

# ARE YOU READY ...

**Missouri State Employees' Retirement System**  
**A Component Unit of the State of Missouri**

**Summary Annual Financial Report**  
**Fiscal Year Ended June 30, 2001**



## TO MEET THE BOARD OF TRUSTEES?

Dear Members:

On behalf of the board of trustees, I am pleased to present the *MOSERS' Summary Annual Financial Report* for the fiscal year ended June 30, 2001. This report provides information on the financial status of your retirement system while also highlighting significant changes that occurred during the year.

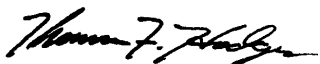
A review of the report confirms that, though faced with a difficult investment environment this year, the system remains well funded. The preservation and long-term growth of system assets remains the primary focus of the board to ensure that future benefit obligations will be met. MOSERS is strong and will, through the guidance of the board and the dedication of an outstanding staff, weather the uncertain times we are facing. We will be here for our members in the years to come.

With the election of Governor Bob Holden, and the subsequent change in administration, the board experienced some turnover this year. Ending their terms were Bob Holden (eight years), Richard Hanson (eight years), and Joe Bednar (three years). On behalf of the board, staff, and membership, I would like to express our collective thanks to these individuals for serving, and for their many valuable contributions to the system. Nancy Farmer (State Treasurer), Mike Hartmann (Commissioner of Administration), and Carol Gilstrap (Deputy Chief of Staff, Governor's Office) also joined the board this year, and we look forward to working and serving with them.

On a sadder note, I regret to inform you of the death of Ben Russell, our retiree-elected board member. Ben was a strong advocate for retirees, and a valuable member of the board. He will be missed. Bryan Ornburn has been appointed by the board to complete Ben's term. Bryan formerly served the retirees as their elected representative during 1992-1998, and we greatly appreciate his willingness to return to the board.

On a personal note, this is my last Summary Annual Financial Report letter to you, as I will not seek re-election as board chairman. I wish to thank the staff of MOSERS and my fellow trustees (current and former), who have made my term as chairman of the board so enjoyable these past seven years. It has been very rewarding to serve as chairman during a time when many positive changes have occurred. MOSERS is, without a doubt, an industry leader reflecting both the quality and commitment of the board and staff.

Sincerely,



Tom Hodges, Chairman  
Board of Trustees



**Seated left to right:** Nancy Farmer, Mike Hartmann, Carol Gilstrap, Senator John Scott, and Jacquelyn White (Vice Chairman)

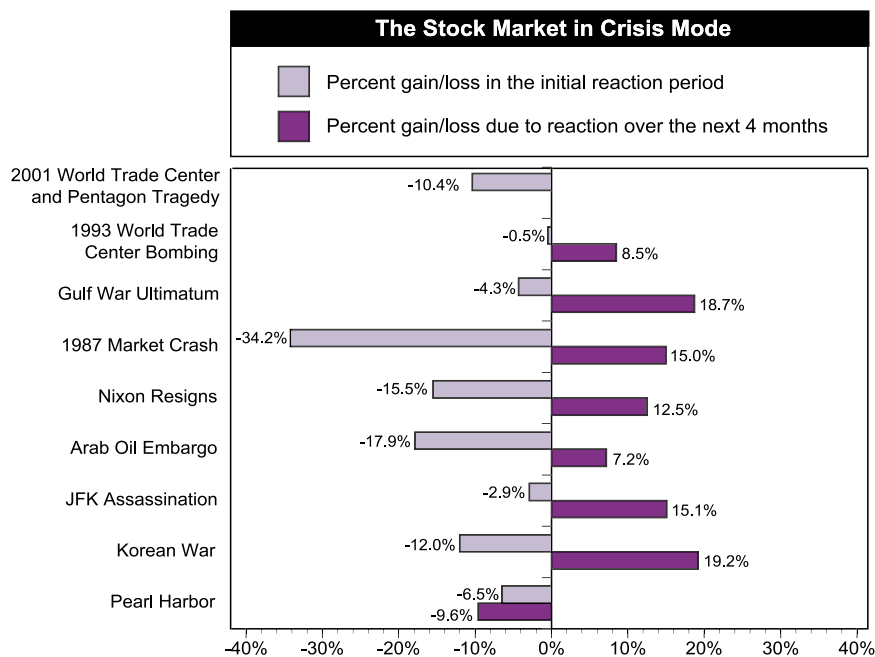
**Standing left to right:** Representative Richard Franklin, Steve Price, Representative Bill Skaggs, Thomas Hodges (Chairman), Senator John Russell, and Bryan Ornburn

## TO HEAR FROM THE EXECUTIVE DIRECTOR AND CIO?

As we print this report to you covering the fiscal year ending June 30, 2001, our nation continues to recover from the tragic events that unfolded on September 11.

The terrorist attacks that leveled the twin towers of the World Trade Center and several buildings in close proximity, hit at the heart of the U.S. financial district's infrastructure. As a result, the U.S. stock market was closed for four consecutive days – the longest closure ever.

History has shown us that the initial reaction of stock markets during times of crises is panic selling of equities as fear grips investors. This selling, in turn, creates disorderly markets that push investor emotions to extreme highs and share prices to extreme lows. This is illustrated in the graph below, which shows major historical events that have caused market crises over the past 60 years. As you can see, immediately following all these events, the market, as represented by the Dow Jones Industrial Average, sold off sharply. What's important to note, however, is that as emotion subsided and rational thinking resumed, the 4-month returns following these events were positive with the one exception being Pearl Harbor, which was positive within 12 months. We believe this provides empirical evidence that the U.S. financial markets will absorb the political and economic uncertainties related to our current national crisis, and respond positively in the near future.



The board of trustees, staff, and external service providers, will not allow the events of September 11 to alter MOSERS' long-term investment policy. This policy is based on prudent and rational portfolio management principles that incorporate past capital market experience which, by definition, includes catastrophic events like the one we experienced just a few short weeks ago. We will continue to rely on basic tenets of investing that include diversification and a long-term perspective.

As trust fund fiduciaries, we have unqualified confidence in the U.S. financial systems and in the resilience of the U.S. financial markets to endure this period of uncertainty. In short, we wish to assure you that your pension fund is sound and that it will be there for you upon retirement.

We join all of America in offering our condolences to the families, friends and business colleagues who were personally affected by this horrible tragedy.

Sincerely,

Gary Findlay  
Executive Director

Rick Dahl  
Chief Investment Officer

## TO CHECK OUT MEMBERSHIP AND HOW WE SERVE YOU?

While MOSERS is often known as a system that is responsible for distributing retirement checks to retirees of state government, our mission statement summarizes our focus on you, our customer.

### **MOSERS' Mission Statement**

*"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."*

In the last year, MOSERS has served its members in a variety of ways outlined in the chart to the right.

<b>Our Membership at a Glance</b>			
	<b>Missouri State Employees' Plan*</b>	<b>Administrative Law Judges and Legal Advisors' Plan</b>	<b>Judicial Plan</b>
<b>Total Membership</b>	<b>90,418</b>	<b>100</b>	<b>830</b>
Active	58,431	57	381
Terminated-Vested	11,750	19	68
Retired	20,237	24	381
<b>2001 Active Members</b>			
Average age	43.2	48.1	52.3
Average years of service	9.7	8.7	10.7
Average annual salary	\$30,090	\$81,772	\$101,543
<b>2001 Retired Members</b>			
Average age	69.9	74.0	75.2
Average annual benefit	\$11,236	\$32,987	\$41,191

\* Includes general employees, legislators, and statewide elected officials in both the MSEP and MSEF 2000.

### **Customer Service Statistics**

<b>SERVICE</b>	<b>CUSTOMERS SERVED</b>
Phone Calls	90,103
Walk-ins	2,031
Pre-Retirement Seminars	2,080
Saving & Investing Seminars	959
Benefits for Vested Members Seminars	561
Web site	19,500*
* Average "hits" per month over the last 4 months	

## TO REVIEW NEW LEGISLATION?

### **MSEP and MSEP 2000**

On July 13, 2001, Governor Bob Holden signed into law Senate Bill 371 (SB 371). Most of the provisions contained in SB 371 consisted of minor modifications to and clarifications of the Missouri State Employees' Plan (MSEP) and the Missouri State Employees' Plan 2000 (MSEP 2000). Two of the more substantive changes contained in the legislation, however, create a Deferred Retirement Option Provision (BackDROP) for general state employees (effective January 1, 2002), and establish a mandatory defined contribution plan for new hires only of the regional colleges and universities (effective July 1, 2002).

### **BackDROP**

- ◆ A member may elect a BackDROP option at retirement that would allow for a benefit to be calculated as if the member had elected to retire at a previous date.
- ◆ To be eligible to participate, a member must have been eligible to retire under normal age and/or service conditions for at least two years.
- ◆ A retroactive starting date is established, which is the later of the member's normal retirement date or five years prior to the annuity starting date. This results in a BackDROP period of two to five years depending on the member's situation.
- ◆ A theoretical BackDROP account is accumulated that includes 90% of the value of the benefit payments that would have been paid during the BackDROP period. These payments include applicable post-retirement benefit increases, however, no interest is paid.
- ◆ The member is paid the resulting lump sum value of the BackDROP account as of the annuity starting date or as three equal annual installments beginning at the annuity starting date.

### **Defined Contribution Plan for Regional Colleges and Universities**

- ◆ This new defined contribution plan will cover faculty and senior administrative personnel holding faculty rank first employed after June 30, 2002, and will be administered by an outside service provider selected by MOSERS.
- ◆ After participating in the defined contribution plan for at least six years, members will have an opportunity to elect membership in the MSEP 2000. However, the member will receive no creditable service in the MSEP 2000 for the period the member was participating in the defined contribution plan and will forfeit any right to return to the defined contribution plan in the future.

### **Administrative Law Judges and Legal Advisors' Plan (ALJLAP)**

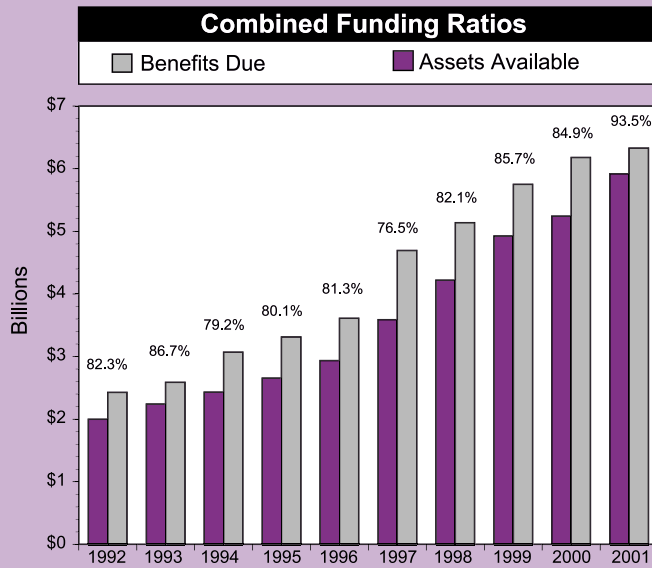
SB 371 also contains a provision that will allow attorneys previously employed by the Labor and Industrial Relations Commission who terminated employment prior to August 28, 1994, to receive coverage in the ALJLAP, provided rights to benefits under Chapter 104, RSMo for that service are forfeited.

### **Judicial Plan**

SB 371 will also enable any judge who has creditable service under Chapter 104 and Chapter 476, RSMo as a commissioner or deputy commissioner to make a one-time election upon application for retirement to receive all benefits for that service under either Chapter 104 or Chapter 476, RSMo.

## TO LEARN HOW YOUR RETIREMENT PLAN IS FUNDED?

Your retirement benefits are funded by contributions from the state of Missouri. In order to ensure your benefits are available to you, MOSERS is constantly evaluating the plans' assets relative to the value of benefits it is obligated to pay to retirees today and into the future. The graph below illustrates the actual dollar amount of the fund's future liabilities (retiree benefits to be paid in the future), relative to the assets currently on hand. The percentage represents the funding ratio, or the amount of the future liability that can be covered with today's assets. Through investment performance and future contributions from the state, any differences between assets and liabilities will be eliminated gradually over time. According to the MOSERS' actuarial consultant, Gabriel, Roeder, Smith & Company, the plan is strong and sound per their annual plan review.



The Statements of Plan Net Assets is a summary of what MOSERS owns and what it owes as of June 30, 2001.

### STATEMENTS OF PLAN NET ASSETS

#### Pension Trust Funds

As of June 30, 2001

	Missouri State Employees' Plan*	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
<b>Assets</b>				
Cash and short-term investments	\$ 84,464,286	\$ 205,868	\$ 294,533	\$ 84,964,687
Receivables	103,491,648	298,075	2,106,381	105,896,105
Investments at fair value	5,338,600,721	13,011,951	18,616,074	5,370,228,746
Securities lending collateral	1,170,070,379	2,851,852	4,080,117	1,177,002,348
Fixed assets	5,394,288	13,148	18,811	5,426,246
Accumulated depreciation	(1,413,262)	(3,445)	(4,928)	(1,421,635)
Fixed assets net of depreciation	3,981,026	9,703	13,883	4,004,611
Prepaid expenses and other	59,545	145	208	59,898
Total assets	6,700,667,605	16,377,594	25,111,196	6,742,156,395
<b>Liabilities</b>				
Net assets held in trust for pension benefits	1,267,706,309	3,089,823	4,420,581	1,275,216,713
	\$5,432,961,296	\$13,287,771	\$20,690,615	\$5,466,939,682

\* Includes general employees, legislators, and statewide elected officials in both the MSEP and MSEP 2000.

# TO FIND OUT WHERE THE MONEY COMES FROM . . . AND WHERE IT GOES?

The Statements of Changes in Plan Net Assets summarizes the inflows and outflows of money to the fund throughout the year. Most of the additions are comprised of contributions from the state and investment earnings. The outflows are comprised almost entirely of benefit payments. The financial statements were audited by KPMG LLP.

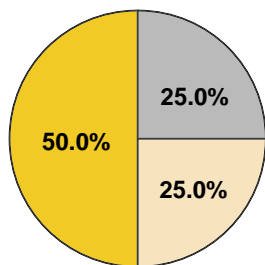
<b>STATEMENTS OF CHANGES IN PLAN NET ASSETS</b>				
<b>Pension Trust Funds</b>				
Year Ended June 30, 2001				
	<b>Missouri State Employees' Plan*</b>	<b>Administrative Law Judges and Legal Advisors' Plan</b>	<b>Judicial Plan</b>	<b>Total (Memorandum Only)</b>
<b>Additions</b>				
Contributions	\$ 217,836,340	\$ 1,074,946	\$22,473,913	\$ 241,385,199
Investment income				
<i>From investing activities:</i>				
Net depreciation in fair value of investments	(242,360,710)	(590,714)	(845,129)	(243,796,553)
Interest and dividends	129,007,981	314,436	449,860	129,772,276
Other	497,810	1,213	1,736	500,759
Total investing activity loss	(112,854,919)	(275,065)	(393,533)	(113,523,518)
Investing activity expenses:				
Fees	(7,905,739)	(19,268)	(27,568)	(7,952,575)
Portfolio transition/rebalancing cost	(154,588)	(377)	(539)	(155,504)
Internal investment activity expenses	(1,093,958)	(2,666)	(3,815)	(1,100,439)
Total investing activity expenses	(9,154,285)	(22,311)	(31,922)	(9,208,518)
Net loss from investing activities	(122,009,204)	(297,376)	(425,455)	(122,732,036)
<i>From securities lending activities:</i>				
Securities lending income	22,648,799	55,203	78,978	22,782,980
Securities lending activities expenses	(12,803,718)	(31,207)	(44,647)	(12,879,572)
Net income from securities lending activities	9,845,081	23,996	34,331	9,903,408
Total net investment loss	(112,164,123)	(273,380)	(391,124)	(112,828,628)
Miscellaneous income	418,663	1,020	1,460	421,143
Total additions	106,090,880	802,586	22,084,249	128,977,714
<b>Deductions</b>				
Total deductions	223,644,300	790,437	15,030,149	239,464,885
Net increase (decrease)	(117,553,420)	12,149	7,054,100	(110,487,171)
Net assets held in trust for pension benefits:				
Beginning of year	5,550,514,716	13,275,622	13,636,515	5,577,426,853
End of year	\$5,432,961,296	\$13,287,771	\$20,690,615	\$5,466,939,682

\* Includes general employees, legislators, and statewide elected officials in both the MSEP and MSEP 2000.

## TO SEE HOW RETIREMENT FUNDS ARE INVESTED?

### Asset Allocation

The asset allocation of the fund is the mix of various asset classes within the portfolio. By holding a diversified portfolio, MOSERS expects to reach return objectives while mitigating risk.



### Domestic Equity - 50.0%

These are stocks of corporations domiciled in the United States. As shareholders in these companies, we are owners of the corporations.

### International Equity - 25.0%

These are stocks of corporations domiciled outside of the United States. As shareholders in these companies, we are owners of the corporations.

### Diversification Pool - 25.0%

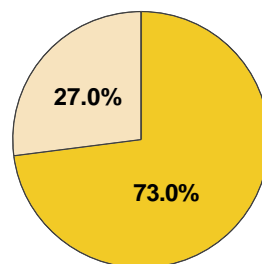
This is a group of assets that have certain characteristics that make them act differently than stocks in certain economic environments. This pool of assets adds diversification benefits to the fund. Essentially, when stock returns are falling, the returns of these assets should be positive or less negative than stocks.

### Domestic Equity Portfolio

Within MOSERS' allocation to domestic equity, there are several types of U.S. stocks we are investing in to add diversification benefits. A snapshot of these types of stocks follows:

#### The Size Factor

Stocks can be categorized based upon their size. Size for a stock is measured by the company's market capitalization, or number of shares outstanding of the stock multiplied by the price of the stock. Small-, mid-, and large-cap stocks are the main types of stocks based upon size.



#### Large-Cap Stocks - 73.0%

These are stocks of companies with market capitalizations in excess of \$10 billion.

#### Small & Mid-Cap Stocks - 27.0%

These are stocks of companies with market capitalizations less than \$10 billion.

#### The Style Factor

Stocks can be categorized based upon their style. The terms we use to describe style for stocks include growth, core, and value.

#### Growth - 28.0%

These are stocks of companies that are expected to experience faster-than-average growth in earnings in the future. These stocks have a price which is high relative to the projected earnings of the company, and typically pay little or no dividends.

#### Core - 26.0%

These are stocks of companies that do not fall into the value or growth stock style, but rather have characteristics that fall in between these two styles.

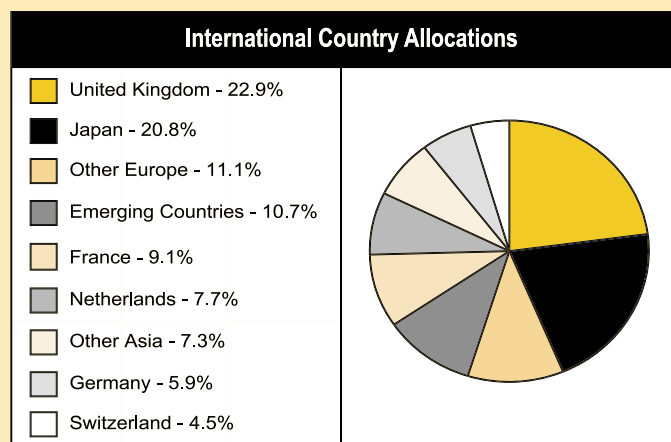
#### Value - 46.0%

These are stocks that are priced low relative to the projected earnings of the underlying company. It is more common for these stocks to pay a dividend.



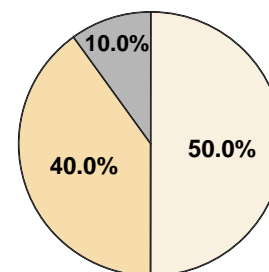
### International Equity Portfolio

MOSERS owns equities around the globe. The pie chart below illustrates the diversity of countries where MOSERS invests.



### Diversification Pool

The Diversification Pool consists of conventional bonds, treasury inflation protected securities (TIPS), and commodities. Each of these assets have unique characteristics that reduce the overall volatility or risk of the fund.



#### Conventional Bonds - 50.0%

This asset class represents ownership of debt in a corporation or government entity. As an owner of these bonds, MOSERS has basically lent money to the corporations issuing the bonds. In return, MOSERS will receive interest payments over the term of the loan or for however long MOSERS owns the bond. If MOSERS owns the bond upon maturity, it will be repaid the amount it originally loaned to the entity issuing the bond.

#### TIPS - 40.0%

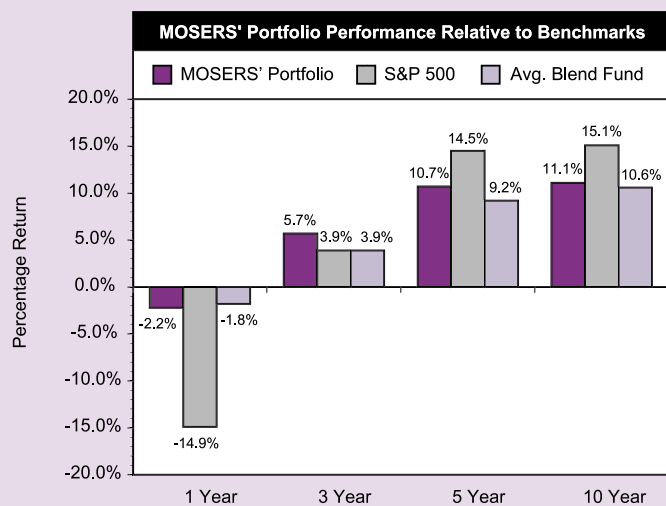
These are bonds that are guaranteed by the "full faith and credit" of the U.S. government. TIPS pay a lower rate of interest than nominal bonds, however, the investor is protected against inflation for the life of the bond by means of a mechanism that adjusts the maturing principal amount of the bond according to changes in the Consumer Price Index (CPI).

#### Commodities - 10.0%

These are physical goods such as metals, energy, and agricultural products. MOSERS invests in a commodity index that has exposure to several different commodities. Energy is the largest sector in this index.

## TO REVIEW HOW THE FUND PERFORMED?

The portfolio's investment return relative to specific benchmarks is one means of evaluating the fund's investment performance. The following graph illustrates MOSERS' portfolio return relative to the S&P 500 Stock Index\* and the average blend mutual fund.\*\*



\* S&P 500 Stock Index - This is a group of 500 stocks representing the largest corporations in various sectors of the market.

\*\* Average Blend Mutual Fund - This represents the average return of blend mutual funds available to investors. Blend mutual funds are funds that invest in a mix of stocks and bonds.

Fiscal year 2001 will no doubt be a year many would like to forget. Stock markets around the globe were mauled by a giant bear that has been in hibernation for over 20 years. The MOSERS' portfolio was not immune from this downturn, however, it fared quite well when compared to the broad market. While the S&P 500 Index was down 14.8%, our portfolio was down 2.2%. Our diversification paid off. Fixed income aided the portfolio along with small and value stocks and our group of active managers.

Fiscal year 2001 was also a year of change – change in the economy, market leadership, future expectations, and investors' willingness to speculate on future.com dreams. We witnessed a swing in the pendulum from an economic boom to what will end up being called a recession. What can you do in this economic environment? Ironically, while times may be different today than they were a year ago, the following messages are the same no matter what type of market environment we might be experiencing.

- ◆ **Diversify** – This is the process of investing in a variety of assets that react differently in specific economic situations. MOSERS does this by investing in U.S. stocks (large, small, value, growth), international stocks, conventional bonds, and inflation indexed bonds to name a few.
- ◆ **Be Patient** – Remember, investing is a continuous process. It is not supposed to be “exciting,” but rather a responsibility. Stick to a long-term, consistent strategy that you understand and will not become concerned with should your portfolio experience negative returns for a short period of time. This plan should include regular rebalancing of your portfolio. By rebalancing on a regular basis, you are selling assets that have done well and buying assets that have not performed as well. While on the surface, this may seem like a bad idea, if you have done a good job of diversifying your portfolio, the assets that have performed poorly will once again have their day and you will have purchased more of them at bargain prices. This results in a strategy where you are “selling high and buying low.”
- ◆ **Don't Confuse Great Companies with Great Investments** – Price does matter! In March 2000, Cisco was a great company, but the market demanded a price from new investors far greater than the company could support through its earnings going forward.
- ◆ **Don't be a Sheep** – Prevent yourself from falling victim to the herd mentality. It is easy to follow the herd, but the herd is seldom right. A disciplined approach that matches your long-term objectives will help you keep your emotions on the sidelines and from joining the herd.

## TO DISCOVER WHAT THE FUTURE HOLDS?

Have you ever stopped to ask yourself just how much you will receive from your MOSERS' pension throughout your lifetime? Since participants do not have an individual account balance in a defined benefit plan like MOSERS, these plans tend to be a mystery to many. This makes it easy to underestimate the value being accumulated in a defined benefit plan. One of the defined benefit plan's key objectives is to provide a base level of retirement income in relation to salary and service. Defined benefit plans accomplish this without requiring investment expertise on the part of employees, and without subjecting the base level benefit amount to investment risk found in individual account plans. To help demonstrate the value of your defined benefit, let's take a look at a group of 340 participants who recently retired. The average employee in that group possessed the following characteristics:

Age .....	56 years, 9 months
Service .....	26 years, 4 months
Final Average Pay .....	\$35,900
Monthly <b>Life</b> Benefit .....	\$1,340
Monthly <b>Temporary</b> Benefit.....	\$590

**Total Lifetime Benefits to age 80 (no COLA): \$411,000**  
**Total Lifetime Benefits to age 80 (with COLA): \$509,000**

Assuming the average employee lives to age 80, approximately \$411,000 in retirement benefits will be paid to each, and that does not consider any cost-of-living adjustments (COLAs) they may receive during retirement. If a 2% COLA is added, the total will increase to approximately \$509,000. Would you have ever imagined that an average employee who makes a career in state government could expect to receive a retirement benefit approaching a half million dollars in retirement income from MOSERS? What makes your defined benefit plan even more remarkable is the cost of the plan is paid entirely by the state.

When looking at our example, you may think age 80 is a stretch, after all, the longer you live the greater your benefit under a defined benefit plan. However, you may be surprised to know that MOSERS is currently paying a benefit to 2,906 people age 80 and older as this publication goes to print.

We hope this example gives you a better understanding of the magnitude of the retirement benefit career state employees can expect.

## TO FIND OUT MORE?

### Office Location:

907 Wildwood Drive  
Jefferson City, MO 65109

### Mailing Address:

P.O. Box 209  
Jefferson City, MO 65102

### Telephone:

(573) 632-6100 (800) 827-1063

### Missouri Relay:

(800) 735-2466 (Voice) or  
(800) 735-2966 (TDD)

### Web site:

[www.mosers.org](http://www.mosers.org)

### E-mail:

[mosers@mosers.org](mailto:mosers@mosers.org)

### Business Hours:

8:00 a.m. - 5:00 p.m.  
Monday - Friday

This summary annual report is derived from the information contained in *MOSERS' Comprehensive Annual Financial Report (CAFR)* but does not include all funds administered by MOSERS nor certain other information required to be in conformity with Generally Accepted Accounting Principles (GAAP). MOSERS' CAFR is produced in conformity with GAAP. Contact MOSERS to request a copy of the CAFR or visit our web site.

## 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, 2000. 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.



United We Stand.

Alternative format available upon request. To request an alternative format, please contact MOSERS at 573-632-6100 or 800-827-1063.  
MOSERS is an equal opportunity employer.



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