

Missouri State Employees' Retirement System
A Component Unit of the State of Missouri
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2000

Gary Findlay
Executive Director

Gary Irwin
Chief Finance Officer

907 Wildwood Drive, P.O. Box 209
Jefferson City, Missouri 65102
(573) 632-6100 or (800) 827-1063



Table of Contents

Introductory Section

Certificate of Achievement	4
Letter of Transmittal	5
Letter From the Chairman	9
Board of Trustees	10
Administrative Organization	11
MOSERS' Staff	12
About MOSERS	14
Professional Services	16

Financial Section

Independent Auditors' Report	18
------------------------------------	----

Financial Statements:

Pension Trust Funds:

Statements of Plan Net Assets	19
Statements of Changes in Plan Net Assets	20

Internal Service Fund:

Balance Sheet	21
Statement of Revenues, Expenses, and Changes in Retained Earnings	22
Statement of Cash Flows	23

Notes to the Financial Statements	24
---	----

Required Supplementary Information:

Schedules of Funding Progress	33
Schedules of Employer Contributions	34
Notes to the Schedules of Required Supplementary Information	35

Additional Financial Information:

Schedule of Investment Expenses	38
Schedule of Internal Investment Activity Expenses	39
Schedule of Administrative Expenses	40
Schedule of Professional/Consultant Fees	42
Pension Trust Funds - Investment Summary	43
Internal Service Fund - Investment Summary	44

Investment Section

Chief Investment Officer's Report	46
Investment Consultant's Report	49
Total Fund Review	51
Domestic Equity Review	54
International Equity Review	59
Diversification Pool Review	64
Schedule of Investment Manager Portfolios by Asset Class	70

Actuarial Section

Actuary's Certification Letter	72
Summary of Actuarial Assumptions	73
Pension Trust Funds - Summary of Member Data Included in Valuations	77
MSEP* Active Members by Attained Age and Years of Service	78
ALJLAP** Active Members by Attained Age and Years of Service	79
Judicial Plan Active Members by Attained Age and Years of Service	80
Schedules of Active Member Valuation Data Last Six Years	81
MSEP* Retirees and Beneficiaries Added and Removed	82
ALJLAP** Retirees and Beneficiaries Added and Removed	83
Judicial Plan Retirees and Beneficiaries Added and Removed	84
Short-Term Solvency Test	85
MSEP* Derivation of Experience Gain (Loss)	86
ALJLAP** Derivation of Experience Gain (Loss)	87
Judicial Plan Derivation of Experience Gain (Loss)	88
Summary of Plan Provisions	89
Changes in Plan Provisions	97
MSEP* Actuarial Present Values	98
ALJLAP** Actuarial Present Values	99
Judicial Plan Actuarial Present Values	100

Statistical Section

Summary	102
Membership in Retirement Plans - Last Ten Fiscal Years	103
Distribution of Benefit Recipients by Location	104
Pension Trust Funds - Actuarial Accrued Liabilities	105
Pension Trust Funds - Ten Year Historical Data	106
Benefit Expenses by Type - Last Ten Fiscal Years	109
Benefits Payable June 30, 2000 - Tabulated by Option and Type of Benefit	110
MSEP* Average Monthly Benefit Amounts - Last Six Fiscal Years	111
ALJLAP** Average Monthly Benefit Amounts - Last Six Fiscal Years	116
Judicial Plan Average Monthly Benefit Amounts - Last Six Fiscal Years	117
MSEP* Retirees and Beneficiaries - Tabulated by Year of Retirement	118
MSEP* Total Benefits Payable June 30, 2000 - Tabulated by Attained Ages of Benefit Recipients	119
ALJLAP** Total Benefits Payable June 30, 2000 - Tabulated by Attained Ages of Benefit Recipients	120
Judicial Plan Total Benefits Payable June 30, 2000 - Tabulated by Attained Ages of Benefit Recipients	121
Internal Service Fund - Ten Year Historical Data	122

* Missouri State Employees' Plan

** Administrative Law Judges' and Legal Advisors' Plan

What is the MSEP 2000?

The MSEP 2000 is a new retirement plan that aligns human resource management objectives with a benefit structure that provides financial security to state employees in an equitable and cost-effective manner.

What







*Gary Findlay
Executive Director*

September 20, 2000

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, MO 65109

Dear Board Members:

It is with great pleasure that I submit this year's annual report of the Missouri State Employees' Retirement System (MOSERS). It was an excellent year, marked by several accomplishments.

MOSERS' staff worked towards the successful implementation of the Missouri State Employees' Plan 2000 (MSEP 2000) effective July 1, 2000. Prior to the passage last year of Senate Bill 308 & 314, general state employees were covered under one plan, the Missouri State Employees' Plan (MSEP). Over the last 40 years, frequent amendments to the MSEP resulted in a "patchwork" benefit structure that provided different benefits for various classifications of employees. The issue of achieving internal benefit equity among employee groups was a key factor in the design of the new plan. Employees hired prior to July 1, 2000, will be given the choice of participating in the MSEP 2000 or remaining in the MSEP, employees hired after July 1, 2000, will automatically participate in the MSEP 2000.

With the increased demand and need for information to make decisions in an ever-changing financial world, MOSERS introduced a new seminar series titled, "Financial Fitness: Shaping Your Future." This seminar addresses the nuts and bolts of financial planning with a particular focus on retirement and investment basics, geared toward employees in the early to middle years of their career. Participation in this seminar has been an enormous success. Twenty-nine seminars were scheduled for calendar year 2000, and each has filled above capacity with demand continuing to grow.

This year, the move towards a paperless office continued with the scanning and processing of invoices and placement of internal office files on the image system thus, enabling the same operational efficiencies and reduction in storage requirements realized with our member files.

The final phase of the new accounting system, budgets, was implemented this year, which significantly reduced the time required in developing and implementing the budget for the fiscal year 2001.

Missouri State Employees' Retirement System
907 Wildwood Drive Jefferson City, Missouri 65109
Phone: (573) 632-6100 (800) 827-1063
MO Relay: (800) 735-2466 (Voice) (800) 735-2966 (TDD)
www.mosers.org

Introductory Section

The MOSERS' Board of Trustees is to be commended for implementing governance procedures during the year, designed to clarify the roles of the board and staff. These procedures have allowed the board to spend more time developing "big picture" policies in the areas of investments and benefits, while charging staff with the responsibility for implementing all of its policies. Equally important, the board has positioned itself to efficiently monitor the implementation of its decisions by staff. The members of the system will benefit from this design for years to come.

Report Contents and Structure

MOSERS is considered a component unit of the state of Missouri for financial reporting purposes and, as such, the financial statements contained in this report are also included in the State of Missouri Comprehensive Annual Financial Report. The financial information presented in this report is the responsibility of the management of MOSERS, and sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. The report is also designed to comply with the reporting requirements of Sections 104.480, 104.1006, and 105.661 of the Revised Statutes of Missouri (RSMo) as amended. The report is divided into the following five sections:

- ◆ The Introductory Section, which contains general information regarding the operations of MOSERS;
- ◆ The Financial Section, which contains the financial statements, schedules, and supplementary financial information regarding the funds administered by MOSERS;
- ◆ The Investment Section, which contains information pertaining to the management of the investments of the pension trust funds;
- ◆ The Actuarial Section, which contains information regarding the financial condition and financial position of the retirement plans administered by the system; and
- ◆ The Statistical Section, which contains general statistical information regarding system participants and finances.

Summary of Financial Information

The following schedule presents the pension trust funds' additions and deductions for the years ended June 30, 2000, and June 30, 1999:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Additions	\$ 633,928,520	\$ 724,056,101
Deductions	<u>(199,270,551)</u>	<u>(174,059,103)</u>
Net increase	\$ 434,657,969	\$ 549,996,998

The additions decreased by \$90,127,581, primarily as the result of a decrease in the net appreciation in the fair value of the investments of \$163,015,068; an increase in interest income of \$65,303,387; and an increase in contributions of \$10,876,033. The deductions increased by \$25,211,448, primarily as the result of an increase in benefit payments of \$17,338,692 and an increase in one-time, benefit adjustment payments of \$8,122,980.

The following schedule presents a summary of the revenues and expenses of the Internal Service Fund (insurance activity) for the years ended June 30, 2000, and June 30, 1999:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Operating revenues	\$ 20,556,272	\$ 19,387,209
Operating expenses	(20,639,055)	(19,570,136)
Nonoperating revenues	<u>68,349</u>	<u>55,323</u>
Net revenues under expenses	\$ (14,434)	\$ (127,604)

Operating revenues increased by \$1,169,063, primarily as the result of an increase of \$1,177,193 in premium receipts. Operating expenses increased by \$1,068,919, primarily as the result of an increase of \$1,172,093 in premium disbursements and a decrease of \$103,274 in administrative expenses. Nonoperating revenues increased by \$13,026, as the result of rising interest rates during the year.

Plan Financial Condition

The funding objective of MOSERS' pension trust funds is to meet long-term, benefit promises through contributions, which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 33-37. During the year ended June 30, 2000, the funded ratio of the MSEP, which covers 87,744 participants, increased from 89.2 percent to 93.1 percent, primarily as the result of favorable long-term investment returns. The funded ratio of the Administrative Law Judges and Legal Advisors' Plan, which covers 95 participants, increased from 79.6 percent to 79.8 percent, primarily as the result of an increase in participants in the plan offset by favorable long-term investment returns. Funding of the Judicial Plan, which covers 802 participants, began on July 1, 1998. During the year ended June 30, 2000, the funded ratio of the Judicial Plan increased from 2.7 percent to 5.7 percent, primarily as the result of an increase in participants in the plan offset by favorable long-term investment returns. Additional information regarding the financial condition of the pension trust funds can be found in the actuarial section of this report.

Investment Activity

MOSERS' investment portfolio produced a total return, net of expenses, of 8.2 percent for the year ended June 30, 2000. A significant shift in MOSERS' portfolio policy asset allocation occurred in March 2000, increasing the domestic equity allocation from 47.5 percent to 50 percent; increasing the international equity allocation from 17.5 percent to 25 percent; and increasing the diversification pool allocation from 5 percent to 25 percent. The later is comprised of 50 percent nominal bonds or traditional fixed income instruments, 40 percent real bonds or Treasury Inflation Protected Securities (TIPS) and a 10 percent commodity overlay exposure. Additional information regarding the investment activity for the year is included in the investment section of this report.

Legislation Enacted During the 2000 Legislative Session

On May 30, 2000, Governor Mel Carnahan signed into law House Bill 1808 which contains a provision that will increase the current basic life insurance benefit provided to state employees from \$15,000 to one-times annual salary with a \$15,000 minimum effective January 1, 2001. Enactment of this provision completed the last of the recommendations contained in the final report of the Public Safety Retirement Advisory Commission issued in 1998. This benefit enhancement was designed to provide an automatic inflationary adjustment to coverage levels thus requiring no future legislative changes, and to provide for uniformity in coverage among state employees. The increase in cost to the state to provide this benefit change for state employees is estimated to be approximately \$2.4 million per annum.

Y2K-Update

Last year a significant amount of press coverage was devoted to the "Y2K bug" issue. The Y2K problem was the result of shortcomings in electronic data processing systems and other electronic equipment due to the use of two digits to represent the year, which may have adversely affected an entity's operations on and after January 1, 2000. MOSERS' management recognized the impact this would have on our operations in the early 1990s and began working to address this issue. I am happy to report that no significant Y2K problems were encountered during this fiscal year due in large part to the dedication and diligence of MOSERS' staff in identifying and addressing the issue before it became a problem.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MOSERS for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR conforming to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. MOSERS has received a Certificate of Achievement for the last eleven consecutive years (fiscal years ended 1989-1999). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

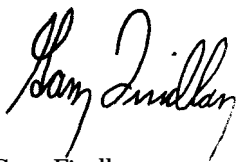
Conclusion

This report is a product of the combined efforts of the MOSERS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information, which will facilitate the management decision process; serve as a means for determining compliance with legal requirements; and allow for the evaluation of responsible stewardship of the funds of the system. As in the past, MOSERS received an unqualified opinion from our independent auditors on the financial statements included in this report. The opinion of the independent auditor can be found on page 18.

Copies of this report are provided to the Governor, State Auditor, Joint Committee on Public Employee Retirement of the general assembly, and all state agencies. These agencies form the link between MOSERS and its members, and their cooperation contributes significantly to the success of MOSERS. We hope all recipients of this report find it informative and useful.

I would like to take this opportunity to express my gratitude to you, the staff, the advisors, the Governor's Task Force on Total Compensation, and other people who have worked so diligently to assure the continued successful operation of the system.

Respectfully submitted,



Gary Findlay
Executive Director

*Thomas Hodges
Board Chairman*



October 4, 2000

Dear Members:

On behalf of the board of trustees, I am pleased to present the MOSERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. This report provides information on the financial status of your retirement system while also highlighting significant changes that occurred during the year.

Investment returns were lower this fiscal year than in prior years, however, the funding level of the plan increased to 93.1 percent. This is the highest funding level experienced by the plan in the past ten years and is the result of the long-term investment decisions made by the board of trustees in consultation with the investment staff.

The board of trustees continues to be impressed by the work of MOSERS' staff, especially in regard to the preparation that was necessary to implement the Missouri State Employees' Plan 2000, which became effective this fiscal year. The staff maintained a high level of customer service throughout this transition despite the additional workload that was created by such an undertaking.

During the past fiscal year, the board of trustees experienced no turnover. The system is fortunate to be served by such dedicated and experienced individuals, and I am honored to work with them in this capacity.

In closing, I would encourage you to contact MOSERS with any questions you may have regarding this report. Customer service continues to be a top priority - we are committed to providing you with key information regarding the performance of the system.

Sincerely,

A handwritten signature in black ink that reads "Thomas F. Hodges".

Thomas F. Hodges, Chairman
Board of Trustees

Board of Trustees

*Thomas Hodges
Chairman*

*Jacquelyn White
Vice Chairman*

Joseph Bednar

Rep. Richard Franklin

Richard Hanson

Bob Holden

Stephen Price

Ben Russell

Sen. John Russell

Sen. John Scott

Rep. Bill Skaggs

*Gary Findlay
Executive Director*

*907 Wildwood Drive,
P.O. Box 209
Jefferson City, Missouri 65102
Phone: (573) 632-6100
(800) 827-1063*

*MO Relay:
(800) 735-2466 (Voice)
(800) 735-2966 (TDD)*

www.mosers.org



Seated left to right

Representative Richard Franklin
House of Representatives' Member

Jacquelyn White
Vice Chairman
Deputy Director
Department of Mental Health
Governor Appointed Member

Standing left to right

Richard Hanson
Commissioner of Administration
Ex-Officio Member

Joseph Bednar
Chief Counsel
Governor's Office
Governor Appointed Member

Thomas Hodges
Chairman
District Administrator
Board of Probation and Parole
Department of Corrections
Elected Active Member

Representative Bill Skaggs
House of Representatives' Member

Senator John Russell
Senate Member

Senator John Scott
Senate Member

Not pictured

Bob Holden
State Treasurer
Ex-Officio Member

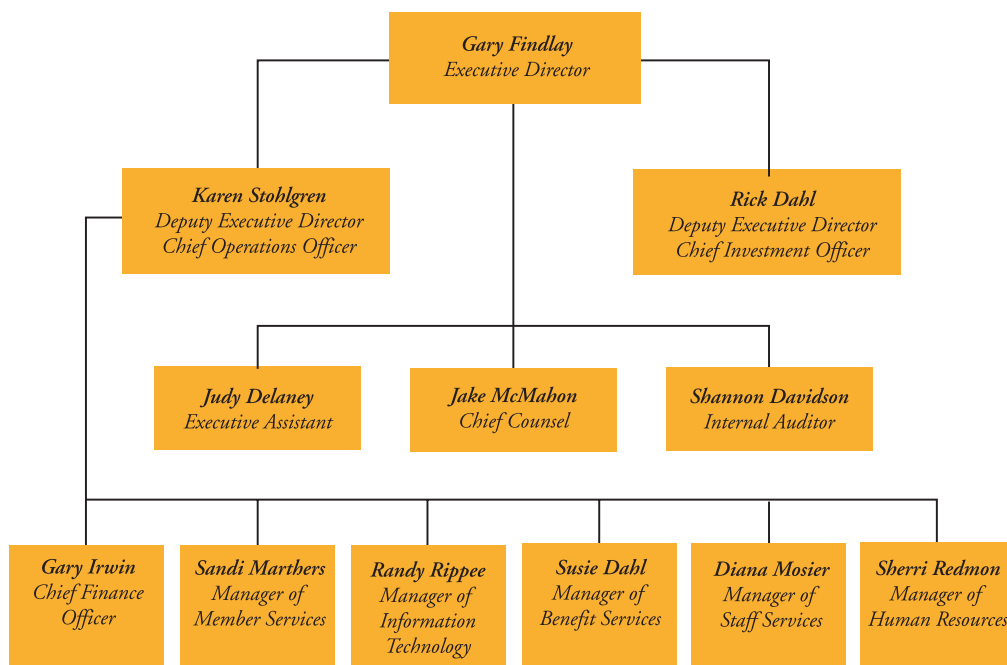
Ben Russell
Elected Retired Member

Steve Price
Staff Director
House Appropriations Committee
Elected Active Member



Management and Senior Support Staff

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





Executive Services

Standing: Judy Delaney, Gary Findlay
Seated: Karen Stohlgren, Shannon Davidson
Jake McMahon

Accounting

Standing: Martha Francis
Seated: Gary Irwin, Melissa Wadley, Michele Nix
Not pictured: Becky Harrison



Information Technology

Standing: Mark Howard, Louis Bremer,
Gary Huting, Karen Raithel, Randy Rippee
Seated: Kawajalyn Simmons, Jennifer Scott,
Randy Woods, Michelle Shikles, Barbara Bosch



Investments

Standing: Jim Mullen, Karen Holterman,
Pat Neylon, Angela Swanigan, Meg Cline
Seated: Tricia Bisges, Rick Dahl,
Amber Guthrie, Cindy James





Member Services

Standing: Beverly Murphy, Sandi Marthers,
Gina Kunz, Hazel Bledsoe

Seated: Wanda Verdot, Christine Wilson,
Juanita Libbert, Kendra Wood, Lori Bentlage,

Not pictured: Sally Hager

Communications

Standing: Tracy Upschulte, Denise Weaver,
Susie Dahl

Seated: Betty Kinney, Deb Benton, Dearld Snider

Not pictured: Pam Henry



Benefit Services

Standing: Becky Wolfe, Scott Simon,
Gary Hollis, Bette Rovik,

Seated: Kim Sullens, Anne Rapp, Kevin Bradley,
Jennifer Hanes, Susie Dahl

Not pictured: Tricia Mingucci, Derrick Gillis

Staff Services

Standing: Lori Leeper, Sherri Redmon, Jerry Hihn

Seated: Diana Mosier, Cindy Barbarick, Jeff Goins

Not Pictured: Maggie Rush



The Missouri State Employees' Retirement System (MOSERS), established September 1, 1957, is governed by the statutes of the state of Missouri.

Purpose

MOSERS provides retirement, survivor and disability benefits, and life insurance to its members.

MOSERS administers retirement benefits for most state employees, including members of the Missouri General Assembly, elected state officials, administrative law judges and legal advisors, and judges. MOSERS is responsible for administering the law in accordance with the expressed intent of the Missouri General Assembly and bears a fiduciary obligation to the state employees who are its members and beneficiaries.

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.

Administration

The statutes provide that responsibility for the administration of MOSERS is vested in an eleven member board of trustees. The board is comprised of:

- ◆ Two members of the Senate appointed by the President Pro Tem of the Senate;
- ◆ Two members of the House of Representatives appointed by the Speaker of the House;
- ◆ Two members appointed by the Governor;
- ◆ Three other members of the system: two active members elected by the active and terminated-vested members, and one retiree elected by the retired members;
- ◆ The State Treasurer; and
- ◆ The Commissioner of Administration.

The day-to-day management of MOSERS is delegated to the executive director who is appointed by the board and serves at its pleasure. The executive director acts as advisor to the board on all matters pertaining to the system and, with the approval of the board, contracts for professional services and employs the remaining staff needed to operate the system.

Organization

The executive director, deputy executive director – chief operations officer, and the deputy executive director – chief investment officer are responsible for planning, organizing, and administering the operations of the system under the broad policy guidance and direction of the board.

MOSERS' office is divided into seven administrative sections that perform specific functions for the system.

Executive Services

The executive services team provides administrative support by assisting the executive director and chief operations officer in the major legal, operational, and oversight functions of the retirement, benefit, and communication programs.

Accounting

This section is responsible for all financial records of the programs administered by MOSERS, including the preparation of financial and statistical reports. Accounting performs the purchasing functions for MOSERS and interfaces with the investment consultant, investment managers, Office of Administration accounting, various payroll/personnel departments, life insurance companies, actuaries, banks, and the IRS.

Benefit Services

Benefit services is responsible for all contact with the membership regarding the benefit programs administered by MOSERS, which include retirement, life insurance, and long-term disability. This section is comprised of customer service, technical support, communications, and member training.

Information Technology

Utilizing an IBM AS400 minicomputer and high end workstations, information technology provides all computer and technical design support for MOSERS' data processing activities. This group is responsible for establishing and updating computer programs to implement plan changes and also maintains members' folder information on FileNet – an optical disk image system that allows information to be stored and processed using computer displayed images of original documents. Information technology is also responsible for administration of the personal computer network, maintenance of MOSERS' web site, and the telephone system.

Investments

The investments' staff provides internal investment management and consulting services to the board and the executive director. The primary functions of staff include analyzing and rebalancing the overall asset allocation and portfolio structure, managing portions of the portfolio, providing technical advice, selecting and monitoring external managers, serving as a liaison to the investment community, and informing and advising the board and executive director on financial, economic, and political developments which may affect the system. The investments' staff also works with the asset consultant on a project specific basis.

Member Services

Member services is responsible for establishing and maintaining all membership records – including maintenance of the data on the electronic imaging system, balancing payroll deductions for insurance, and entering the payroll, service, and leave data into the system's computerized database.

Staff Services

Staff services provides clerical support, mail services, and general building maintenance for MOSERS' personnel. Human resources is also represented in this section.

Actuary

Gabriel, Roeder, Smith & Co.
Actuaries and Consultants
Alan Sonnanstine, Brad Armstrong
Southfield, Michigan

Auditors

KPMG LLP
Certified Public Accountants
Melissa Benton, Andrew J. Blossom
Kansas City, Missouri

Master Trustee/Custodian

Deutsche Bank
Bankers Trust Company of the Southwest
Douglas Womack, Rebecca Roberie
Dallas, Texas

Equity Investment Advisors

AmeriCap Advisers
Michael Gayed, Steve Shobin
New York, New York

Capital Guardian Trust
Mike Nyeholt, Andy Barth
Los Angeles, California

Dimensional Fund Advisors
Carol Wardlaw, Rex Sinquefield
Santa Monica, California

Mastholm Asset Management
Thomas Garr, Theodore Tyson
Bellevue, Washington

Merrill Lynch
Asset Management Group
Rick Vella, Vincent Costa
New York, New York

Oak Associates, Ltd.
James Oelschlager, Doug McKay
Akron, Ohio

Silchester International Advisors
Christopher Cowie, Stephan Butt
London, England

Zak Capital, Inc.
Suzanne Zak, Doug Platt
Minneapolis, Minnesota

Fixed Income Investment Advisors

BlackRock Financial Management, Inc.
Robert Capaldi, Andy Phillips
New York, New York

Hoisington Investment Management Company
Van Hoisington, Lacy Hunt
Austin, Texas

NISA Investment Advisors
Robert Krebs, Bill Marshall
St. Louis, Missouri

Securities Lending Advisors

Credit Suisse First Boston Corporation
Dwight Skerritt
New York, New York

Goldman, Sachs & Co.
Goldman Securities Lending
Marie Polisenio
New York, New York

Investment Management Consultant

Summit Strategies, Inc.
Steve Holmes, Tom Pollihan
St. Louis, Missouri

Legal Counsel

Thompson Coburn
Attorneys at Law
Allen Allred
St. Louis, Missouri

Risk Management Consultant

Charlesworth & Associates, L.C.
Art Charlesworth, Bob Charlesworth
Overland Park, Kansas