

Summary Annual Financial Report
Fiscal Year Ended June 30, 2004

*Looking to Our Future . . .
Paying Tribute to Our Past*



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

*Lewis and Clark
Looking to Our Future . . . Paying Tribute to Our Past*

This year, we commemorate the 200th anniversary of the epic voyage of Meriwether Lewis and William Clark – a journey that changed America. These two adventurers along with President Thomas Jefferson's appointed crew, the Corps of Discovery, traveled thousands of miles into the wilderness searching for the existence of a northwest passage that could serve as a waterway for American westward expansion.

The Corps of Discovery's route across the continent was chosen on the belief that the most practical passage across the continent followed the Missouri River to its headwaters in the Rocky Mountains. Once over the mountains, the expedition was hoping to find another river leading directly to the ocean. Although their expectations did not match the realities of the western land, the Lewis and Clark expedition returned triumphant to Missouri having uncovered a wealth of knowledge about Native Americans, geography, animals, and plants of the western United States.

As we pay tribute to our past, we also look to our future recognizing that the world continues to face great unknowns. We will continue on this daring journey with the same courage and perseverance of Lewis and Clark, confident and optimistic in our ability to master the new challenges and discoveries of the 21st century.

*Gary Findlay
Executive Director*

MOSERS' Mission

To exceed customer expectations by providing outstanding benefit services through professional plan administration and sound investment practices.

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, 2004. As we pay tribute to our past by commemorating the 200th anniversary of the Lewis and Clark expedition, we also take a moment to reflect on the direction we have charted for MOSERS and are pleased to report several "journal entries" from the past year that highlight the financial status of your retirement system.

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

The MOSERS fund generated a return of 17.1% (net of expenses) for the year, placing MOSERS' investment return in the top 20% of all public pension funds with assets in excess of \$1 billion as reported by the Independent Consultant Cooperative.

Much of the year has been spent implementing the new asset allocation model that was adopted in June 2002. Since its inception, the new asset allocation mix has outperformed the previous allocation, producing an additional \$91 million in higher returns while reducing asset risk. This model is consistent with MOSERS' fundamental investment principles that focus on preserving the long-term value of the fund while at the same time producing the resources needed to meet the system's future benefit obligations.

It was a quiet year on the legislative front as there was no significant retirement legislation enacted. However, fiscal year 2004 began with a flurry of activity relating to the implementation of Senate Bill 248 – legislation that was passed in June 2003 that created a health care retirement incentive plan for eligible general state employees who retired during a specific timeframe. During the peak of the incentive period, calls to MOSERS' benefits staff were up over 20% and personal consultations increased 154%. Retirement applications for 2,223 members were processed during this relatively short incentive window (1,595 of which were attributable to the incentive). I am pleased to report that MOSERS' staff processed all retirements on time while maintaining our excellent service level.

Although we experienced no board turnover this past fiscal year, we anticipate this will not be the case in fiscal year 2005. While the contributions of those trustees exiting the board will be missed, we remain confident that the MOSERS' governance policy will ensure a smooth transition and serve as a strong foundation for new trustees to build upon.

In keeping with this year's theme, "Looking to Our Future . . . Paying Tribute to Our Past," it is our hope that this *Summary Annual Financial Report* provides you with a brief perspective on MOSERS' accomplishments. We look forward to meeting your future needs. If you have any questions regarding this summary or would like to receive a copy of the *Comprehensive Annual Financial Report*, please contact us at MOSERS, PO Box 209, Jefferson City, MO 65102, or by calling 1-800-827-1063.

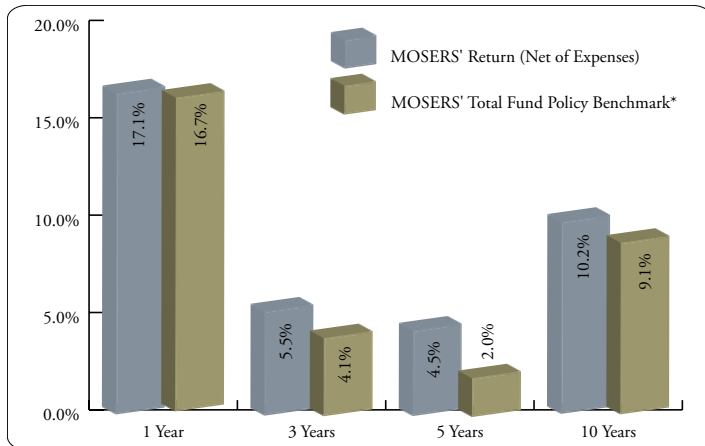
Sincerely,

Lori Strong-Goeke, Chair
Board of Trustees

Investments



Investment Performance



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

Your retirement system generated a return of 17.1%, net of expenses, in FY04. On a relative basis, the fund outperformed the policy benchmark by 0.4%.

*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

Figure 1

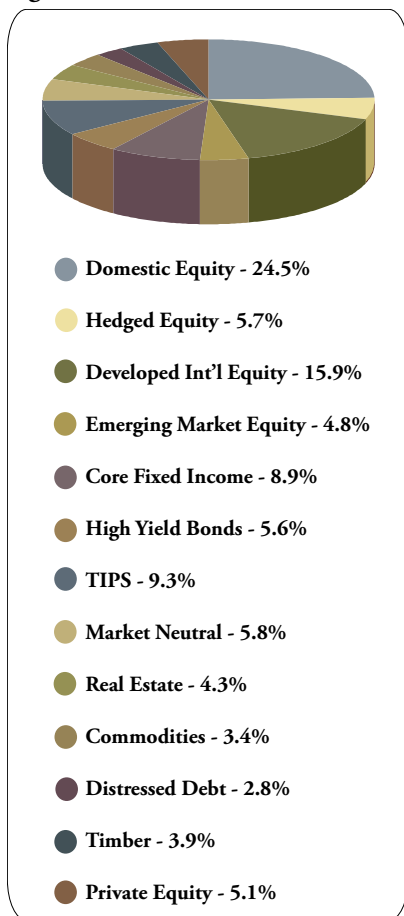


Figure 2



The foundation of the system's strength and stability rests upon the diversification of plan assets. Just as Lewis and Clark faced uncertain outcomes, MOSERS never knows what the next year will hold from the investment markets. As a result, the portfolio must be structured to combat a variety of economic outcomes. Through the diversification of system assets, MOSERS is better able to minimize the overall risk of the portfolio while striving to reach its return objectives. As you will note from Figure 1, MOSERS' investment program is widely diversified among 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. Figure 2 illustrates the various economic scenarios and which asset classes are anticipated to perform well in those various scenarios.

MOSERS' investment portfolio is widely diversified to control risk under a variety of economic outcomes which may play out over time.

Financials



Summary Comparative Statements of Plan Net Assets

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

	As of June 30, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Cash and short-term investments	\$ 277,416,406	\$ 305,694,180	\$ (28,277,774)	(9.25)%
Receivables	176,080,273	180,555,167	(4,474,894)	(2.48)
Investments	5,659,545,870	4,995,925,367	663,620,503	13.28
Invested securities lending collateral	1,188,833,864	1,257,555,834	(68,721,970)	(5.46)
Capital assets	3,615,140	3,611,242	3,898	0.11
Other assets	24,732	47,143	(22,411)	(47.54)
Total assets	7,305,516,285	6,743,388,933	562,127,352	8.34
Administrative expense payables	2,225,818	2,128,236	97,582	4.59
Investment purchase payables	179,856,429	248,794,828	(68,938,399)	(27.71)
Securities lending collateral	1,188,424,688	1,257,336,137	(68,911,449)	(5.48)
Other liabilities	20,078,563	283,605	19,794,958	6979.76
Total liabilities	1,390,585,498	1,508,542,806	(117,957,308)	(7.82)
Net assets	\$ 5,914,930,787	\$ 5,234,846,127	\$ 680,084,660	12.99

Summary Comparative Statements of Changes in Plan Net Assets

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

	As of June 30, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Contributions	\$ 189,866,977	\$ 182,073,252	\$ 7,793,725	4.28%
Investment income (loss)				
investing activities	877,901,329	331,739,686	546,161,643	164.64
Investment income				
securities lending activities	4,036,654	3,956,537	80,117	2.02
Miscellaneous income	474,339	441,249	33,090	7.50
Total additions	1,072,279,299	518,210,724	554,068,575	106.92
Benefits	385,909,723	337,451,395	48,458,328	14.36
Service transfers and refunds	537,762	2,191,487	(1,653,725)	(75.46)
Administrative expenses	5,747,154	6,004,361	(257,207)	(4.28)
Total deductions	392,194,639	345,647,243	46,547,396	13.47
Net increase (decrease)	680,084,660	172,563,481	507,521,179	294.11
Net assets beginning of year	5,234,846,127	5,062,282,646	172,563,481	3.41
Net assets end of year	\$ 5,914,930,787	\$ 5,234,846,127	\$ 680,084,660	12.99

Legislation



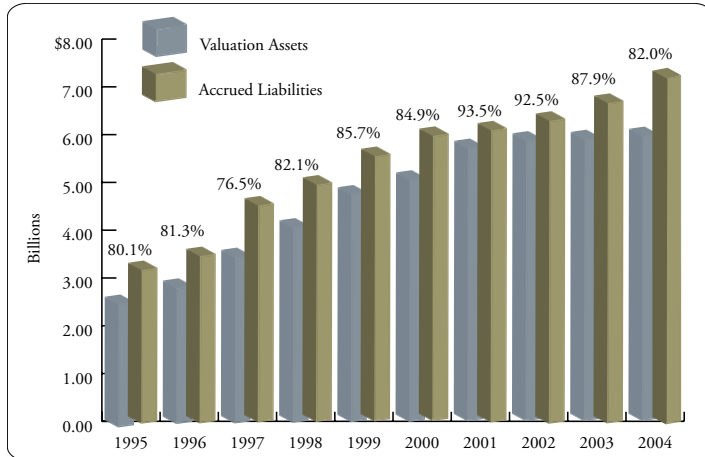
Prior Service Credit for Juvenile Court Employees

Senate Bill 1195 was signed into law on July 2, 2004, by Governor Holden and will allow certain juvenile court personnel whose positions are financed in whole or in part by a public or private grant to receive prior service credit for grant paid service rendered prior to July 1, 1999.

Actuarial



Funding the Retirement System



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 plan's assets (blue bar) relative to the value of the liabilities (green bar). The percentages shown in the bar chart to the left indicate the plan's funding ratio for a given year.

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

MOSERS' funding ratio at June 30, 2004, was 82.0%. A funding ratio over 80% is considered good.

Member Snap Shot

June 30, 2004			
Actuarial Valuations	MSEP*	ALJLAP	Judicial Plan
Active Members			
Average age	44.0	48.8	53.6
Average years of service	10.0	10.2	11.4
Average annual salary	\$31,074	\$81,673	\$101,991
Retired Members			
Average age	69.0	73.2	75.7
Average annual benefit	\$13,113	\$36,416	\$45,355
Total Membership			
Active	55,914	57	391
Terminated-Vested	13,796	29	73
Retired	24,757	25	397

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

Members Retiring During the Fiscal Year Ended June 30,2004

MSEP*

Years Credited Service	Average Monthly Benefit	Average Final Average Salary	Number of Retirees
< 5	\$134	\$1,945	7
5 - 10	\$279	\$2,371	327
10 - 15	\$424	\$2,264	337
15 - 20	\$706	\$2,551	338
20 - 25	\$1,036	\$2,701	422
25 - 30	\$1,442	\$3,038	619
30+	\$1,659	\$3,050	360
All members	\$996	\$2,710	2,410

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

Awards



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, 2003.

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.



Public Pension Coordinating Council Public Pension Standards 2003 Award

Presented to

Missouri State Employees' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

Public Pension Standards Award

MOSERS also received the Public Pension Coordinating Council (PPCC) Public Pension Standards Award, in 2003 in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards.

This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).


Reporting Standards

This *Summary Annual Financial 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 at www.mosers.org.

Acknowledgements

The Missouri State Employees' Retirement System wishes to extend their appreciation to the Missouri Division of Tourism, the Discovery Expedition of St. Louis, and Jim Sturm of Ballwin, Missouri, for the permitted use of photographs in this summary which commemorates the 200th anniversary of the Lewis and Clark expedition.




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Alternative formats available upon request.
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MOSERS is an equal opportunity employer.

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