



SECURITY

Something given, deposited, or pledged to make certain the fulfillment of an obligation

Management's Responsibility for Financial Reporting



September 26, 2002

Management has prepared the basic financial statements of the Missouri State Employees' Retirement System (MOSERS), and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform with generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and annual report rests with the board of trustees. The executive director and the rest of MOSERS staff assist the board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training of employees, the establishment of an organizational structure, and the communications of policies and guidelines throughout the organization. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the board of trustees.

The system's external auditors, KPMG LLP, have conducted an independent audit of the basic financial statements in accordance with generally accepted auditing standards. This audit is described in their *Independent Audit Report* on page 18. Management has provided the external auditors with full and unrestricted access to MOSERS staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.

A handwritten signature in cursive script that reads "Gary Findlay".

Gary Findlay
Executive Director

A handwritten signature in cursive script that reads "Gary Irwin".

Gary Irwin
Chief Finance Officer

Independent Auditors' Report



August 16, 2002

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

Dear Board Members:

We have audited the accompanying basic financial statements of the Missouri State Employees' Retirement System, a component unit of the state of Missouri, as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These financial statements are the responsibility of the retirement system's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Missouri State Employees' Retirement System's pension trust funds present fairly, in all material respects, the plan net assets as of June 30, 2002, and the related changes in plan net assets for the year then ended in conformity

with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statements of the Missouri State Employees' Retirement System's Internal Service Fund present fairly, in all material respects, its financial position as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary management discussion and analysis on pages 19-21 and the supplementary schedules of funding progress and employer contributions on pages 36-41 are not a required part of the basic financial statements of the Missouri State Employees' Retirement System, but are supplementary information required by the accounting principles generally accepted in the United States of America. The supplementary information included on pages 42-48 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Missouri State Employees' Retirement System. Such information, included on pages 19-21 and 36-48 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



KPMG LLP



Required Supplementary Information Management Discussion and Analysis

The basic financial statements contained in this section of the Comprehensive Annual Financial Report consist of:

The *Statements of Plan Net Assets*, which reports the pension trust funds assets, liabilities, and resultant net assets where $\text{Assets} - \text{Liabilities} = \text{Net Assets}$ available at the end of the fiscal year. It can be thought of as a snapshot of the financial position of the pension trust funds of MOSERS at that specific point in time.

The *Statements of Changes in Plan Net Assets*, which reports the pension fund transactions that occurred during the fiscal year where $\text{Additions} - \text{Deductions} = \text{Net Change in Net Assets}$. It can be thought of as a movie that has recorded the action that occurred over the specified time period of a fiscal year, and supports the change that has occurred to the prior year's net asset value on the *Statements of Plan Net Assets*.

The *Balance Sheet* of the Internal Service Fund is similar to the *Statement of Net Assets* in that it also is a snapshot of the financial position of the Internal Service Fund where $\text{Assets} = \text{Liabilities} + \text{Net Assets}$.

The *Statement of Revenues, Expenses, and Changes in Net Assets* of the Internal Service Fund is similar to the *Statements of Changes in Plan Net Assets* in that it also reports the activity that occurred over the period of the fiscal year where $\text{Revenues} - \text{Expenses} = \text{Net Income}$ and supports the change to the prior year's net assets.

The *Statement of Cash Flows* of the Internal Service Fund reports the transactions for the fiscal year of the Internal Service Fund on a cash basis. It is similar to the *Statement of Revenues, Expenses, and Changes in Net Assets*, however, the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.

The *Notes to the Financial Statements* are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.

This *Required Supplementary Information and the Required Supplementary Information and Schedules* following the *Notes to the Financial Statements*, provide added historical and detailed information considered useful in evaluating the condition of the plans administered by MOSERS.

The following pages 20-21 contain summary comparative statements of MOSERS' pension trust funds and Internal Service Fund.



Pension Trust Funds
Summary Comparative Statements of Plan Net Assets

	As of June 30, 2002	As of June 30, 2001	Percentage Change
Cash and short-term investments	\$ 378,842,984	\$ 84,964,687	345.88%
Receivables	103,682,194	105,896,105	(2.09)
Investments	4,881,498,067	5,370,228,746	(9.10)
Invested securities lending collateral	1,008,874,150	1,177,002,348	(14.28)
Fixed assets	3,901,893	4,004,611	(2.56)
Other assets	58,594	59,898	(2.18)
Total assets	6,376,857,882	6,742,156,395	(5.42)
Administrative expense payables	3,065,142	2,729,761	12.29
Investment purchase payables	301,053,151	95,205,011	216.22
Securities lending collateral	1,010,179,520	1,177,016,421	(14.17)
Other liabilities	277,423	265,520	4.48
Total liabilities	1,314,575,236	1,275,216,713	3.09
Net assets	\$ 5,062,282,646	\$ 5,466,939,682	(7.40)%

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001	Percentage Change
Contributions	\$ 236,638,339	\$ 241,385,199	(1.97)%
Investment net loss - investing activities	(351,502,117)	(122,732,036)	186.40
Investment net income - securities lending activities	841,245	9,903,408	(91.51)
Miscellaneous income	450,746	421,143	7.03
Total additions	(113,571,787)	128,977,714	(188.06)
Benefits	285,261,239	233,649,373	22.09
Service transfers and refunds	27,970	31,482	(11.16)
Administrative expenses	5,796,040	5,784,030	0.21
Total deductions	291,085,249	239,464,885	21.56
Net decrease	(404,657,036)	(110,487,171)	266.25
Net assets beginning of year	5,466,939,682	5,577,426,853	(1.98)
Net assets end of year	\$ 5,062,282,646	\$ 5,466,939,682	(7.40)%

The increase in cash and short-term investments was primarily a result of preparing for a new allocation model being implemented at the end of June 2002. Investments decreased due to a continuation of the general market downturn and the buildup of cash and short-term investments noted above. Payables for investment purchases increased primarily due to the end of June 2002 implementation of the new investment allocation.

The decrease in contributions was primarily attributable to a freeze on statewide salaries and employee attrition. The increase in the investment losses was attributable to the continuation of the general market decline noted in the prior year. Benefit payments increased as a result of a net increase in benefit recipients and the implementation of the BackDROP benefit payment feature on January 1, 2002.

During the fiscal year ended June 30, 2002, an error was discovered in the amount recorded as securities lending rebates for the fiscal year ended June 30, 2001. Rebates in the amount of \$4,068,350 were not recorded until fiscal year 2002 as a result of the transition of investment custodians at the end of fiscal year 2001. Although this error was not deemed to be material to the financial statements as a whole, when comparing the total net income from securities lending activities for fiscal years 2001 and 2002, those amounts would have been reported as \$5,835,058 and \$4,909,595, respectively.



Internal Service Fund
Summary Comparative Balance Sheets

	As of June 30, 2002	As of June 30, 2001	Percentage Change
Premiums receivable	\$ 1,187,571	\$ 2,023,864	(41.32)%
Investments	1,606,156	722,700	122.24
Total assets	<u>2,793,727</u>	<u>2,746,564</u>	1.72
Premiums payable	2,343,733	2,258,796	3.76
Other liabilities	165,601	248,399	(33.33)
Total liabilities	<u>2,509,334</u>	<u>2,507,195</u>	0.09
Net Assets	284,393	239,369	18.81
Total liabilities and net assets	<u>\$ 2,793,727</u>	<u>\$ 2,746,564</u>	1.72%

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001	Percentage Change
Premium receipts	\$ 24,753,708	\$ 23,185,529	6.76%
Miscellaneous income	436,489	464,351	(6.00)
Total operating revenue	<u>25,190,197</u>	<u>23,649,880</u>	6.51
Premium disbursements	24,675,520	22,480,704	9.76
Premium refunds	78,188	704,825	(88.91)
Administrative expenses	439,232	410,906	6.89
Total operating expenses	<u>25,192,940</u>	<u>23,596,435</u>	6.77
Net operating income (loss)	(2,743)	53,445	(105.13)
Investment income	47,767	81,717	(41.55)
Net revenues over expenses	45,024	135,162	(66.69)
Net Assets beginning of year	239,369	104,207	129.71
Net Assets end of year	<u>\$ 284,393</u>	<u>\$ 239,369</u>	18.81%

Summary Comparative Statements of Cash Flows

	Year Ended June 30, 2002	Year Ended June 30, 2001	Percentage Change
Cash flows from operating activities	\$ 840,291	\$ (418)	(201,126.56)%
Cash flows from noncapital financing activities	(4,602)	7,863	(158.53)
Cash flows from investing activities	(835,689)	(7,445)	11,124.84
Net change in cash	<u>0</u>	<u>0</u>	0.0
Cash balances beginning of year	0	0	0.0
Cash balances end of year	<u>\$ 0</u>	<u>\$ 0</u>	0.0 %

The decrease in premiums receivable was attributable to the state of Missouri's conversion from monthly to semi-monthly payrolls, one half of June monthly premiums were received in June. Likewise, the investments reported at June 30, 2002, increased over the previous year because the half-month of premiums were invested until paid to the insurance company in July. The decrease in other liabilities was primarily due to the timing of payments to the retirement funds for expenses allocated to the Internal Service Fund.

The decrease in premium refunds was attributable to the abnormally high volume of refunds noted in last year's report, which was a result of the conversion from premiums paid in advance to premiums paid in arrears at the time the state of Missouri converted to a lag payroll system. The decrease in investment income earned over the prior year was primarily attributable to the decrease in interest rates during the period.

The cash flow changes are primarily related to the timing of the premiums receipts and investment of those receipts noted above.



Statements of Plan Net Assets

Pension Trust Funds

As of June 30, 2002

	MSEP	ALJLAP	Judicial Plan	Total
Assets				
Cash and short-term investments	\$ 376,082,843	\$ 944,511	\$ 1,815,630	\$ 378,842,984
<u>Receivables</u>				
State contributions	10,570,238	43,902	923,241	11,537,381
Investment income	26,763,063	67,214	129,205	26,959,482
Investment sales	64,546,822	162,106	311,615	65,020,543
Other	163,587	411	790	164,788
Total receivables	<u>102,043,710</u>	<u>273,633</u>	<u>1,364,851</u>	<u>103,682,194</u>
<u>Investments at fair value</u>				
U.S. Treasury securities	736,425,427	1,849,490	3,555,271	741,830,188
Corporate bonds	566,586,679	1,422,950	2,735,333	570,744,962
Convertible bonds	203,259	510	981	204,750
Government bonds and government mortgage-backed securities	346,976,441	871,411	1,675,112	349,522,964
Real estate equity	5,617,518	14,108	27,120	5,658,746
Common stock	1,573,983,163	3,952,969	7,598,782	1,585,534,914
International EAFE index fund	291,886,165	733,055	1,409,151	294,028,371
Preferred stock	4,675,254	11,742	22,571	4,709,567
Venture capital	114,045	286	551	114,882
Real estate investment trust	252,699,364	634,640	1,219,967	254,553,971
Collateralized mortgage obligation	106,885,623	268,437	516,016	107,670,076
Foreign currency	19,286,540	48,437	93,110	19,428,087
International equities	902,549,151	2,266,701	4,357,273	909,173,125
U.S. dollar-denominated international corporate bonds	38,044,250	95,546	183,668	38,323,464
Total investments	<u>4,845,932,879</u>	<u>12,170,282</u>	<u>23,394,906</u>	<u>4,881,498,067</u>
Securities lending collateral	1,001,523,784	2,515,270	4,835,096	1,008,874,150
<u>Fixed Assets</u>				
Land	265,339	666	1,281	267,286
Building and building improvements	3,285,081	8,250	15,860	3,309,191
Furniture, fixtures, and equipment	2,052,117	5,154	9,907	2,067,178
	5,602,537	14,070	27,048	5,643,655
Accumulated depreciation	(1,729,072)	(4,342)	(8,348)	(1,741,762)
Total fixed assets	<u>3,873,465</u>	<u>9,728</u>	<u>18,700</u>	<u>3,901,893</u>
Prepaid expenses and other	58,167	146	281	58,594
Total assets	<u>6,329,514,848</u>	<u>15,913,570</u>	<u>31,429,464</u>	<u>6,376,857,882</u>
Liabilities				
Administrative expense payables	3,042,810	7,642	14,690	3,065,142
Investment purchases	298,859,765	750,569	1,442,817	301,053,151
Securities lending collateral	1,002,819,643	2,518,524	4,841,353	1,010,179,520
Real estate security deposits	31,020	78	150	31,248
Employee vacation and overtime liability	244,381	614	1,180	246,175
Total liabilities	<u>1,304,997,619</u>	<u>3,277,427</u>	<u>6,300,190</u>	<u>1,314,575,236</u>
Net assets held in trust for pension benefits	<u>\$ 5,024,517,229</u>	<u>\$ 12,636,143</u>	<u>\$ 25,129,274</u>	<u>\$ 5,062,282,646</u>

A schedule of funding progress for each plan is presented on page 36.
See accompanying *Notes to the Financial Statements*.



Statements of Changes in Plan Net Assets

Pension Trust Funds

Year Ended June 30, 2002

	MSEP	ALJLAP	Judicial Plan	Total
Additions				
<u>Contributions</u>				
State contributions	\$ 209,515,026	\$ 1,072,562	\$ 22,088,485	\$ 232,676,073
Member purchases of service credit	3,913,426	0	0	3,913,426
Service transfer contributions	48,840	0	0	48,840
Total contributions	213,477,292	1,072,562	22,088,485	236,638,339
<u>Investment income</u>				
<i>From investing activities</i>				
Net depreciation in fair value of investments	(451,628,418)	(1,134,239)	(2,180,345)	(454,943,002)
Interest	66,079,964	165,956	319,017	66,564,937
Dividends	47,227,780	118,610	228,003	47,574,393
Other	1,060,237	2,663	5,119	1,068,019
Total investing activity loss	(337,260,437)	(847,010)	(1,628,206)	(339,735,653)
Investing activity expenses:				
Management fees	(8,876,193)	(22,292)	(42,852)	(8,941,337)
Custody fees	(1,011,361)	(2,540)	(4,883)	(1,018,784)
Consultant fees	(282,789)	(710)	(1,365)	(284,864)
Performance measurement fees	(251,732)	(632)	(1,215)	(253,579)
Portfolio transition/rebalancing cost	(159,479)	(401)	(770)	(160,650)
Internal investment activity expenses	(1,099,182)	(2,761)	(5,307)	(1,107,250)
Total investing activity expenses	(11,680,736)	(29,336)	(56,392)	(11,766,464)
Net loss from investing activities	(348,941,173)	(876,346)	(1,684,598)	(351,502,117)
<i>From securities lending activities</i>				
Securities lending income	31,150,251	78,232	150,385	31,378,868
Securities lending expenses				
Borrower rebates	(29,799,545)	(74,840)	(143,864)	(30,018,249)
Management fees	(515,590)	(1,295)	(2,489)	(519,374)
Total securities lending activities expenses	(30,315,135)	(76,135)	(146,353)	(30,537,623)
Net income from securities lending activities	835,116	2,097	4,032	841,245
Total net investment loss	(348,106,057)	(874,249)	(1,680,566)	(350,660,872)
Miscellaneous income	447,462	1,124	2,160	450,746
Total additions	(134,181,303)	199,437	20,410,079	(113,571,787)
Deductions				
Benefits	248,854,532	836,615	15,943,642	265,634,789
Benefit adjustments	19,626,450	0	0	19,626,450
Service transfer payments	27,970	0	0	27,970
Administrative expenses	5,753,812	14,450	27,778	5,796,040
Total deductions	274,262,764	851,065	15,971,420	291,085,249
Net increase (decrease)	(408,444,067)	(651,628)	4,438,659	(404,657,036)
Net assets held in trust for pension benefits				
Beginning of year	5,432,961,296	13,287,771	20,690,615	5,466,939,682
End of year	\$ 5,024,517,229	\$ 12,636,143	\$ 25,129,274	\$ 5,062,282,646

See accompanying *Notes to the Financial Statements*.



Balance Sheet
Internal Service Fund
As of June 30, 2002

Assets	
Premiums receivable	\$ 1,187,571
Investments at fair value	1,606,156
Total assets	<u>\$ 2,793,727</u>
Liabilities and net assets	
<i>Liabilities</i>	
Premiums payable	\$ 2,343,733
Checks outstanding net of deposits	5,520
Other	160,081
Total liabilities	<u>2,509,334</u>
<i>Net assets</i>	
Total liabilities and net assets	<u>\$ 2,793,727</u>

See accompanying *Notes to the Financial Statements*.

**Statement of Revenues, Expenses,
and Changes in Net Assets**
Internal Service Fund
Year Ended June 30, 2002

Operating revenues	
Premium receipts	\$ 24,753,708
Miscellaneous income	436,489
Total operating revenues	<u>25,190,197</u>
Operating expenses	
Premium disbursements	24,675,520
Premium refunds	78,188
Administrative expenses	439,232
Total operating expenses	<u>25,192,940</u>
Operating revenues under operating expenses	<u>(2,743)</u>
Nonoperating revenues	
Investment income	47,767
Net revenues over expenses	45,024
Net assets July 1, 2001	239,369
Net assets June 30, 2002	<u>\$ 284,393</u>

See accompanying *Notes to the Financial Statements*.



Statement of Cash Flows
Internal Service Fund
Year Ended June 30, 2002

Cash flows from operating activities	
Cash received from employer and members	\$ 26,026,471
Premium payments to outside carriers	(24,591,303)
Refunds of premiums to members	(78,188)
Cash payments to employees for services	(280,792)
Cash payments to other suppliers of goods and services	(235,897)
Net cash provided by operating activities	<u>840,291</u>
Cash flows from noncapital financing activities	
Implicit funding of checks outstanding net of deposits	5,520
Implicit repayment of prior years checks outstanding net of deposits	(10,122)
Net cash used in noncapital financing activities	<u>(4,602)</u>
Cash flows from investing activities	
Purchase of investment securities	(486,247,230)
Proceeds from sale and maturities of investment securities	485,363,774
Cash received from investment income	47,767
Net cash used in investing activities	<u>(835,689)</u>
Net increase in cash	<u>0</u>
Cash balances June 30, 2001	<u>0</u>
Cash balances June 30, 2002	<u>\$ 0</u>
Reconciliation of operating revenues under operating expenses to net cash used in operating activities	
Operating revenues under operating expenses	\$ (2,743)
Adjustments to reconcile operating revenues under operating expenses to net cash provided by operating activities	
Change in assets and liabilities:	
Decrease in operational accounts receivable	836,293
Increase in operational accounts payable	6,741
Total adjustments	843,034
Net cash provided by operating activities	<u>\$ 840,291</u>

See accompanying *Notes to the Financial Statements*.



Notes to the Financial Statements

As of June 30, 2002

1. Plan Descriptions

Missouri State Employees' Plan (MSEP)

The MSEP is a single-employer, public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000 (new plan) which are administered by the Missouri State Employees' Retirement System (MOSERS) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the system are vested the powers and duties specified in sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes of sections 104.010 and 104.312 to 104.1215, RSMo.

Responsibility for the operation and administration of the system is vested in the MOSERS Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Generally, all full-time state employees hired before July 1, 2000, who were not covered under another state-sponsored retirement plan are eligible for membership in the closed plan. All full-time state employees hired on or after July 1, 2000, are eligible for membership in the new plan. Members in the closed plan have the option at retirement to choose between the benefit structure of the closed plan or new plan.

As of June 30, 2002, membership in the MSEP consisted of the following:

Retirees and beneficiaries		
currently receiving benefits		21,502
Terminated employees entitled to,		
but not yet receiving benefits		12,257
Active:		
Vested	35,217	
Nonvested	<u>23,399</u>	<u>58,616</u>
Total membership		<u><u>92,375</u></u>

The MSEP provides for retirement, survivor, and disability benefits.

MSEP (Closed Plan)

General state employees are fully vested for benefits upon receiving five years of credited service. Under the closed plan, general employees may retire with full benefits upon the earliest of attaining:

- Age 65 and active with 4 years of service
- Age 65 with 5 years of service
- Age 60 with 15 years of service
- Age 50 with age and service equaling 80 or more (Rule of 80)

General employees may retire early at age 55 with at least 10 years of service with reduced benefits.

The base benefit of the general employees in the closed plan is equal to 1.6% multiplied by the final average pay multiplied by years of credited service.

For members hired prior to August 28, 1997, cost-of-living adjustments (COLAs) are provided annually based on 80% of the change in the consumer price index (CPI) with a minimum rate of 4%, and maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.



Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.

MSEP 2000 (New Plan)

General state employees are fully vested for benefits upon receiving five years of credited service. Under the new plan, general employees may retire with full benefits upon the earliest of attaining:

- Age 62 with 5 years of service
- Age 50 with age and service equaling 80 or more (Rule of 80)

General employees may retire early at age 57 with at least 5 years of service with reduced benefits.

The base benefit of the general employees in the new plan is equal to 1.7% multiplied by final average pay multiplied by years of credited service. For those retiring under Rule of 80, an additional temporary benefit equivalent to 0.8% multiplied by final average pay multiplied by years of credited service is payable until age 62.

COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

For a more detailed summary of benefits for general employees and a description of benefits available to legislators and elected officials under MSEP, refer to the *Summary Plan Provisions* contained in the Actuarial Section of this report on page 96.

The state of Missouri is required to make all contributions to the MSEP. Prior to September 1, 1972, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest through August 28, 1997, are refundable to the member or designated beneficiaries.

Administrative Law Judges and Legal Advisors' Plan (ALJLAP)

The ALJLAP is a single-employer, public employee retirement plan administered in accordance with Sections 287.812 to 287.856, RSMo. Responsibility for the operation and administration of the system is vested in the MOSERS Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the ALJLAP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Individuals appointed or employed as administrative law judges or legal advisors in the Division of Workers' Compensation, members of the Labor and Industrial Relations Commission and their attorneys, the chairperson of the State Board of Mediation, and administrative hearing commissioners are eligible for membership in the ALJLAP.

On June 30, 2002, membership in the ALJLAP consisted of the following:

Retirees and beneficiaries		
currently receiving benefits		25
Terminated employees entitled to,		
but not yet receiving benefits		19
Active:		
Vested	58	
Nonvested	0	58
Total membership		102

The ALJLAP provides retirement, death, and disability benefits. Members are immediately eligible for benefits.

Under the ALJLAP, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service
- Age 60 with 15 years of service
- Age 55 with 20 years of service

Employees may retire early at age 65 with less than 12 years of service with a reduced benefit that is based upon years of service relative to 12 years.



In the ALJLAP, the base benefit for members with 12 or more years of service is equivalent to 50% of the average highest 12 consecutive months of salary.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI with a minimum rate of 4%, and maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.

For a more detailed summary of benefits for members of the ALJLAP, refer to the *Summary Plan Provisions* contained in the Actuarial Section of this report on page 100.

The state of Missouri is required to make all contributions to the ALJLAP.

Judicial Plan

The Judicial Plan is a single-employer, public employee retirement plan administered in accordance with Sections 476.445 to 476.690, RSMo. Responsibility for the operation and administration of the Judicial Plan is vested in the MOSERS Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Judicial Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Judges and commissioners of the supreme court or the court of appeals, judges of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, or a justice of the peace, or a commissioner or

deputy commissioner of the circuit court appointed after February 29, 1972, are eligible for membership in the Judicial Plan.

On June 30, 2002, membership in the Judicial Plan consisted of the following:

Retirees and beneficiaries		
currently receiving benefits		383
Terminated employees entitled to,		
but not yet receiving benefits		63
Active:		
Vested	392	
Nonvested	0	392
Total membership		<u>838</u>

The Judicial Plan provides retirement, death, and disability benefits. Members are immediately eligible for benefits.

Under the Judicial Plan, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service
- Age 60 with 15 years of service
- Age 55 with 20 years of service

Employees may retire early at age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit that is based upon years of service relative to 12 or 15 years.

In the Judicial Plan, the base benefit for members with 12 or more years of service is equivalent to 50% of the final average pay.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI with a minimum rate of 4%, and maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than \$10,000.



For a more detailed summary of benefits for members of the Judicial Plan, refer to the *Summary Plan Provisions* contained in the Actuarial Section of this report on page 101.

Funding of the Judicial Plan on an actuarial basis began on July 1, 1998. The state of Missouri is required to make all contributions to the Judicial Plan.

Missouri State Insurance Plan

The Missouri State Insurance Plan is accounted for as an Internal Service Fund of the state of Missouri and is administered by MOSERS. It provides basic life insurance in an amount equal to one-times annual salary while actively employed (with a \$15,000 minimum) to the following:

- Eligible members of the MSEP (except employees of the Missouri Department of Conservation, and the state colleges and universities)
- Members of the ALJLAP
- Members of the Judicial Plan
- Certain members of the Public School Retirement System (PSRS)

The plan also provides duty-related death benefits, optional life insurance for active employees and retirees who are eligible for basic coverage, and a long-term disability plan for certain eligible members. For a more detailed description of insurance benefits, refer to *Life Insurance Plans* in the Actuarial Section of this report on page 102.

Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Missouri State Insurance Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as an Internal Service Fund.

2. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The financial statements of the MSEP, the ALJLAP, the Judicial Plan, and the Missouri State Insurance Plan were prepared using the

accrual basis of accounting. Contributions are recognized as revenues in the period in which employee services are performed, and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made. The direct method of reporting cash flows is used. For its proprietary activities, MOSERS applies all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

Cash

Cash balances represent both operating cash accounts held by the banks and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested, thus causing a possible negative book balance. The negative book balance has been reflected in the liabilities section of the balance sheet of the Internal Service Fund. The negative book balance has been included in the cash and short-term investments on the *Statements of Plan Net Assets* of the pension trust funds. The following is a schedule of the aggregate book and bank balances of all cash accounts. All deposits are fully insured by the Federal Deposit Insurance Corporation (FDIC). In addition to the FDIC insurance coverage on the accounts of MOSERS, the bank pledged the following securities to MOSERS on June 30, 2002, as collateral for overnight repurchase agreements:

- \$1,000,000 FFCB Discount Note (*Maturity Date 07/01/2002*)
- \$939,852 Small Business Association Pool # 505639 (*Maturity Date 10/01/2011*)
- \$1,105,086 Small Business Association Pool # 504889 (*Maturity Date 01/25/2012*)
- \$950,470 Small Business Association Pool # 503520 (*Maturity Date 06/01/2016*)
- \$978,015 Small Business Association Pool # 505528 (*Maturity Date 12/01/2020*)
- \$753,663 Small Business Association Pool # 504354 (*Maturity Date 11/25/2023*)

Cash Balances

	Book	Bank
Pension Trust Funds	\$(7,306,100)	\$2,167,942
Internal Service Fund	\$(5,520)	\$366



Method Used to Value Investments

Investments of the pension trust funds and the Internal Service Fund are reported at fair value.

The schedule on the following page provides a summary of the fair values of the investments as reported on the *Statements of Plan Net Assets* of the Pension Trust Funds and *Balance Sheet* of the Internal Service Fund. Fair values for the equity real estate investments are based on appraisals. Fair values of the venture capital investments are based on valuations of the underlying companies of the limited partnerships. Fair value of the EAFE index fund is determined based on the underlying assets in the fund. The remaining assets are primarily valued by the investment custodian using the last trade price information supplied by various pricing data vendors. On June 30, 2002, the system did not have investments in any one organization, other than those issued by the U.S. government, which represented greater than 5% of plan net assets.

Categories of Asset Risks

All investments are governed primarily by an investment doctrine known as the prudent person rule. The prudent person rule, as set forth by state law, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the funds. The Governmental Accounting Standards Board Statement Number 3 requires disclosure of investment securities within the following three categories of custodial credit risk. Category 1 includes investments that are insured or registered or which are held by the system or its agent in the system's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust departments or agent in the system's name. Category 3 includes uninsured and unregistered investments, which are held by the counterparty, its trust department, or agent but not in the system's name.

A security, for purposes of classification in the above categories, is a transferable financial instrument that evidences ownership or creditorship. Securities do not include investments made with another party, real estate, or direct investments in mortgages and other loans. Investments in open-end mutual funds, annuity contracts, and guaranteed investment contracts are also not considered securities for purposes of custodial credit risk classification. Such investments are shown as not subject to classification.

Derivatives

In accordance with its investment policy, MOSERS, through its external investment managers, holds investments in futures contracts, swap contracts, and forward foreign currency exchange contracts. The tables on pages 32-33 detail the various contracts in the portfolio as of June 30, 2002.



Investments

As of June 30, 2002

Type of Investment	Pension Trust Funds Investments at Fair Value	Internal Service Fund Investments at Fair Value	Total
<u>Category 1 Classification</u>			
Common stocks			
not on securities loan	\$ 1,404,423,233	\$	\$ 1,404,423,233
International equities			
not on securities loan	866,048,065		866,048,065
International corporate bonds	38,323,464		38,323,464
Preferred stocks	4,709,567		4,709,567
Treasury bonds, notes and bills			
not on securities loan	26,462,264		26,462,264
Government bonds and government			
mortgage-backed securities			
not on securities loan	342,793,124		342,793,124
Corporate bonds			
not on securities loan	972,835,610		972,835,610
Convertible bonds	204,750		204,750
Subtotal	3,655,800,077		3,655,800,077
<u>Category 2 Classification</u>			
Repurchase agreements	2,284,401	1,606,156	3,890,557
Subtotal	2,284,401	1,606,156	3,890,557
<u>Not Subject to Classification</u>			
Investments held by broker-dealers under			
securities loans for cash collateral			
Common stocks	181,111,681		181,111,681
International equities	43,125,060		43,125,060
Treasury bonds, notes and bills	715,367,924		715,367,924
Corporate bonds	32,259,102		32,259,102
Government bonds	6,729,840		6,729,840
Short-term investment funds	958,389,084		958,389,084
Collateralized mortgage obligations	107,670,076		107,670,076
Real estate equity holdings	5,658,746		5,658,746
Real estate investment trust	254,553,971		254,553,971
EAFE index fund	294,028,371		294,028,371
Foreign currencies	19,428,087		19,428,087
Venture capital limited partnerships	114,882		114,882
Subtotal	2,618,436,824		2,618,436,824
Total	\$ 6,276,521,302	\$ 1,606,156	\$ 6,278,127,458
<u>Reconciliation to investments on</u>			
<u>Statements of Plan Net Assets</u>			
Totals above	\$ 6,276,521,302		
Less short-term investments			
Repurchase agreements	(2,284,401)		
Short-term investment funds	(383,864,684)		
Less invested securities lending collateral			
Short-term investment funds	(574,524,400)		
Corporate bonds	(434,349,750)		
Investments on Statement of Plan Net Assets	\$ 4,881,498,067		



FINANCIAL SECTION

Futures Contracts

Type	Long/Short	Notional Amount	Exposure
S&P 500 Index Futures	Long	\$ 123,523,525	\$ (209,109)
90 Day Eurodollar Futures (CME)	Long	23,204,550	(200)
90 Day Eurodollar Futures	Short	(36,647,363)	863
Alum HG Futures (LME)	Long	1,417,832	
Brent Crude Futures	Long	5,978,400	(4,700)
Cattle Feeder Futures (CME)	Long	453,000	(1,500)
Cocoa Futures	Long	230,580	(840)
Coffee Futures	Long	311,419	(319)
Copper Futures (CMX)	Long	462,600	
Corn Futures	Long	2,504,750	(8,063)
Cotton No. 2 Futures (CTN)	Long	990,600	54,000
Crude Oil Futures	Long	14,020,920	
DJ EURO STOXX 50 Futures	Closed		445,277
FTSE 100 Index Futures	Closed		214,755
Gas Oil Futures (IPE)	Long	197,837,500	(4,750)
Gasoline NY UNLD Futures (NYM)	Long	405,772,500	(43,575)
Gold 100 Oz Futures (CMX)	Long	1,130,040	(20,520)
Heating Oil Futures NYM	Long	382,092,480	15,523
Lean Hogs Futures (CME)	Long	1,140,090	9,150
Live Cattle Futures CME	Long	2,313,220	4,550
LME Lead Futures	Long	123,338	
MSCI Taiwan Index	Long	9,904,950	174,000
Natural Gas Futures (NYM)	Long	4,385,820	12,060
Nickel Futures (LME)	Long	338,448	
Orange Juice Futures	Long	342,375	563
Platinum Futures	Long	106,260	(440)
Silver Futures (CMX)	Long	121,375	(1,075)
Soybean Futures (CBT)	Long	1,241,538	37,363
SPI 200 Index Futures	Closed		(132)
Sugar #11 Futures	Long	633,293	(30,643)
Topix Index Futures	Closed		200,899
U.S. 10 Yr. Treasury Notes Futures	Long	750,641	3,854
U.S. 2 Yr. Treasury Notes Futures (CBT)	Closed		9,915
U.S. 5 Yr. Treasury Notes Futures	Short	(38,886,719)	8,791
U.S. Treasury Bonds Futures (CBT)	Long	12,230,969	(14,875)
Wheat Futures (KCB)	Long	868,725	
Wheat Futures (CBT)	Long	2,284,900	(22,825)
Zinc Futures (LME)	Long	298,313	
Total		<u>\$ 1,121,480,869</u>	<u>\$ 827,997</u>

Swaps

Type	MOSERS Receives	MOSERS Pays	Notional Amount	Counterparty Exposure	Counterparty
S&P 500 Index TR to LIBOR	S&P 500 Index Total Return	LIBOR plus 0.14%	\$ 28,965,008	\$ 23,756	JP Morgan
T-Bills to LIBOR	Treasury Bills plus 0.72%	LIBOR	75,000,000	360,943	Goldman Sachs
GSCI to T-Bills	GSCI Total Return minus 0.60%	Treasury Bills	74,860,000	2,339,958	Goldman Sachs
Chile Index to LIBOR	MSCI Chile Index in U.S. \$	LIBOR minus 1.00%	3,000,000	(170,592)	Morgan Stanley
India Index to LIBOR	MSCI India Index in U.S. \$	LIBOR minus 2.00%	1,300,000	10,170	Lehman Brothers
EMF Index to LIBOR	MSCI EMF Index in U.S. \$	LIBOR minus 1.25%	16,000,000	(254,265)	Morgan Stanley
EMF Index to LIBOR	MSCI EMF Index in U.S. \$	LIBOR minus 1.00%	9,000,000	(1,395,653)	Morgan Stanley
Samsung Electronics	Equity Price/KRW FX rate	5.00%	6,460,084	439,293	Salomon Smith Barney
India Index to LIBOR	MSCI India Index in U.S. \$	LIBOR minus 2.68%	3,500,000	(127,970)	Lehman Brothers
Russia Index to LIBOR	MSCI E.M. Russia Index in U.S. \$	LIBOR minus 2.75%	2,000,000	110,118	Lehman Brothers
Total			<u>\$220,085,092</u>	<u>\$ 1,335,758</u>	



Options Contracts

Type	Call/Put, Expiration	Long/Short Strike Price	Contracts	Book Value	Market Value	Exposure
S&P 500 Index	CALL, SEP 02, 1125	Long	200	\$ 1,180,500	\$ 62,000	\$ (1,118,500)
S&P 500 Index	PUT, SEP 02, 1125	Short	(200)	(1,499,478)	(2,747,000)	(1,247,523)
Total				\$ (318,978)	\$ (2,685,000)	\$ (2,366,023)

Currency Forwards

Type	Long/Short	Book Value	Market Value	Counterparty Exposure	Counterparty
Australian dollar	Long	\$ 13,562,730	\$ 14,788,797	\$ 1,226,067	Mellon Bank, London
Australian dollar	Short	(1,952,369)	(1,953,358)	(989)	Mellon Bank, London
Brazil real	Short	(2)	(2)	0	Mellon Bank
British pound sterling	Long	8,637,608	8,836,194	198,586	Lehman Brothers, New York
British pound sterling	Long	8,527,982	8,751,656	223,674	Mellon Bank, London
British pound sterling	Short	(8,850,911)	(8,836,194)	14,717	Lehman Brothers, New York
British pound sterling	Short	(55,690,901)	(60,255,494)	(4,564,593)	Mellon Bank, London
Euro currency unit	Long	8,839,460	8,842,901	3,441	Goldman Sachs, New York
Euro currency unit	Long	11,906,614	12,315,149	408,535	Lehman Brothers, New York
Euro currency unit	Long	48,823,441	55,519,916	6,696,475	Mellon Bank, London
Euro currency unit	Short	(52,289)	(52,159)	130	Goldman Sachs, New York
Euro currency unit	Short	(12,340,656)	(12,315,149)	25,507	Lehman Brothers, New York
Euro currency unit	Short	(8,042,827)	(8,348,958)	(306,131)	Mellon Bank
Hong Kong dollar	Long	2,564	2,564		Mellon Bank
Hong Kong dollar	Long	1,061,971	1,061,868	(103)	Mellon Bank, London
Hong Kong dollar	Short	(6,695,268)	(6,729,927)	(34,659)	Mellon Bank, London
Hungarian forint	Short	(4)	(4)	0	Mellon Bank
Japanese yen	Long	1,303,498	1,295,015	(8,483)	Goldman Sachs, New York
Japanese yen	Long	8,158,186	8,545,608	387,422	Lehman Brothers, New York
Japanese yen	Long	235,011	234,933	(78)	Mellon Bank, London
Japanese yen	Short	(2,498,016)	(2,494,658)	3,358	Goldman Sachs, New York
Japanese yen	Short	(8,628,620)	(8,545,608)	83,012	Lehman Brothers, New York
Malaysian Ringgit	Short	(4,104)	(4,109)	(5)	Standard Chartered Bank, Kuala Lumpur
Norwegian Krone	Long	311,345	311,009	(336)	Goldman Sachs, New York
Norwegian Krone	Short	(827,164)	(826,778)	386	Goldman Sachs, New York
South Korean won	Short	(1,843,136)	(1,844,974)	(1,838)	Standard Chartered Bank, Seoul Korea
Swiss Franc	Long	4,181,747	4,171,012	(10,735)	Goldman Sachs, New York
Swiss Franc	Long	167,667	167,667		Mellon Bank, London
U.S. dollar	Long	3,377,469	3,377,469		Goldman Sachs, New York
U.S. dollar	Long	29,820,187	29,820,187		Lehman Brothers, New York
U.S. dollar	Long	6	6		Mellon Bank
U.S. dollar	Long	4,104	4,104		Standard Chartered Bank, Kuala Lumpur
U.S. dollar	Long	1,843,136	1,843,136		Standard Chartered Bank, Seoul Korea
U.S. dollar	Short	(14,636,051)	(14,636,051)		Goldman Sachs, New York
U.S. dollar	Short	(28,702,408)	(28,702,408)		Lehman Brothers, New York
Total		\$ 0	\$ 4,343,360	\$ 4,343,360	

MOSERS does not anticipate additional significant market risk from the swap arrangements. Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign equities, primarily denominated in European and Asian currencies.

MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring

procedures. MOSERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

MOSERS invests in mortgage-backed securities which are reported at fair value in the *Statements of Plan Net Assets* and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates, thereby reducing the value of these securities.



Securities Lending Program

The board of trustees' investment policy permits the pension trust funds to participate in a securities lending program. Certain securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. Treasury or government agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. Securities on loan at fiscal year end for cash collateral are presented as not subject to classification in the schedule on page 31; securities on loan for non-cash collateral are classified according to the category pertaining to the collateral. On June 30, 2002, MOSERS had no credit risk exposure to borrowers because the amounts MOSERS owes the borrowers exceed the amounts the borrowers owe MOSERS.

As of June 30, 2002, Credit Suisse/First Boston, New York Branch (CSFBNY), served as the agent for the fixed income securities lending program. In this capacity, CSFBNY lends the fixed income securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by CSFBNY, a "AA-rated" bank. As with each of MOSERS' securities lending programs, the majority of the fixed income loans are open loans and can be terminated on demand by either MOSERS or the borrower. Net income from the fixed income securities lending program is split on an 80/20 basis between MOSERS and CSFBNY respectively.

As of June 30, 2002, CSFB Corporation (CSFB Corp.), a broker-dealer, was the exclusive borrower of MOSERS' international equity securities. In this program MOSERS receives a fee from CSFB Corp. that is guaranteed by CSFBNY, the "AA-rated" parent bank. Guaranteed net income in this program is calculated as a fixed percentage of the international equity securities available for loan.

As of June 30, 2002, Lehman Brothers, a broker-dealer, was the exclusive borrower of the MOSERS' domestic equity securities. In this program, MOSERS receives a fixed annual fee from Lehman Brothers that is guaranteed. The guaranteed fee is renegotiated on a periodic basis to adjust for changes in the securities lending business climate.

Daily monitoring of securities that are on loan ensure proper collateralization levels and mitigate counterparty risk. Cash collateral from all three programs is commingled and invested in a separately managed short-term investment fund for MOSERS. This cash collateral fund is managed by CSFBNY. On June 30, 2002, the cash collateral fund had a market value of \$1,011,313,160 and a weighted average maturity of 25 days. For all of the securities lending operational services, the custodian is paid an annual fee, which is netted out against MOSERS' earnings in the securities lending programs managed by Lehman Brothers and CSFB.

During the fiscal year ended June 30, 2002, an error was discovered in the amount recorded as securities lending rebates for the fiscal year ended June 30, 2001. Rebates in the amount of \$4,068,350 were not recorded until fiscal year 2002 as a result of the transition of investment custodians at the end of fiscal year 2001. Although this error was not deemed to be material to the financial statements as a whole, when comparing the total net income from securities lending activities for fiscal years 2001 and 2002, those amounts would have been reported as \$5,835,058 and \$4,909,595, respectively.

Office Building, Equipment, and Fixtures

Office building, equipment, and fixtures are capitalized at cost when acquired. Improvements, which increase the useful life of the property, are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related assets according to the following schedule:

- 5 years for furniture, fixtures, equipment
- 40 years for building



3. Contributions and Reserves

The MSEP, the ALJLAP, and the Judicial Plan are pension plans covering substantially all state of Missouri employees, administrative law judges and legal advisors in the Division of Workers' Compensation, and judges. The state of Missouri is obligated by state law to make all required contributions to the plans. The required contributions are expressed as a level percentage of covered payroll and are actuarially determined using an individual entry-age actuarial cost method. The unfunded accrued liabilities are amortized over a closed 33-year period. Costs of administering the plans are financed from the assets of the pension trust funds.

4. Other Post-employment Benefits (OPEB)

In addition to the retirement benefits provided through MOSERS, the state of Missouri also funds, either partially or in its entirety, OPEB for eligible retirees as follows:

Retiree Life Insurance

Members, who retire on or after October 1, 1985, are eligible for \$5,000 of state-sponsored, basic life insurance coverage if they retire directly from active employment. As of June 30, 2002, 10,822 retirees were eligible and participating in the program. The coverage is financed on a pay-as-you-go basis and is purchased as a group policy through competitive bids at a current cost of \$10.35 per month per eligible participant (\$1,283,090 for the year ended June 30, 2002). Premiums are paid entirely by the state as provided for by Section 104.515, RSMo.

Retirees of the Department of Labor and Industrial Relations (DOLIR), who retired prior to January 1, 1996, are eligible for state-sponsored life insurance coverage in the same

amount of coverage they were receiving through the DOLIR. As of June 30, 2002, 612 retirees were eligible and participating in the program. The coverage is financed on a pay-as-you-go basis and is purchased as a group policy through competitive bids at a current cost of \$2.07 per thousand dollars of coverage, per month, per eligible participant (\$69,549 for the year ended June 30, 2002). Premiums are paid entirely by the DOLIR as provided for by Section 228.225, RSMo. Retirees of the DOLIR who retired on or after January 1, 1996, are eligible for \$5,000 of state-sponsored life insurance coverage if they retire directly from active employment. They are included in the group described in the preceding paragraph.

5. Plan Termination

MOSERS and its related plans are administered in accordance with Missouri statutes. The statutes do not provide for termination of the plans under any circumstances.

6. Contingencies

Included in MOSERS' real estate investments is a property located in Kansas City, Missouri, which has been found to have hazardous substance contamination. MOSERS is currently participating in the Petroleum Storage Tank Insurance Fund administered by the Missouri Department of Natural Resources in order to delineate the scope and magnitude of the contamination and determine what appropriate remedial action is needed. Based on the available information, the system's management believes it is not reasonably possible to predict the amount of additional expense MOSERS may incur. Accordingly, no provision has been made in the accompanying financial statements for this matter.



Required Supplementary Information
Schedules of Funding Progress
Pension Trust Funds

MSEP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/1997	\$ 3,580,974,502	\$ 4,484,047,801	\$ 903,073,299	79.9%	\$ 1,359,656,666	66.4%
6/30/1998	4,210,635,094	4,918,887,183	708,252,089	85.6	1,459,712,203	48.5
6/30/1999	4,908,820,033	5,505,968,629	597,148,596	89.2	1,564,552,532	38.2
6/30/2000	5,511,714,616	5,920,684,192	408,969,576	93.1	1,683,697,080	24.3
6/30/2001	5,881,232,850	6,065,166,716	183,933,866	97.0	1,758,190,268	10.5
6/30/2002	6,033,133,598	6,294,272,275	261,138,677	95.9	1,773,283,484	14.7

ALJLAP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/1997	\$ 8,864,395	\$ 11,427,181	\$ 2,562,786	77.6%	\$ 2,865,733	89.4%
6/30/1998	10,285,233	12,886,908	2,601,675	79.8	2,806,436	92.7
6/30/1999	11,763,737	14,774,525	3,010,788	79.6	3,488,698	86.3
6/30/2000	13,191,825	16,521,743	3,329,918	79.8	4,072,888	81.8
6/30/2001	14,410,199	16,809,962	2,399,763	85.7	4,661,020	51.5
6/30/2002	15,172,619	18,175,342	3,002,723	83.5	4,779,504	62.8

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/1997	\$ 0	\$ 197,472,573	\$ 197,472,573	0.0%	\$ 31,663,101	623.7%
6/30/1998	0	207,579,797	207,579,797	0.0	32,446,141	639.8
6/30/1999	6,067,305	227,802,341	221,735,036	2.7	34,162,013	649.1
6/30/2000	13,861,769	241,797,341	227,935,572	5.7	37,107,487	614.3
6/30/2001	22,613,050	247,978,904	225,365,854	9.1	38,687,793	582.5
6/30/2002	29,651,113	256,115,452	226,464,339	11.6	40,068,744	565.2

See Notes to the Schedules of Required Supplementary Information.
See accompanying Independent Auditors' Report.



Required Supplementary Information Schedules of Employer Contributions Pension Trust Funds

MSEP

Year Ended June 30	<u>Annual Required Contribution</u>		Percentage Contributed
	Percent	Dollar Amount	
1997	10.66%	\$ 146,383,371	100%
1998	10.40	152,090,687	100
1999	12.58	197,909,834	100
2000	11.91	202,330,547	100
2001	11.59	215,750,128	100
2002	11.59	209,515,026	100

ALJLAP

Year Ended June 30	<u>Annual Required Contribution</u>		Percentage Contributed
	Percent	Dollar Amount	
1997	22.60%	\$ 652,709	100%
1998	19.66	564,295	100
1999	18.70	639,285	100
2000	20.10	807,022	100
2001	22.32	1,074,946	100
2002	22.32	1,072,562	100

Judicial Plan

Year Ended June 30	<u>Annual Required Contribution</u>		Percentage Contributed
	Percent	Dollar Amount	
1997	46.50%	\$ 14,723,342	71%
1998	45.91	14,896,023	77
1999	51.81	17,862,353	100
2000	53.92	19,988,676	100
2001	55.30	22,473,913	100
2002	55.30	22,088,485	100

See *Notes to the Schedules of Required Supplementary Information*.
See accompanying *Independent Auditors' Report*.



Notes to the Schedules of Required Supplementary Information June 30, 2002

Actuarial Methods and Assumptions for Valuations Performed June 30, 2002

The entry-age actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded, actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. A closed 33-year amortization period was used for the June 30, 2002, valuations. The actuarial value of assets is based on a method that fully recognizes expected investment return and averages unanticipated market return over a 5-year period. The investment return rate assumption used is 8.5% per year, compounded annually (net after investment expenses). The price inflation assumption used is 3.5% per year. Projected salary increase assumptions are based on 4% per year for wage inflation plus an additional 0% to 2.7% per year for the MSEP and 0% to 1.6% per year for the ALJLAP and the Judicial Plan (depending on age, attributable to seniority, and/or merit increases). The assumption used for annual post-retirement benefit increases is 4% (on a compound basis), when a minimum COLA of 4% is in effect, and 2.8% (on a compound basis), when no minimum COLA is in effect.



Factors That Have Significantly Affected Trends

1997 - During the year ended June 30, 1997, the MSEP experienced a net change of \$1,043,921,000 in the actuarial accrued liability. Of the change, \$660,195,000 was attributable to plan amendments, and \$53,365,000 was attributable to a change in actuarial assumptions.

During the year ended June 30, 1997, the ALJLAP experienced a net change of \$1,150,818 in the actuarial accrued liability. Of the change, \$1,055,550 was attributable to plan amendments.

During the year ended June 30, 1997, the Judicial Plan experienced a net change of \$35,738,463 in the actuarial accrued liability. Of the change, \$23,140,721 was attributable to plan amendments.

The actuarial valuations as of June 30, 1997, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1999.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits and assumptions	\$ 44,188,842	3.25%
Experience and nonrecurring items	(14,548,326)	(1.07)
ALJLAP		
Change in benefits and assumptions	45,565	1.59
Experience and nonrecurring items	(73,076)	(2.55)
Judicial Plan		
First year for funding of benefits previously paid on a pay-as-you-go basis	16,404,653	51.81

1998 - The actuarial valuations as of June 30, 1998, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2000.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Experience and nonrecurring items	\$ (9,780,072)	(0.67)%
ALJLAP		
Experience and nonrecurring items	39,290	1.40
Judicial Plan		
Experience and nonrecurring items	684,614	2.11



1999 - The actuarial valuations as of June 30, 1999, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2001.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits	\$ 6,258,206	0.40%
Experience and nonrecurring items	(11,264,771)	(0.72)
ALJLAP		
Change in benefits	72,914	2.09
Experience and nonrecurring items	4,535	.13
Judicial Plan		
Change in benefits	321,123	.94
Experience and nonrecurring items	150,313	.44

2000 - The actuarial valuations as of June 30, 2000, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2002.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in assumptions	\$ (5,051,091)	(.30)%
Experience and nonrecurring items	(10,438,922)	(.62)
ALJLAP		
Change in assumptions	36,656	.90
Experience and nonrecurring items	(51,726)	(1.27)
Judicial Plan		
Change in assumptions	(315,414)	(.85)
Experience and nonrecurring items	(352,521)	(.95)



2001 - The actuarial valuations as of June 30, 2001, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2003.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in assumptions	\$ (41,844,928)	(2.38)%
Release of asset funding margin	(15,647,893)	(.89)
Change in asset valuation method	(3,868,019)	(.22)
Plan experience	12,483,151	.71
ALJLAP		
Change in assumptions	(105,339)	(2.26)
Change in amortization of UAAL	(88,559)	(1.90)
Change in asset valuation method	(4,195)	(.09)
Plan experience	49,873	1.07
Judicial Plan		
Change in assumptions	(1,133,552)	(2.93)
Change in asset valuation method	(197,308)	(.51)
Plan experience	441,041	1.14

2002 - The actuarial valuations as of June 30, 2002, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2004.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Recognizing state pay freeze FY03	\$ (2,701,620)	(.35)%
Plan experience	6,869,835	.89
ALJLAP		
Recognizing state pay freeze FY03	(20,074)	(.42)%
Plan experience	23,420	.49
Judicial Plan		
Recognizing state pay freeze FY03	(208,357)	(.52)%
Plan experience	32,055	.08



Schedule of Investment Expenses

Pension Trust Funds
Year Ended June 30, 2002

	MSEP	ALJLAP	Judicial Plan	Total
Investing activity				
<i>Investment management fees</i>				
Fixed income managers				
BlackRock Financial Management L.P.	\$ 723,046	\$ 1,816	\$ 3,491	\$ 728,353
Hoisington Investment Management Company	198,542	499	959	200,000
Equity managers				
<i>Domestic equities</i>				
AIM S&P	186,134	467	899	187,500
Americap Advisors	390,737	981	1,886	393,604
Capital Guardian Trust	415,442	1,043	2,006	418,491
Dimensional Fund Advisors Inc.	579,976	1,457	2,800	584,233
Oak Associates, Ltd.	1,287,449	3,233	6,215	1,296,897
OakBrook Investments	248,179	623	1,198	250,000
Legg Mason	631,835	1,587	3,050	636,472
Zak Capital, Inc.	229,632	577	1,108	231,317
<i>International equities</i>				
Merrill Lynch EAFE	428,683	1,077	2,070	431,830
Merrill Lynch Emerging Markets	159,479	401	770	160,650
Mastholm Investment Managers	1,538,333	3,863	7,427	1,549,623
Silchester International Investors	1,642,066	4,124	7,927	1,654,117
Other managers				
<i>Venture capital</i>				
Brinson Partners, Inc.	1,294	3	6	1,303
<i>Diversification pool</i>				
NISA Investment Advisors, LLC	215,366	541	1,040	216,947
Total investment management fees	8,876,193	22,292	42,852	8,941,337
<i>Other investment fees</i>				
<i>Investment consultant fees</i>				
Summit Strategies, Inc.	272,862	685	1,317	274,864
Lend Lease Rosen	9,927	25	48	10,000
<i>Investment custodial fees</i>				
Mellon Bank	1,011,361	2,540	4,883	1,018,784
<i>Performance measurement fees</i>				
Mellon Bank	251,732	632	1,215	253,579
<i>Portfolio rebalancing costs</i>				
NISA Investment Advisors, LLC	159,479	401	770	160,650
<i>Internal investment activity expenses</i>				
	1,099,182	2,761	5,307	1,107,250
Total investing activity expenses	11,680,736	29,336	56,392	11,766,464
Securities lending activity				
<i>Securities lending borrower rebates</i>				
	29,799,545	74,840	143,864	30,018,249
<i>Securities lending management fees</i>				
Mellon Bank	269,276	676	1,300	271,252
Credit Suisse First Boston	246,314	619	1,189	248,122
Total securities lending activity expenses	30,315,135	76,135	146,353	30,537,623
Total investment expenses	\$41,995,871	\$105,471	\$202,745	\$42,304,087

See accompanying *Independent Auditors' Report*.



Schedule of Internal Investment Activity Expenses

Pension Trust Funds
Year Ended June 30, 2002

	MSEP	ALJLAP	Judicial Plan	Total
Personnel services				
Salaries	\$ 664,800	\$ 1,670	\$ 3,209	\$ 669,679
Employee fringe benefits	160,437	403	775	161,615
Total personnel services	825,237	2,073	3,984	831,294
Professional services				
Attorney services	21,152	53	102	21,307
Consulting services	6,116	15	30	6,161
Total professional services	27,268	68	132	27,468
Communications				
Telephone	1,257	3	6	1,266
Total communications	1,257	3	6	1,266
Equipment				
Maintenance	33,332	84	161	33,577
Total equipment	33,332	84	161	33,577
Travel and meetings				
Staff travel and meetings	35,398	89	171	35,658
Total travel and meetings	35,398	89	171	35,658
General				
Educational materials	3,686	9	18	3,713
Office supplies	512	2	2	516
Subscriptions and dues	172,492	433	833	173,758
Total general	176,690	444	853	177,987
Total administrative expenses	\$ 1,099,182	\$ 2,761	\$ 5,307	\$ 1,107,250

See accompanying *Independent Auditors' Report*.



Schedule of Administrative Expenses

Pension Trust Funds
Year Ended June 30, 2002

	MSEP	ALJLAP	Judicial Plan	Total
Personnel services				
Salaries	\$ 2,555,545	\$ 6,420	\$ 12,337	\$ 2,574,302
Employee fringe benefits	750,761	1,885	3,624	756,270
Total personnel services	3,306,306	8,305	15,961	3,330,572
Professional services				
Actuarial services	182,108	458	879	183,445
Attorney services	52,335	131	253	52,719
Auditing services	36,433	91	176	36,700
Banking services	17,536	44	85	17,665
Consulting services	54,300	136	262	54,698
Total professional services	342,712	860	1,655	345,227
Communications				
Postage and mailing	286,646	720	1,384	288,750
Telephone	101,975	256	492	102,723
Printing	225,635	567	1,089	227,291
Video production	993	2	5	1,000
Total communications	615,249	1,545	2,970	619,764
Building and grounds				
Depreciation	82,198	206	397	82,801
Utilities	45,139	113	218	45,470
Maintenance	53,608	135	258	54,001
Total building and grounds	180,945	454	873	182,272
Equipment				
Depreciation	335,977	844	1,622	338,443
Maintenance	190,077	477	918	191,472
Rental	78,572	197	379	79,148
Loss on sale of equipment	137	0	1	138
Total equipment	604,763	1,518	2,920	609,201
Travel and meetings				
Board travel and meetings	14,619	37	71	14,727
Staff travel and meetings	219,262	551	1,059	220,872
Vehicle maintenance and operation	3,753	9	18	3,780
Total travel and meetings	237,634	597	1,148	239,379
General				
Educational materials	26,310	66	127	26,503
Office supplies	147,689	371	713	148,773
Subscriptions and dues	105,995	266	512	106,773
CURP program expenses	69,496	175	336	70,007
Insurance	75,879	191	366	76,436
Advertising	8,425	21	41	8,487
Temporary help	4,549	11	22	4,582
Miscellaneous	27,860	70	134	28,064
Total general	466,203	1,171	2,251	469,625
Total administrative expenses	\$ 5,753,812	\$ 14,450	\$ 27,778	\$ 5,796,040

See accompanying *Independent Auditors' Report*.



Schedule of Administrative Expenses

Internal Service Fund

Year Ended June 30, 2002

Personnel services	
Salaries	\$ 241,555
Employee fringe benefits	68,529
Total personnel services	<u>310,084</u>
Professional services	
Attorney services	7,396
Auditing services	2,529
Banking services	700
Total professional services	<u>10,625</u>
Communications	
Postage and mailing	1,567
Telephone	7,785
Video production expense	69
Total communications	<u>9,421</u>
Building and grounds	
Building use charge	8,280
Utilities	3,482
Maintenance	3,958
Total building and grounds	<u>15,720</u>
Equipment	
Equipment use charge	34,112
Maintenance	14,777
Rental	5,738
Total equipment	<u>54,627</u>
Travel and meetings	
Board travel and meetings	1,015
Staff travel and meetings	20,093
Vehicle maintenance and operation	291
Total travel and meetings	<u>21,399</u>
General	
Educational materials	2,163
Office supplies	10,719
Subscriptions and dues	3,449
Insurance	5,266
Advertising	585
Temporary help	466
Miscellaneous	(5,292)
Total general	<u>17,356</u>
Total administrative expenses	<u>\$ 439,232</u>

See accompanying *Independent Auditors' Report*.



Schedule of Professional/Consultant Fees Year Ended June 30, 2002

Professional/Consultant	Nature of Service	Pension Trust Funds				Internal Service Fund
		MSEP	ALJLAP	Judicial Plan	Total	Missouri State Insurance Plan
Gabriel, Roeder, Smith & Co.	Actuarial service	\$ 182,109	\$ 457	\$ 879	\$ 183,445	\$ 0
Thompson Coburn	Legal counsel	52,335	131	253	52,719	7,396
KPMG LLP	Financial audit	36,433	91	176	36,700	2,529
Jack Pierce	Governmental pension consulting	29,781	75	144	30,000	0
Central Bank	Banking services	17,536	44	85	17,665	700
Qflow Systems LLC	Image system upgrade conversion	6,835	17	33	6,885	0
Charlesworth & Associates	Risk management consulting	5,956	15	29	6,000	0
Malicoat-Winslow Engineers PC	Building air conditioner study	5,857	15	28	5,900	0
KPMG Taiwan	International tax reclaims consulting	3,921	10	19	3,950	0
Mass Strategic Communications Inc.	Phone billing errors	1,800	5	8	1,813	0
SONACOM IT Partners	Phone system consulting on installation of T1 line	149	0	1	150	0
Total professional/consultant fees		\$ 342,712	\$ 860	\$ 1,655	\$ 345,227	\$ 10,625

See accompanying *Independent Auditors' Report*.

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 42.



Investment Summary

Pension Trust Funds

Year Ended June 30, 2002

Type of Investment	June 30, 2001		Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2002		Percent of Total Fair Value
	Cost Value	Fair value			Cost Value	Fair Value	
Fixed Income							
Treasury bonds, notes, and bills	\$ 682,944,719	\$ 755,537,384	\$ 656,525,410	\$ (671,124,598)	\$ 668,345,531	\$ 741,830,188	15%
Gov. bonds and govt. mortgage-backed securities	332,561,583	338,206,647	462,207,910	(456,498,925)	338,270,568	349,522,964	7
Corporate bonds	260,857,870	263,466,888	1,032,707,192	(720,961,995)	572,603,067	570,744,962	12
Convertible bonds	3,500,032	3,394,137	300,000	(3,650,032)	150,000	204,750	0
Collateralized mortgage obligations	77,686,097	79,219,406	78,381,650	(50,143,230)	105,924,517	107,670,076	2
International corporate bonds	11,370,250	11,437,295	30,568,154	(3,569,140)	38,369,264	38,323,464	1
Total fixed income	1,368,920,551	1,451,261,757	2,260,690,316	(1,905,947,920)	1,723,662,947	1,808,296,404	37
Common stock	2,268,656,978	2,464,604,653	1,204,940,769	(1,708,656,306)	1,764,941,441	1,585,534,914	33
Preferred stock	8,317,774	7,773,662	3,903,895	(5,798,369)	6,423,300	4,709,567	0
International Investments							
International equities	947,592,582	946,412,064	980,519,043	(1,046,350,318)	881,761,307	909,173,125	19
Foreign currency	15,192,156	13,395,649	14,914,887	(15,408,944)	14,698,099	19,428,087	0
EAFE index fund	386,341,377	321,460,716	0	0	386,341,377	294,028,371	6
Total international investments	1,349,126,115	1,281,268,429	995,433,930	(1,061,759,262)	1,282,800,783	1,222,629,583	25
Real Estate							
Equity holdings	5,658,746	5,658,746	0	0	5,658,746	5,658,746	0
REITs	148,783,250	159,514,405	605,136,739	(507,417,407)	246,502,582	254,553,971	5
Total real estate	154,441,996	165,173,151	605,136,739	(507,417,407)	252,161,328	260,212,717	5
Venture capital limited partnerships							
	0	147,094	0	0	0	114,882	0
Investments (per Statements of Plan Net Assets page 22)	5,149,463,414	5,370,228,746	5,070,105,649	(5,189,579,264)	5,029,989,799	4,881,498,067	100%
Short-term investments							
Short-term investment funds	86,865,798	86,865,798	2,541,314,457	(2,244,315,572)	383,864,683	383,864,684	
Repurchase agreements	2,018,973	2,018,973	223,417,253	(223,151,824)	2,284,402	2,284,401	
Total short-term investments	88,884,771	88,884,771	2,764,731,710	(2,467,467,396)	386,149,085	386,149,085	
Invested securities lending collateral							
Corporate bonds	538,796,424	538,782,350	190,298,588	(293,439,892)	435,655,120	434,349,750	
Short-term investment funds	638,219,997	638,219,997	47,284,586,962	(47,348,282,560)	574,524,399	574,524,400	
Total invested securities lending collateral	1,177,016,421	1,177,002,347	47,474,885,550	(47,641,722,452)	1,010,179,519	1,008,874,150	
Total investments	\$6,415,364,606	\$6,636,115,864	\$55,309,722,909	\$(55,298,769,112)	\$6,426,318,403	\$6,276,521,302	

See accompanying *Independent Auditors' Report*.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.



Investment Summary Internal Service Fund Year Ended June 30, 2002

Type of Investment	June 30, 2001		Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2002		Percentage of Total Fair Value
	Cost Value	Fair value			Cost Value	Fair Value	
Repurchase agreements	\$722,700	\$722,700	\$486,247,230	\$(485,363,774)	\$1,606,156	\$1,606,156	100%

See accompanying *Independent Auditors' Report*.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS office.