



Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2004



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*

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

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

Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2004

Gary Findlay  
Executive Director

Gary Irwin  
Chief Finance Officer



# Table of Contents

## INTRODUCTORY SECTION

5	Certificate of Achievement
6	Letter of Transmittal
13	Letter from the Board Chair
14	Board of Trustees
15	Administrative Organization
16	About MOSERS
18	Outside Professional Services

## FINANCIAL SECTION

21	Management's Responsibility for Financial Reporting
22	Independent Auditors' Report
24	Management Discussion and Analysis
	<b>Basic Financial Statements</b>
	<i>Pension Trust Funds</i>
29	Statements of Plan Net Assets
30	Statements of Changes in Plan Net Assets
	<i>Internal Service Fund</i>
31	Balance Sheet
32	Statement of Revenues, Expenses, and Changes in Net Assets
33	Statement of Cash Flows
34	Notes to the Financial Statements
	<b>Required Supplementary Information</b>
45	Schedules of Funding Progress
46	Schedules of Employer Contributions
47	Notes to the Schedules of Required Supplementary Information
	<b>Additional Financial Information</b>
49	Schedule of Investment Expenses
50	Schedule of Internal Investment Activity Expenses
51	Pension Trust Funds - Schedule of Administrative Expenses
52	Internal Service Fund - Schedule of Administrative Expenses
53	Schedule of Professional/Consultant Fees
54	Pension Trust Funds - Investment Summary
55	Internal Service Fund - Investment Summary

## INVESTMENT SECTION

57	Chief Investment Officer's Report
60	Investment Consultant's Report
62	Investment Policy Summary
67	Total Fund Review
72	Public Equity Asset Class Summary
80	Public Debt Asset Class Summary
86	Alternative Investments Asset Class Summary
94	Securities Lending Summary

**ACTUARIAL SECTION**

97	Actuary's Certification Letter
99	Summary of Actuarial Assumptions
105	Summary of Member Data Included in Valuations
106	MSEP* Active Members by Attained Age and Years of Service
107	ALJLAP** Active Members by Attained Age and Years of Service
108	Judicial Plan Active Members by Attained Age and Years of Service
109	Schedules of Active Member Valuation Data Last Six Years
110	MSEP Retirees and Beneficiaries Added and Removed
114	ALJLAP Retirees and Beneficiaries Added and Removed
116	Judicial Plan Retirees and Beneficiaries Added and Removed
118	Short-Term Solvency Test
119	MSEP Derivation of Experience Gain (Loss)
119	ALJLAP Derivation of Experience Gain (Loss)
120	Judicial Plan Derivation of Experience Gain (Loss)
121	Summary Plan Provisions
128	Changes in Plan Provisions
129	MSEP Actuarial Present Values
130	ALJLAP Actuarial Present Values
131	Judicial Plan Actuarial Present Values

**STATISTICAL SECTION**

133	Summary
134	Change in Net Assets
136	Benefit and Refund Deductions from Net Assets by Type
138	Pension Trust Funds - Net Assets vs. Pension Liabilities
139	Contribution Rates
140	Membership in Retirement Plans
141	Distribution of Benefit Recipients by Location
142	Benefit Recipients by Type of Retirement and Option Selected
144	MSEP & MSEP 2000 Benefits Payable June 30, 2004 Tabulated by Option and Type of Benefit
145	ALJLAP Benefits Payable June 30, 2004 Tabulated by Option and Type of Benefit
146	Judicial Benefits Payable June 30, 2004 Tabulated by Option and Type of Benefit
147	MSEP Average Monthly Benefit Amounts - Last Ten Fiscal Years
152	ALJLAP Average Monthly Benefit Amounts - Last Ten Fiscal Years
153	Judicial Plan Average Monthly Benefit Amounts - Last Ten Fiscal Years
154	MSEP Retirees and Beneficiaries - Tabulated by Fiscal Year of Retirement
155	ALJLAP Retirees and Beneficiaries - Tabulated by Fiscal Year of Retirement
156	Judicial Plan Retirees and Beneficiaries - Tabulated by Fiscal Year of Retirement
157	MSEP Total Benefits Payable June 30, 2004 Tabulated by Attained Ages of Benefit Recipients
158	ALJLAP Total Benefits Payable June 30, 2004 Tabulated by Attained Ages of Benefit Recipients
159	Judicial Plan Total Benefits Payable June 30, 2004 Tabulated by Attained Ages of Benefit Recipients
160	Acknowledgements

\* Missouri State Employees' Plan

\*\* Administrative Law Judges and  
Legal Advisors' Plan

## *The Journey Begins*

*President Thomas Jefferson had long been interested in the American West and envisioned an official expedition that would combine diplomatic, scientific, and commercial goals. In 1804, when the momentous transfer of lands, known as the Louisiana Purchase, passed from Spanish and French hands to the United States, Lewis and Clark were given an extraordinary charge to explore this newly acquired territory by following the Missouri River to its source and proceeding on to the Pacific Ocean.*

# *The Journey Begins*

- 5 Certificate of Achievement
- 6 Letter of Transmittal
- 13 Letter from the Board Chair
- 14 Board of Trustees
- 15 Administrative Organization
- 16 About MOSERS
- 18 Outside Professional Services

*Photo by: Larry Kluesner*

# *Certificate of Achievement*





## Letter of Transmittal



October 1, 2004

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

Dear Board Members:

It is again with great pleasure that I submit the annual report of the Missouri State Employees' Retirement System (MOSERS). In this year's report, we pay tribute to the Corps of Discovery's epic journey led by Meriwether Lewis and William Clark 200 years ago. It was primarily due to their journey into the then newly acquired lands of the Louisiana Purchase that St. Louis, Missouri became known as the "Gateway to the West." We honor their courage and tenacity in venturing into uncharted territory, led by the spirit of adventure, blazing trails for others to follow. Pursuit of excellence in any endeavor involves long-range planning, dealing with the unknowable, and the acceptance of certain elements of risk – Lewis and Clark were certainly role models for all of us in those respects.

### Report Contents and Structure

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

- The Introductory Section which contains general information regarding the operations of MOSERS;
- The Financial Section which contains a management discussion and analysis report, the independent auditors' opinion, the financial statements and notes thereto, and required supplementary information regarding the funds administered by MOSERS;
- The Investment Section which contains information pertaining to the management of the investments of the pension trust funds, including reports from the system's chief investment officer and investment consultant;
- The Actuarial Section which contains information regarding the financial condition and financial position of the retirement plans administered by the system, including the retained actuary's opinion; and,
- The Statistical Section, which contains general statistical information regarding system participants and finances.

### **Fiscal Year 2004 Highlights**

#### ***Communications & Member Contacts***

Our member communications focus this year has been a continuation of our efforts to improve our members' awareness of the benefits we administer and the value of those benefits. The most significant challenge this fiscal year was the implementation of Senate Bill 248 that contained the health care retirement incentive. As the bill progressed through the legislative process, we made multiple updates to the web site in order to keep members informed. Individualized notification letters were sent to eligible members, and four additional pre-retirement planning seminars were added to the schedule to accommodate increased interest. We had a total of 1,753 participants in the pre-retirement planning seminars last year, a 45% increase over 2003, and their satisfaction rate (as judged from completed evaluations) was 4.9 out of a possible 5.0.

Between July 1 and September 30, 2003, MOSERS experienced over two-times the number of new retirements compared to the same period in 2002. According to the final report to the Governor, 1,595 employees retired as a result of the retirement incentive during the window period. MOSERS' staff also processed 101 applications for members who ultimately rescinded their retirements during this period, as well as regular retirements not related to the incentive. In addition to the increase in new retirees, we experienced a 21% increase in phone calls compared with the same period last year. The month of July was particularly busy with a 154% increase in walk-ins and a 70% increase in service purchase calculations relative to July of 2002. While the extremely high volume affected service levels somewhat, we still maintained minimal waiting time for calls and walk-ins and also completed implementation of the legislation by the deadline with minimal overtime.

In October 2003, MOSERS offered an optional life insurance open enrollment for active employees that allowed eligible members to:

- Increase their coverage amount without proving insurability; and/or
- Modify the increments of their coverage to multiples of \$10,000.

In addition, a provision allowing members to elect optional life insurance as a result of a family status change was also added.

Special individualized enrollment brochures were produced for the open enrollment. Phone and web enrollments were accepted in addition to the mail-in enrollment process. Informational articles were drafted and posted to our member web site and included in the *PensionsPlus* newsletter. The life insurance handbook was revised, printed, and delivered to agency human resources (HR) staff with instructions to provide each eligible employee with an updated handbook, and the optional life enrollment/change form was revised to reflect the new provisions.

On January 1, 2004, Lincoln University elected to participate in MOSERS' life insurance and long-term disability programs. A special enrollment was held to allow Lincoln University employees to make their coverage elections. A special enrollment packet was developed, and the enrollment was coordinated with The Standard Insurance Company.

While we continue to use our newsletters, brochures, phone counseling, and group meetings to ensure that all prospective retirees have sufficient information to make informed decisions, we also focus on improving member access to information via the system's web site. Members are able to view their personal information in our database and produce their own benefit estimates without the intervention of a benefits counselor. The volume of estimates being produced in this manner suggests that this is an increasingly popular feature. We have had 13,928 members who requested passwords in order to access

their personal information online. That represents a 64% increase over last year. To ease the frustration of not remembering a password, we instituted an e-mail reminder process where members who have forgotten their passwords are able to receive a copy of their password via the e-mail address they have established with us.

Another web site improvement includes allowing members to update certain items of their personal information online. The process was tested on a trial basis during the optional life open enrollment in October and worked so well that it was expanded and made a permanent feature of our system. As part of the security for these processes, we are now requiring additional personal information as part of the verification for member access.

During the fiscal year ended June 30, 2004, 2,417 individuals retired with 1,984 retiring directly from active service. In addition to the retirements, we have had over 41,900 contacts with members. These contacts included direct one-on-one counseling of members who visited our office (2,571 contacts), phone contacts with members (37,281 contacts), and training seminars for members (2,115 contacts). The average wait time for member phone calls was only 26 seconds. We revised and updated several of the seminars this year to better meet members' needs. The *Introduction to MOSERS Benefits* seminar was renamed *Benefit Basics*, which is easier for members to remember and also gives a clearer picture of the content. The *Comprehensive Financial Education Workshop* was revamped and has emerged as *Money Matters*, focusing on debt management, and budgeting and saving for retirement goals using basic concepts and easy-to-use tools. In the first three months of 2004, we received four special requests for this workshop.

Technological improvements allow MOSERS' staff to better achieve our mission which is, "To exceed customer expectations by providing outstanding benefit services through professional plan administration and sound investment practices." We have improved system backups by installing Microsoft servers for various functions. One of those included installation of a disk backup server that does not require tape drives which resulted in a savings of \$2,800 per year in tape costs. We also replaced the water-based fire suppression system in our computer room with a fire suppression system that will not damage the computer hardware in the event of a fire.

Requests from HR staff of state agencies prompted an enhancement to the member service information to show the amount of service earned (years/months/days) for each period of service and the identity of the state department where each period of service was accrued.

An electronic mailing list was created for agency payroll/personnel staff that allows agency personnel to sign up and receive our new online newsletter, *HR Update*. This has improved our delivery of information to agencies. Since the *HR Update* is sent out "as needed" rather than on a set schedule, agency HR staff know the information is important and timely, and they have welcomed it as an important resource. An example of the way this is used to disseminate information involves my letter addressing various rumors running rampant through the state employee population. In addition to posting the letter on the web site, we made it the focus of an *HR Update* with the request that agencies forward the information through their electronic networks and post it on agency bulletin boards. By using the *HR Update* in this way, we reinforced the importance of the agency HR representatives to our delivery of benefit information, and we eliminated the need to do a special mailing to members (saving at least \$15,000 in postage alone). As evidence of success, we received numerous comments from members who were very appreciative of our proactive stance on the rumors issue.

As a first step toward offering a similar subscription service for members, we are in the process of converting our newsletters to a web format. Members will be able to sign up to receive newsletters online, potentially saving printing and postage costs in the future. The web format will make viewing easier and faster than the current PDF process that requires the document to be viewed through Adobe Acrobat Reader.

The redesign of the board web site was completed and the new site was launched in September 2003. Board members were each given their own password, and the home page is customized with their name when they sign on. The trustee handbook and several other documents that had been in a PDF format were redone in a web format to speed access and make it easier to find information. The MOSERS expense report form and travel policy were added to the home page for easy reference.

#### *Customer Satisfaction Surveys*

The customer satisfaction survey was revised this year resulting in two separate surveys; one for those members who recently received counseling from a benefit counselor and one for those members who have called MOSERS for assistance. We are able to identify the reasons for the contacts using the new surveys, which will help us as we consider the areas we need to focus on in the future. This year we began publishing the results of the surveys, which appear on both the member web site and the trustee site and are updated automatically each time a new survey result is entered into the database.

#### *Customer Service Standards*

Member satisfaction is our top priority. We continue to seek ways to improve our delivery of customer service, both by our phone communications and in our written communications. Our phone technology has provided us with an efficient, yet customer friendly system allowing a member to reach a person with ease. Our phone system also provides us with the technology to compile statistical information regarding volume, timing, and duration of phone calls. This information is useful as it keeps us focused on how we can improve our customer service efforts.

We use the Cost Effectiveness Measurement (CEM) Benefit Administration Benchmarking Analysis to gauge our overall performance and cost-effectiveness each year. CEM evaluated 53 leading pension systems, including systems in the U.S., Canada, Australia, and the Netherlands. CEM has identified 14 other U.S. public pension plans as our most relevant peer group, based upon membership size and system assets. The CEM survey rated MOSERS' service as the second highest in our peer group with a total service score of 83. This is above the peer average of 74, and above the average score of 71 for all 53 systems participating in the CEM survey. While we desire to be first every year in this category, it is important to know that CEM defines service as "anything a member would like, before considering costs." Many of the recommendations for higher service would increase our cost. While we intend to incorporate most of the suggestions, we will not pursue some because they do not make sense on a cost/benefit basis. In addition, we continue to use focus groups to assist us in targeting areas where we can improve on our customer service. We are in the process of streamlining our forms, reports, and processes to simplify the paperwork process for new hires and transfers. We were able to condense three MOSERS' forms into one and developed a new member packet for the members to complete when they are hired or upon transferring to another department. This eliminates the duplicate entry of information and streamlines the process for employees.

#### *Administrative Costs*

While customer satisfaction has always been our top priority, it is important to ensure that we are delivering that service in a cost-effective manner. The CEM benchmarking survey provides useful comparative information regarding our administrative costs.

Despite being the third smallest system in our peer group, which typically would place us in a cost disadvantaged position relative to the systems with the most members, our total adjusted administration cost is \$66 per member and annuitant, which is significantly below the peer average of \$87. In the executive summary of their report, CEM states that "Your costs appear to be impressively low given your above average service and below average total volume (i.e. economy of scale disadvantage)." This is just where we want to be.

***Investments***

It's been two years since we made a monumental shift away from the traditional approach to portfolio management toward a more dynamic process. The primary drivers behind this movement were the beliefs that (i) returns from the market would be considerably lower in the future than they had been in the past, thus suggesting that more active management should be emphasized in the portfolio; (ii) staff should be given some flexibility to alter the policy allocation where valuations had become extreme; and (iii) there was a way to build a more economically diversified portfolio, which should lead to lower overall volatility and thus more stability in the contribution rates.

The following table compares several relevant statistics for the old policy benchmark, the new policy benchmark, and our actual results.

**Two-Year Results Ended June 30, 2004**

<b>Statistics</b>	<b>Old Policy Benchmark</b>	<b>New Policy Benchmark</b>	<b>MOSERS Actual Results</b>
Annualized return	10.8%	11.1%	12.0%
Annualized standard deviation	11.9	9.6	10.0
Percentage of positive months	66.7	70.8	75.0
Percentage of negative months	33.3	29.2	25.0

While all of this information provides insights into how each has performed, there are two things that are particularly striking to me. The first is that through a combination of staff initiated shifts in the sub-asset class allocation model and the overall performance of the active managers, our performance has produced an additional 0.9% of annualized return over the new policy benchmark (which is roughly \$91 million over the 24 month period). The second is that the new policy benchmark has generated about 20% lower volatility than the old policy benchmark, while the returns have been slightly better. Higher returns and lower risk can only be achieved through improved diversification or a better mix of assets.

In my view, a significant portion of our success can be attributed to an excellent investment staff operating under governance policies that allow and encourage them to pursue excellence in investment policy implementation. I firmly believe this is further confirmation of the notion that good governance policies produce good results. Additional detailed information regarding MOSERS' investments can be found in the investment section of this report.

***Legislation***

Senate Committee Substitute for Senate Bill 1195 was signed by the Governor on July 2, 2004, and became effective August 28, 2004. This legislation allows 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.

The Office of the State Courts Administrator (OSCA) had estimated that there are approximately 40-100 employees who could be affected by this legislation. Assuming there would be approximately 100 employees eligible, it is doubtful that the inclusion of prior service credit for grant-paid personnel would cause a material increase in the contribution rate, although the unfunded liability would be affected. We were unable to assess this impact through the actuarial process (valuation) since we did not have data in our system on the juvenile court personnel that could be affected by the proposal.

**Summary of Financial Information**

The following schedule is a comparative summary of the pension trust funds' additions and deductions for the years ended June 30, 2004, and June 30, 2003.

<b>Pension Trust Funds</b>		
	<b>Year Ended June 30, 2004</b>	<b>Year Ended June 30, 2003</b>
Additions	\$1,072,279,299	\$518,210,724
Deductions	(392,194,639)	(345,647,243)
Net change	<u>\$ 680,084,660</u>	<u>\$172,563,481</u>

The following schedule is a comparative summary of the revenues and expenses of the Internal Service Fund (insurance activity) for the years ended June 30, 2004, and June 30, 2003.

<b>Internal Service Fund</b>		
	<b>Year Ended June 30, 2004</b>	<b>Year Ended June 30, 2003</b>
Operating revenues	\$ 26,152,466	\$ 25,659,537
Operating expenses	(26,245,743)	(25,644,550)
Nonoperating revenues	24,353	31,179
Net change	<u>\$ (68,924)</u>	<u>\$ 46,166</u>

Additional financial information can be found in the management discussion and analysis report, financial statements, and schedules included in the financial section of this report.

**Plan Financial Condition**

The funding objective of MOSERS' pension trust funds is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 45-46. During the year ended June 30, 2004, the funded ratio of the Missouri State Employees' Plan, which covers 94,467 participants, decreased from 90.9% to 84.6%, primarily as the result of plan investment experience from previous years. The funded ratio of the Administrative Law Judges and Legal Advisors' Plan, which covers 111 participants, increased from 78.3% to 79.7%, primarily as the result of favorable plan experience during the year. Funding of the Judicial Plan, which covers 861 participants, began on July 1, 1998. During the year ended June 30, 2004, the funded ratio of the Judicial Plan increased from 12.9% to 14%, primarily as the result of favorable plan experience during the year. Additional information regarding the financial condition of the pension trust funds can be found in the actuarial section of this report.

**Certificate of Achievement for Excellence in Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MOSERS for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR conforming to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. MOSERS has received a Certificate

of Achievement for the last fifteen consecutive years (fiscal years ended 1989-2003). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

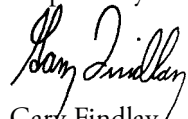
**Conclusion**

This report is a product of the combined efforts of MOSERS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information that will facilitate the management decision process; serve as a means for determining compliance with legal requirements; and allow for the evaluation of responsible stewardship of the funds of the system. As in the past, MOSERS received an unqualified opinion from our independent auditors on the financial statements included in this report. The opinion of the independent auditor can be found on pages 22-23.

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

I would like to take this opportunity to express my gratitude to you, the staff, the advisors, and other people who have worked so diligently to assure the continued successful operation of the system.

Respectfully submitted,



Gary Findlay  
Executive Director

## Letter from the Board Chair



October 1, 2004

Dear Members:

On behalf of the board of trustees, I am pleased to present the *MOSERS' Comprehensive Annual Financial Report* for the fiscal year ended June 30, 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.

First and foremost, 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 letter provides you with a brief perspective on MOSERS' accomplishments. We look forward to meeting your future needs. 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.

Sincerely,

A handwritten signature in cursive script that reads "Lori Strong-Goeke".

Lori Strong-Goeke, Chair  
Board of Trustees



*Board of Trustees*



Front Row: (left to right)

*Marsha Buckner*

Vice Chair  
Elected Active Member

*Carol Gilstrap*

Governor Appointed Member

*Representative Todd Smith*

Member of the House  
of Representatives

*Lori Strong-Goeke*

Board Chair  
Governor Appointed Member

Back Row: (left to right)

*Senator Ed Quick*

Member of the Senate

*Don Martin*

Elected Retired Member

*Wayne Bill*

Elected Active Member

*Senator John Russell*

Member of the Senate

Not Pictured:

*Representative Bill Deeken*

Member of the House  
of Representatives

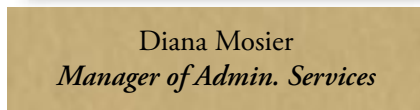
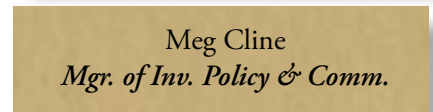
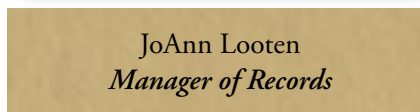
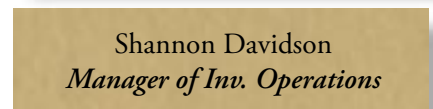
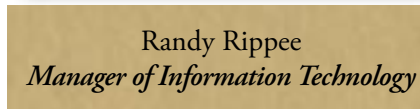
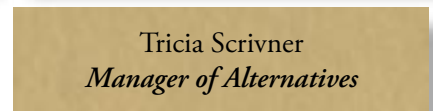
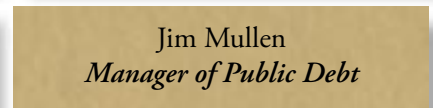
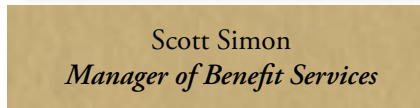
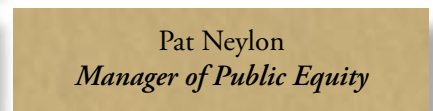
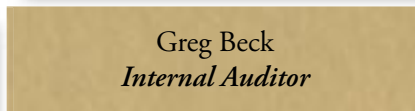
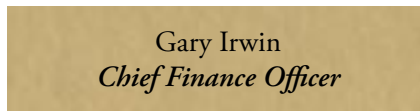
*State Treasurer Nancy Farmer*

Ex-Officio Member

*Commissioner Jacquelyn White*

Ex-Officio Member

# *Administrative Organization*



# *About MOSERS*



## **MOSERS' MISSION**

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

MOSERS was established September 1, 1957, and is governed by laws of the state of Missouri.

### **Purpose**

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

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

### **Administration**

State law provides that responsibility for the administration of MOSERS is vested in an eleven member board of trustees. The board is comprised of:

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

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

### **Organization**

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

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

### **Executive Services**

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

### **Accounting**

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

### **Benefit Services**

Benefit services is responsible for all contact with the membership regarding the benefit programs administered by MOSERS, which include retirement, life insurance, and long-term disability.

### **Communications**

Communications is responsible for providing clearly written and attractively designed publications and educational seminars needed to inform all members about benefit programs administered by MOSERS. Communications and the information technology section are jointly responsible for MOSERS' web site.

### **Information Technology**

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

### **Investments**

The primary function of the investment department is to provide internal investment management and consulting services to the board and the executive director. Other functions include hiring and terminating external investment managers, making strategic allocation decisions, analyzing and rebalancing the overall asset allocation and portfolio, serving as a liaison to the investment community, and informing and advising the board and executive director on financial, economic, and political developments which may affect the system. The investment staff also works with the asset consultant and the executive director in selecting and monitoring external money managers. Information regarding the investment professionals who provide services to MOSERS can be found in the Investment Section.

### **Records Management**

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

### **Administrative Services**

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

## **CORE VALUES**

*Quality - Strive to exceed the expectations of internal and external customers through innovation, competence, and teamwork. Seek to "do it right" the first time.*

*Respect - Be sensitive to the needs of others, both within and outside the organization. Be courteous, considerate, responsive, and professional.*

*Integrity - In all endeavors, act in an ethical, honest, and professional manner.*

*Openness - Be willing to listen to, and share information with others. Be receptive to new ideas. Be trusting of others.*

*Accountability - Take ownership of and responsibility for actions and their results. Learn from mistakes. Control system risks and act to protect the security of member information and system assets.*

## Outside Professional Services

### ACTUARY

*Gabriel, Roeder, Smith & Co.*  
Actuaries and Consultants  
Norman L. Jones, Brad Armstrong  
Southfield, Michigan

### AUDITORS

*KPMG LLP*  
Certified Public Accountants  
Andrew J. Blossom, Jaime L. Hamm  
Kansas City, Missouri

### LEGAL COUNSEL

*Thompson Coburn*  
Attorneys at Law  
General Counsel  
Allen Allred, Tom Litz  
St. Louis, Missouri

*Perkins Coie*  
Attorneys at Law  
Timberland Counsel  
Jim Johnston  
Seattle, Washington

### MASTER CUSTODIAN

*Mellon Trust*  
Primary Custodian  
Irene Speridakos, Doug Cook  
Boston, Massachusetts

### INVESTMENT MANAGEMENT CONSULTANTS

*Summit Strategies, Inc.*  
General Asset Consultant  
Steve Holmes, Tom Pollihan  
St. Louis, Missouri

*TimberLink, LLC*  
Timberland Consultant  
Kate Robie  
Atlanta, Georgia

### RISK MANAGEMENT CONSULTANTS

*Charlesworth & Associates, LLC*  
Art Charlesworth, Bob Charlesworth  
Overland Park, Kansas

### THIRD-PARTY ADMINISTRATORS

*The Standard Insurance Company*  
Disability and Life Insurance  
Tom Trussell  
Overland Park, Kansas

### TIAA-CREF

College & University Retirement Plan  
Robert Kissel, Mike Mitchell  
Chicago, Illinois

### SECURITIES LENDING ADVISORS

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

### Lehman Brothers

Matt Baldassano, Johnine Kilgallon  
New York, New York

### INVESTMENT ADVISORS

*AmeriCap Advisers, LLC*  
Michael Gayed, Nadia Albert,  
Steve Shobin  
New York, New York

*BlackRock Financial Management*  
Rob Capaldi, Andy Phillips, Jeff Gary  
New York, New York

### *Blackstone Alternative Asset Management, LP*

Tom Hill, Hal Lindquist, Rupal Doshi  
New York, New York

### *Blackstone Real Estate Advisors, LP*

Gary Summers, Ken Whitney  
New York, New York

### *Blackstone Bridge Advisors, LP*

Steven Saslow, Steve Morton  
New York, New York

### *Blakeney Management*

James Graham-Maw, Miles Morland  
London, England

### *Blum Capital Partners, LP*

N. Colin Lind, Jeff Cozad  
San Francisco, California

### *The Campbell Group*

John Gilleland, Julie Lawrence  
Portland, Oregon

### *Capital Guardian Trust Company*

Andy Barth, Mike Nyeholt  
Los Angeles, California

### *Catterton Partners*

J. Michael Chu, Mark Sirinyan,  
John Scerbo  
Greenwich, Connecticut

### *DDJ Capital Management, LLC*

Mike Forrester, David Breazzano  
Wellesley, Massachusetts

### *Dimensional Fund Advisors, Inc.*

Rex Sinquefeld, Carol Wardlaw  
Santa Monica, California

### *Grantham, Mayo, Van Otterloo & Co, LLC*

Carolyn Nelson, Arjun Divecha  
Boston, Massachusetts  
Berkeley, California

*Hoisington  
Investment Management Co.*  
Van Hoisington, Lacy Hunt  
Austin, Texas

*Legg Mason  
Capital Management, Inc.*  
Kyle Prechtel Legg, Chuck Knudsen  
Baltimore, Maryland

*Mastholm Asset Management, LLC*  
Thomas Garr, Theodore Tyson  
Bellevue, Washington

*Merrill Lynch  
Asset Management Group*  
Rick Vella, Lisa Torrington  
New York, New York

*MHR Fund Management, LLC*  
Hal Goldstein, Mark Rachesky  
New York, New York

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

*Oak Associates, Ltd.*  
Sandra Noll, Jim Oelschlager  
Akron, Ohio

*OakBrook Investments*  
Michael Lorenzen, Janna Sampson  
Lisle, Illinois

*Oaktree Capital Management, LLC*  
Howard Marks, Bruce Karsh, Russel  
Bernard, John Moon,  
Greg Brandner  
Los Angeles, California

*Relational Investors, LLC*  
Sandi Christian, Ralph Whitworth  
San Diego, California

*Resource Management Services, LLC*  
Phillip Woods, Craig Blair,  
Tim Moothart  
Birmingham, Alabama

*Silchester International Investors*  
Christopher Cowie, Stephen Butt  
London, England  
New York, New York

*Silver Lake Partners*  
Alan Austin, David Roux  
Menlo Park, California

*Trust Company of the West*  
Art Carlson, Judy Hirsch  
Los Angeles, California

*Wayzata Investment Partners, LLC*  
Pat Halloran, Steve Adams  
Wayzata, Minnesota

## *The Corps of Discovery*

*After President Thomas Jefferson won approval from Congress, \$2,500 was appropriated to fund a small expeditionary group, known as The Corps of Discovery, which was comprised of civilian hunters, army soldiers, and French boatmen. While not all made the entire journey to the Pacific, some 48 men were part of the team when it left St. Louis heading up the Missouri River. The expedition included Clark's slave, York, along with many other adventurers who came to play a major role in the American expansion. Later in their journey, they were joined by Sacagawea, a Shoshone woman who served as an interpreter.*