law House Bill 971 (HB971) – legislation which requires the state to assume financial responsibility for juvenile court personnel employed in multi-county circuits. Under this legislation, eligible juvenile court personnel will be able to participate in the state benefit program which includes membership in the Missouri State Employees' Retirement System (MOSERS).

HB971 also will allow a member of the Missouri General Assembly who is appointed to the Labor and Industrial Relations Commission or who is appointed as chairman to the Board of Mediation to receive two full years of creditable service in the Administrative Law Judges' and Legal Advisors' Plan (ALJLAP) for any biennial assembly or partial biennial

assembly served or purchased. In addition, the legislation extends membership in the ALJLAP to current and future administrative hearing commissioners and further allows administrative hearing commissioners to transfer all membership service earned in MOSERS' General Plan to the ALJLAP. Lastly, the legislation requires administrative hearing commissioners to have served the majority of their term (three years of a six year term) in order to qualify for benefits under the ALJLAP.

### *Senate Bill 910*

Governor Carnahan also signed Senate Bill 910 on July 13 – legislation which revises several retirement provisions relating to the collection of child support and maintenance. Under this law, with appropriate legal documentation, a pension benefit may be garnished for the non-payment of child support or maintenance.

Alternative format available upon request.  
To request an alternative format, please call the personnel officer  
of MOSERS at 573-632-6100 or 800-827-1063.  
Missouri relay numbers are: 800-735-2466 (Voice) or 800-735-2966 (TT).  
MOSERS is an equal opportunity employer.

Missouri State Employees'  
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