

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

A Little Change Today Can Make a Big Difference Tomorrow



Summary Annual Financial Report
Fiscal Year Ended June 30, 2003



The Penny

The penny is part of our nation's history and culture. Over the centuries, the penny has been an integral part of the American experience. Did you know that most Americans still count their pennies? Statistics show that when the economy slows, Americans count their pennies and cash them in.

At MOSERS, we count, pinch, save, and invest every penny we can because we know "a little change today can make a big difference tomorrow."



A penny for your thoughts . . .

Our Mission

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

Letter From the Board Chair

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, 2003. In keeping with this year's annual report theme, fiscal year 2003 will certainly be remembered as a year filled with “change” for the system. This report highlights these changes and provides information on the financial status of your retirement system.

Your retirement system remains well funded and your promised benefits are secure.

Fiscal year 2003 began with the board's approval of a new asset allocation based upon an asset/liability study which was conducted in the spring of 2002. The majority of the past year has been

spent implementing this new asset allocation mix. As a result of many of the changes that were implemented, I am pleased to report that the system generated a return of 7% net of expenses for the fiscal year. This return compares quite favorably to the public pension fund universe of funds greater than \$1 billion, placing MOSERS' investment returns in the top 9% of funds within this category.

On the legislative front, Senate Bill 248 was passed and took effect July 1, 2003. This bill established a health care retirement incentive for eligible active or retired members who were eligible on or after February 1, 2003, through January 1, 2004, and actually retired no later than September 1, 2003. Those eligible members who retired during this period may continue medical coverage for themselves and any eligible dependents at the active employee rate for five years or until becoming eligible for Medicare. The legislation was designed to reduce state payroll as a means of helping balance the state budget.

While the financial impact to the retirement system has not yet been determined, the system has witnessed a significant increase in the number of members applying for retirement. Despite record numbers of retirements during this period, MOSERS' staff mobilized to meet the counseling needs of the members and processed all paperwork in a timely manner.

The board experienced significant turnover throughout the fiscal year. We bid farewell to several long time members who have contributed a great deal to the system. I would like to express the board's collective thanks to elected trustees Tom Hodges and Bryan Ornburn and appointed trustees Representative Richard Franklin and Representative Bill Skaggs for their dedication and service to the system and our members. Several new additions were made to the board throughout the year. On behalf of the board, I am pleased to welcome Wayne Bill, Marsha Buckner, and Don Martin who were all elected by the membership. In addition, we welcome two newly appointed trustees, Representative Bill Deeken and Representative Todd Smith. We look forward to working with them.

In closing, if you have any questions regarding this report, please contact us at MOSERS, PO Box 209, Jefferson City, MO 65102, or by calling 1-800-827-1063. We look forward to our continued service to you, as we strive to make “little changes today for a big difference tomorrow.”

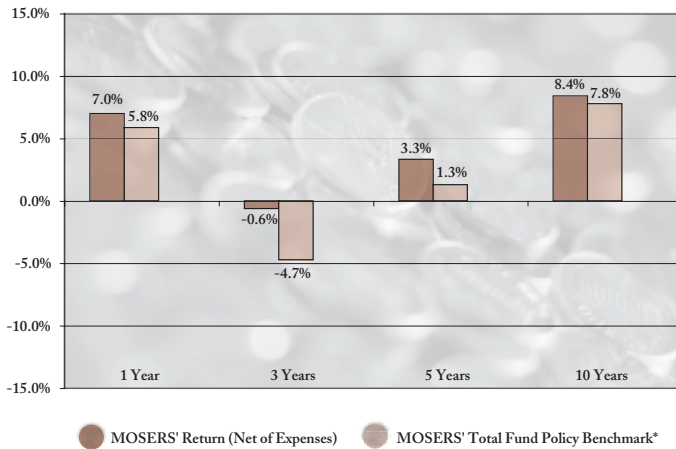
Sincerely,

Carol Gilstrap, Board Chair
Board of Trustees



A penny saved is a penny earned . . .

Investment Performance



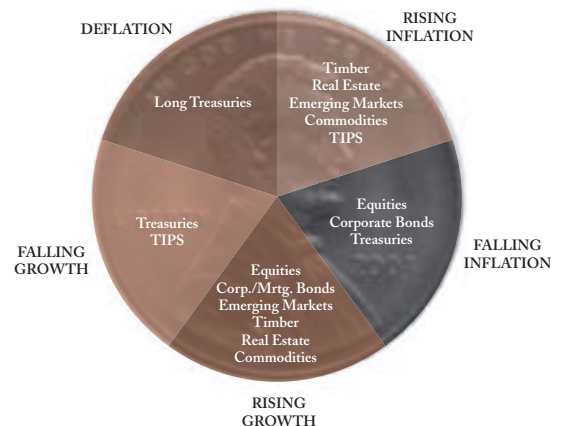
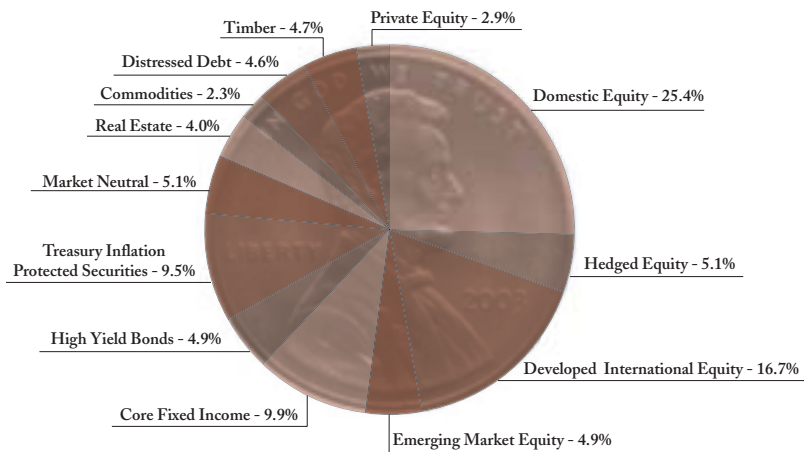
The portfolio's investment return relative to specific benchmarks is one means of evaluating the fund's investment performance. The graph to the left illustrates MOSERS' portfolio return relative to our policy benchmark.

Your retirement system generated a return of 7.0%, net of expenses, in FY03. On a relative basis, the fund outperformed the policy benchmark by 1.2%.

* The policy benchmark provides an indication of the returns that could be achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation.

Diversification of Plan Assets

The foundation of the system's strength and stability rests upon the diversification of plan assets. Just as building a house with one support beam would not be sound, investing all assets in one particular company or investment type would not be prudent. As you will note from the pie chart below to the left, MOSERS' investment program is widely diversified through a variety of asset classes with numerous holdings in each category. In addition, each asset class serves to provide diversification under a variety of economic scenarios that may play out over time. The second pie chart below illustrates the various economic scenarios and which asset classes are anticipated to perform well in those various scenarios. By diversifying MOSERS' holdings, or "avoiding placing all of our eggs in one basket," the fund is able to minimize the overall risk of the portfolio while striving to reach its return objectives.

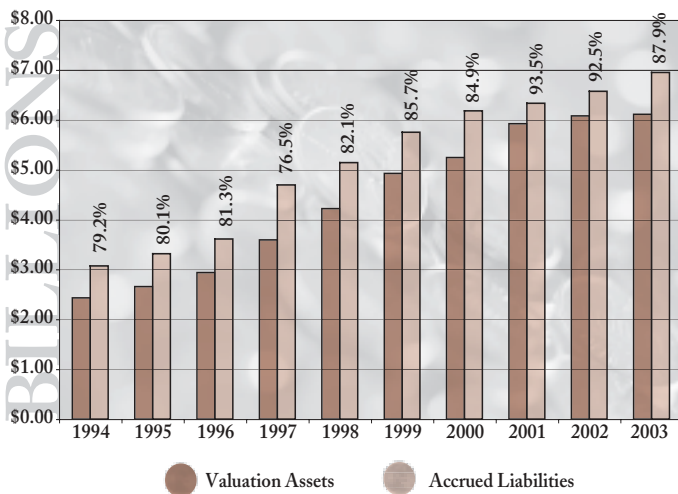




Pinching pennies . . .

Funding the Retirement System

MOSERS' funding ratio at June 30, 2003, was 87.9%.
A funding ratio over 80% is considered good.



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 (dark copper bar) relative to the value of liabilities (light copper bar). The percentages shown in the bar chart to the left indicate the plans' funding ratio for a given year.

According to MOSERS' actuary, Gabriel, Roeder, Smith & Company, the plan is strong and sound per their annual review.

Financial Statements

The Statements of Plan Net Assets are summaries of what MOSERS owns and what it owes as of the end of the fiscal year.

Summary Comparative Statements of Plan Net Assets

| | As of June 30, 2003 | As of June 30, 2002 | Amount of Change | Percentage Change |
|-------------------|-------------------------|-------------------------|-----------------------|----------------------|
| Total assets | \$ 6,743,388,933 | \$ 6,376,857,882 | \$ 366,531,051 | 5.8% |
| Total liabilities | 1,508,542,806 | 1,314,575,236 | 193,967,570 | 14.8 |
| Net assets | <u>\$ 5,234,846,127</u> | <u>\$ 5,062,282,646</u> | <u>\$ 172,563,481</u> | 3.4 |

The Statements of Changes in Plan Net Assets summarize the flow of money in and out of the fund throughout the fiscal year.

Summary Comparative Statements of Changes in Plan Net Assets

| | Year Ended June 30, 2003 | Year Ended June 30, 2002 | Amount of Change | Percentage Change |
|------------------------------|-----------------------------|-----------------------------|-----------------------|----------------------|
| Total additions | \$ 518,210,724 | \$ (113,571,787) | \$ 631,782,511 | 556.3% |
| Total deductions | 345,647,243 | 291,085,249 | 54,561,994 | 18.7 |
| Net increase (decrease) | <u>172,563,481</u> | <u>(404,657,036)</u> | <u>577,220,517</u> | 142.6 |
| Net assets beginning of year | 5,062,282,646 | 5,466,939,682 | (404,657,036) | (7.4) |
| Net assets end of year | <u>\$ 5,234,846,127</u> | <u>\$ 5,062,282,646</u> | <u>\$ 172,563,481</u> | 3.4 |



Every penny counts . . .

Legislation

Health Care Retirement Incentive

On June 19, 2003, Governor Holden signed into law Senate Bill 248 – legislation that created a health care retirement incentive plan for general state employees who are eligible to retire on or after February 1, 2003, through January 1, 2004, and actually retired no later than September 1, 2003. Under this legislation, an eligible retiree who retired during the window could elect to continue health care coverage for him/herself and any eligible dependents at the same cost as if such retiree were an active employee for a maximum period of five years or until becoming eligible for Medicare, whichever occurs first, at which time the rate reverts to the applicable rate for retiree coverage.

The health care retirement incentive was only available to eligible general employees covered under Chapter 103, RSMo; however, the legislation also contained a provision that allowed the governing boards of Truman State University, Lincoln University, and the colleges and universities, and the commission that governs the Department of Conservation to elect to offer the same health care retirement incentive to their eligible employees.

Senate Bill 248 also contained provisions that require MOSERS to make a report in writing to the Governor, Commissioner of Administration and the General Assembly by April 1, 2004, and to also provide monthly tracking, as to the effect of state employee retirements. The written report covers the period February 1, 2003, through January 31, 2004, and includes the number of retirements, the amount of the affected payroll, and the financial effect as expressed by the system's actuary. There are additional provisions that require the Office of Administration and the Missouri Consolidated Health Care Plan to make a similar report on the budgetary effect of state retirements, including the reduction in payroll, the number of positions core cut, the number of employees replaced, and the financial effect on the budget including any costs associated with payment of medical premiums.

The legislation limits the number of employees departments may hire to replace those employees who retired under the incentive to no more than 25% of the positions vacated. Exceptions to the 25% restriction may be made for critical or seasonal positions or any positions which are entirely federally funded. Lastly, Truman University, Lincoln University and the educational institutions described in section 174.020 have been excluded from the 25% restriction.

Age 48 for Rule of 80

Senate Bill 248 also contained provisions that lowered the minimum age for Rule of 80 from age 50 to age 48.

Administrative Changes

The legislation contained provisions that involve minor modifications to and clarifications of the Missouri State Employees' Plan (MSEP) and the Missouri State Employees' Plan 2000 (MSEP 2000) that will enable MOSERS to more effectively administer these plans.

Other Provisions

Another provision contained in Senate Bill 248 allows employees of the Division of Public Safety, who are transferred to the Missouri Department of Transportation (MoDOT) by virtue of executive order 03-05, the option of electing to remain in MOSERS or transferring their service to the Highway and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS) that covers MoDOT employees. For any employee who elects to transfer their service to HTEHPRS, MOSERS will be required to pay to HTEHPRS an amount actuarially determined to equal the liability at the time of transfer to the extent that liability is funded as of the most recent actuarial valuation not to exceed 100%.



Pocketful of pennies . . .

Member Snap Shot

June 30, 2003

| Actuarial Valuations | MSEP* | ALJLAP | Judicial Plan |
|--------------------------|----------|----------|---------------|
| Active Members | | | |
| Average age | 43.8 | 48.0 | 53.0 |
| Average years of service | 9.9 | 9.9 | 10.7 |
| Average annual salary | \$30,229 | \$81,717 | \$102,176 |
| Retired Members | | | |
| Average age | 69.5 | 73.8 | 75.3 |
| Average annual benefit | \$12,552 | \$36,814 | \$44,129 |
| Total Membership | | | |
| Active | 93,404 | 109 | 859 |
| Terminated-Vested | 57,558 | 57 | 392 |
| Retired | 12,974 | 25 | 74 |
| | 22,872 | 27 | 393 |

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

MSEP*

Members Retiring During the Fiscal Year Ended June 30, 2003

| Years Credited Service | Average Monthly Benefit | Average Final Average Pay | No. of Retirees |
|------------------------|-------------------------|---------------------------|-----------------|
| <5 | \$107 | \$1,499 | 7 |
| 5-10 | \$288 | \$2,211 | 223 |
| 10-15 | \$492 | \$2,364 | 279 |
| 15-20 | \$720 | \$2,708 | 261 |
| 20-25 | \$1,060 | \$2,734 | 315 |
| 25-30 | \$1,453 | \$3,056 | 466 |
| 30+ | \$1,820 | \$3,279 | 263 |
| All members | \$1,036 | \$2,766 | 1,814 |

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

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, 2002.

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.

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 explore it on our web site.

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Alternative formats available upon request.
To request an alternative format, please contact MOSERS
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MOSERS is an equal opportunity employer.



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