

Public Employees Retirement System
Arkansas



2004 Annual Financial Report

Arkansas Public Employees Retirement System

A Pension Trust Fund of
the State of Arkansas

Comprehensive Annual Financial Report

***For the Year Ended
June 30, 2004***

Prepared by

**Arkansas Public Employees Retirement System
124 West Capitol Avenue, Suite 400
Little Rock, AR 72201**

**Gail H. Stone, Executive Director
Michele Williams, Deputy Director**



Public Pension Coordinating Council
Public Pension Standards
2004 Award

Presented to

Arkansas Public 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)*

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

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Introduction



The unspoiled beauty of the Twin Falls located in the Ozark Region of Arkansas

Letter of Transmittal

Letter from the Board Chair

A Brief History of APERS

Board of Trustees

*Organizational Chart and
Administrative Staff*

*Professional Consultants and
Investment Managers*

Membership Information



Arkansas Public Employees Retirement System

124 West Capitol Avenue • Suite 400 • Little Rock, Arkansas 72201

December 15, 2004

APERS Board of Trustees
Arkansas Public Employees Retirement System
124 West Capitol Avenue
Little Rock AR 72201

Dear Board Members:

It is my honor to present to you the 2004 Annual Financial Report of the Arkansas Public Employees Retirement System (“APERS” or the “System”) for the fiscal year ended June 30, 2004. The report evidences our continuing effort to provide reliable and timely information on the financial status of APERS and the changes therein for the fiscal year.

Accountability is the imperative of financial reporting. It insists that APERS resources be safeguarded and used for the benefit of all members, that transactions be executed only with the proper authorization of the board and management, and that transactions be recorded properly to permit the reporting of timely reliable financial information on the activities of the System.

Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial status of the System and changes therein.

APERS was established by legislation enacted in 1957 and has subsequently expanded to include State, County, Municipal, School, and other political subdivisions. A comprehensive list of all participating employers is provided at the end of the Statistical Section. The Summary of Plan Provisions is presented in the Actuarial Section. The mission of the System is to provide current and future retirement or survivor benefits for its members. All services provided by the staff are performed to meet that objective.

The APERS Annual Financial Report is presented in six sections: an Introductory Section, which contains the administrative organization, a letter of transmittal, and the Chairman’s report; a Financial Section, which contains the report of the independent auditors, the financial statements of the System, and required supplementary information; an Investment Section, which contains a report on investment activity, investment policies, investment results, and various investment schedules; an Actuarial Section, which contains the Actuary’s certification letter and the results of the Annual Actuarial Valuation; and a Statistical Section, which includes significant trend data pertaining to the System; an Appendix, which lists all Participating Employers as of June 30, 2004. I trust that you and the members of the System will find this annual report helpful in understanding your public employees’ retirement system - a system that continues to maintain a strong and positive financial future.

ECONOMIC CONDITION AND OUTLOOK

The economic condition of the system is based primarily upon investment earnings. For the last five years, the System's annualized rate of return has been 3.49%. The System's investments are evaluated quarterly by Callan Associates, Inc. and compared to market indicators and comparable funds. A comparable analysis of rates of return is presented in the Investment Section.

FOR THE FUTURE

For the first time since 1998, the fund recognized double-digit investment gains, posting a 13.40% rate of return. A shift in investment asset allocation favoring international equities in February helped boost profits in the remaining four months of the fiscal year. Nonetheless, assets have declined to a still-healthy 89% of liabilities, down from 95% in 2003. If APERS enjoys similar returns over the next two years, funding will move above 90% once again. If the employee contributory provisions proposed by the Board of Trustees pass into law in the next legislative session, the funded status of the system will be even stronger.

FINANCIAL INFORMATION

The management of the System is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with Generally Accepted Accounting Principals. This System includes written policies and procedures adopted by the Board of Trustees and promulgated in accordance with the State's Administrative Procedures Act.

ADDITIONS

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. These additions for fiscal year 2004 totaled approximately \$612.2 million (see Table 1).

The overall additions increased approximately \$295.6 million compared to those of fiscal year 2003 due primarily to higher investment earnings and employers' contributions. The Investment Section of this report reviews activity and the results of the investment portfolio for fiscal year 2004. The net assets of the System were \$4.3 billion on June 30, 2004, an increase of approximately \$424.2 million from 2003.

TABLE 1. OPERATING ADDITIONS

Employer contributions	\$ 118,419,346
Employee contributions	117,955
Investment earnings	484,159,506
Miscellaneous additions	<u>9,522,046</u>
TOTAL	<u>\$ 612,218,853</u>

DEDUCTIONS

The primary deductions of the System included the payment of benefits to members and beneficiaries, the refund of contributions to former members, and the cost of administering the retirement system. Deductions for fiscal year 2004 totaled approximately \$188.0 million (see Table 2), an increase of approximately 7.6% over fiscal year 2003 deductions. The increase in benefit payments resulted primarily from an increase in both the number and average amount of benefits paid and cost-of-living increases granted. Net increase in Plan net assets was approximately \$424.2 million during fiscal year 2004.

TABLE 2. OPERATING DEDUCTIONS

Benefit payments	\$ 182,901,681
Refunds of contributions	374,972
Administrative expenses	<u>4,759,527</u>
TOTAL	<u>\$ 188,036,180</u>

FUNDING

A pension fund is well funded when it has enough money in reserve to meet all earned future obligations to participants. The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater level of investment potential. The advantage of a well-funded plan is that the participants can be assured that sufficient assets exist which are committed to the payment of benefits. The actuarial accrued liability and actuarial value of assets of the System as of June 30, 2004, amounted to \$5.0 billion and \$4.4 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report. Funding status and progress for the System is presented in the required supplementary information in the Financial Section.

INVESTMENTS

The investments of the System are governed primarily by an investment authority known as the "Prudent Investor Rule". The rule established a standard for all fiduciaries, which included anyone that has investment authority with respect to the fund. The Prudent Investor Rule states that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. By permitting diversification of investments within a fund, the fund may reduce overall risks and increase returns. A summary of the asset allocation can be found in the Investment Section.

The Arkansas Investment Code permits the fund to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment managers appointed by the Board are listed in the Introductory Section. For fiscal year 2004, investments provided a 13.40% rate of return. The System's annualized rate of return over the last three years was approximately 4.10%.

AUDIT

The System is audited each fiscal year by the Division of Legislative Audit.

ACTUARIAL SURVEY AND VALUATION

An actuarial review of the System is performed annually. The assumptions utilized by the actuary in performing the valuation are reviewed annually by the Board. The actuarial firm, Gabriel, Roeder, Smith & Company, completed the actuarial review and valuation and served as technical advisor to the System. Actuarial certification and supporting statistics are included in the Actuarial and Statistical Sections of this report.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined efforts of the staff under the leadership of the Arkansas Public Employees Retirement System Board of Trustees. It is intended to provide extensive and reliable information for making management decisions, determining compliance with legal provisions, and determining responsible stewardship for the assets contributed by the System's members and their employers.

We would like to take this opportunity to express our gratitude to the Board, the staff, the advisors, and the many people who have worked so diligently to ensure the successful operation and financial soundness of the Arkansas Public Employees Retirement System.

Sincerely yours,



Gail H. Stone
Executive Director



Arkansas Public Employees Retirement System

124 West Capitol Avenue • Suite 400 • Little Rock, Arkansas 72201

December 2, 2004

Dear Members:

On behalf of the board of trustees, I am pleased to present the *APERS Annual Financial Report* for the fiscal year ending June 30, 2004. The Arkansas Public Employees Retirement System (“APERS” or “System”) continues to be of sound financial condition. The assets accumulated to pay your retirement benefits are carefully invested to ensure the necessary funding when your future benefits are due to you. As board members, we serve as trustees to ensure that your interests are properly safeguarded. We have the responsibility and the mandate to provide retirement benefits to all participants commensurate with the valuable service each has rendered to the public.

Fiscal 2004 began with an accommodative monetary stance at the Federal Reserve Board. During this period, the country experienced the lowest interest rate environment seen in over forty years. Home mortgage refinancing hit all time highs, and more Americans than ever were able to purchase their own homes. The capital markets were generally friendly to investors; the System enjoyed double-digit returns for the first time in six years. At 13.40% we handily surpassed our actuarial benchmark of 8.0% in 2004. We are actively committed to positioning the investment portfolio so as to best take advantage of new opportunities as they arise around the globe. As the US dollar continues to decline, APERS’ recently increased international holdings should provide even more attractive returns in fiscal year 2005.

We recognize our professional investment advisors for their strong performance in this rapidly changing market environment. We also commend the Governor and the Legislature for their support and commitment to keeping the System actuarially sound and funded in accordance with a prudent funding plan.

As Board Chair, I assure you that all of the board trustees have the best interests of the System and the membership always in mind as we direct the investments and all other operations of APERS. As your board, we also recognize the dedication and excellent work of the entire administrative staff of the System; they are committed to delivering the highest quality service to all stakeholders.

Sincerely,

Larry Fratesi, Chair
APERS Board of Trustees

A Brief History of the

Arkansas Public Employees Retirement System

The Arkansas Public Employees Retirement System was created by Act 177 of 1957.

The System originally provided only for the retirement of State employees but through the years has added county employees (Act 42 of 1959), municipal employees (Act 64 of 1961), college and university employees (Act 149 of 1963), non-teaching public school employees (Act 63 of 1965), and other non-state employees (various Acts). Effective July 1, 1989 (Act 653 of 1989) all newly hired public school employees are enrolled in the Arkansas Teacher Retirement System.

From 1957 through 1977, all APERS members participated in a contributory plan whereby employers and employees made contributions to the System.

However, Act 793 of 1977 created a non-contributory retirement plan where only employers contribute. Anyone first enrolled in the System after January 1, 1978, is automatically placed in the non-contributory plan.

Act 325 of 1999 requires that employees who are retired from another state sponsored retirement plan (i.e. ATRS, LOPFI, Arkansas State Highway System, etc.), who are working in a position covered by APERS, and who meet the eligibility requirements, must be reported to APERS.

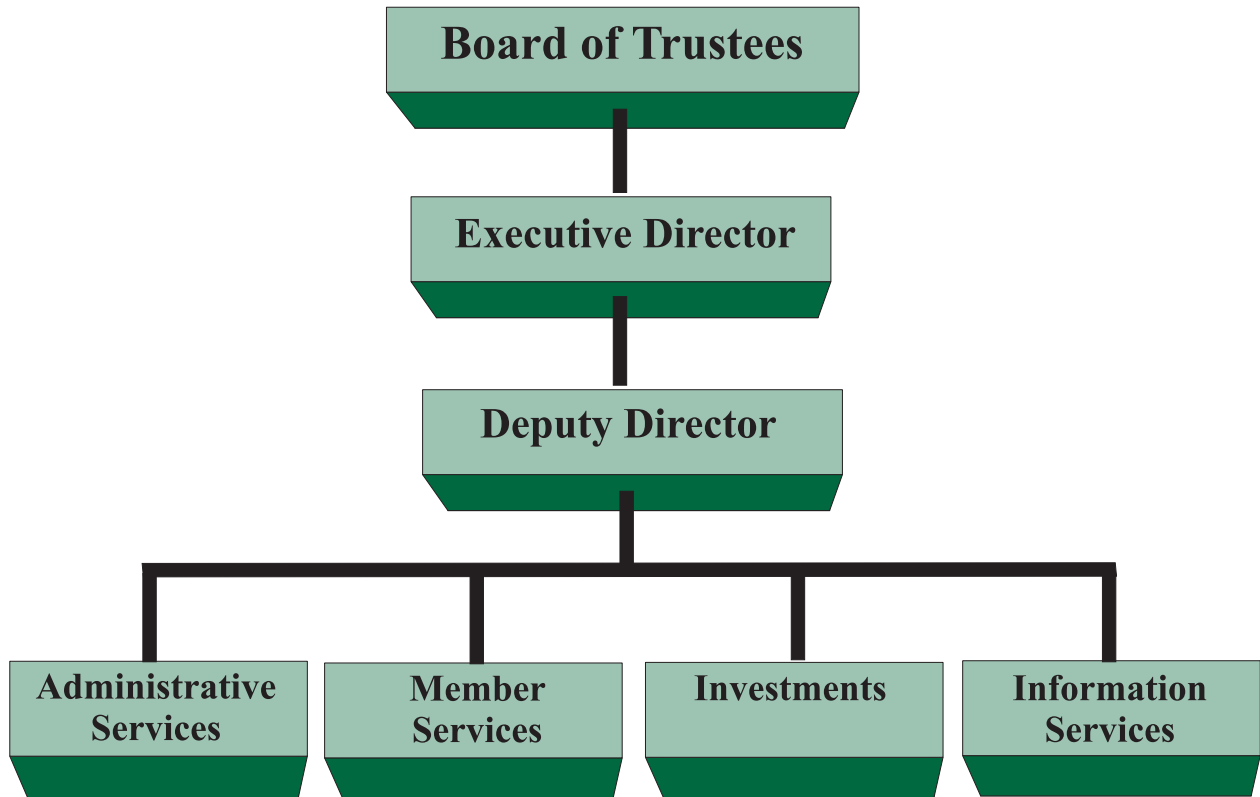
Act 339 passed by the 2003 General Assembly directs APERS to develop a contributory program by 2005. At that time, all covered employees first hired on or after July 1, 2005, will contribute 5% of their salary into the plan. This program will further enhance the strength of the plan well into the future while providing a richer benefit to the member.

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Board of Trustees

Board Members	Expiration Of Term
The Honorable Larry Fratesi, Chair Jefferson County Assessor County Employee Representative	March 9, 2009
Mr. Jonathan R. Sweeney, Vice Chair Deputy Director, Soil and Water Conservation Commission State Employee Representative	March 9, 2007
The Honorable Gus Wingfield State Treasurer	Ex Officio Member
The Honorable Jim Wood State Auditor	Ex Officio Member
Mr. Richard Weiss Director, Department of Finance and Administration	Ex Officio Member
Ms. Ouida Wright Quality Assurance Coordinator Conway Human Development Center State Employee Representative	March 9, 2005
Mr. Don Zimmerman Executive Director, Arkansas Municipal League Municipal Employee Representative	March 9, 2010
Mr. Maurice Henry Hope Schools School Employee Representative	March 9, 2006
Mr. Artee Williams Executive Director, Employment Security Division State Employee Representative	March 9, 2008

Organizational Chart



<u>Administrative Staff</u>	
Gail H. Stone	Executive Director
Michele Williams	Deputy Director
Susan Bowers	Associate Director, Investments
Becky Walker	Administrative Services Manager
Jackie Parrish	Member Services Manager
Jon Aucoin	Information Services Manager

Professional Consultants

Custodial Bank

The Bank of New York
One Wall Street
New York, NY 10286

Actuary

Gabriel, Roeder, Smith & Company
Actuaries & Consultants
One Towne Square, Suite 800
Southfield, MI 48076

Investment Consultant

Callan Associates, Inc.
Six Concourse Parkway, Suite 2900
Atlanta, GA 30328-6111

Investment Managers

INVESCO Capital Management

1166 Avenue of the Americas
New York, NY 10036

The Bank of New York

One Wall Street
New York, NY 10286

INVESCO Realty Advisors

One Lincoln Centre, Suite 700
Dallas, TX 75240

Prudential Timber Investments, Inc.

800 Boylston Street
Boston, MA 02199

Deutsche Asset Management

150 South Independence Square West
Philadelphia, PA 19106

J. & W. Seligman & Co., Inc.

100 Park Avenue
New York, NY 10017

Pareto Partners

505 Park Avenue
New York, NY 10022-1106

Prudential Investments, Inc.

Two Gateway Center
Newark, NJ 07102

Loomis, Sayles & Co.

39533 Woodward Avenue, Suite 300
Bloomfield Hills, MI 48304

Froley, Revy Investment Company, Inc.

10900 Wilshire Boulevard, Suite 1050
Los Angeles, CA 90024

UBS Global Asset Management

One North Wacker Drive
Chicago, IL 60606

Wellington Management Company

75 State Street
Boston, MA 02109

Lazard Asset Management

30 Rockefeller Plaza
New York, NY 10020

MacKay Shields

9 West 57th Street
New York, NY 10019

INVESCO National Asset Management

400 West Market Street
Louisville, KY 40202

American Express Asset Management

50209 AXP Financial Center
Minneapolis, MN 55474

CastleArk Management L.L.C.

One North Wacker Drive, Suite 3950
Chicago, IL 60606

Membership Information
As of June 30, 2004

Active Members

Number	42,826
Average Age	44.4 Years
Average Years	9.6 Years
Average Annual Salary	\$ 27,472

Inactive - Vested Members

Number	9,617
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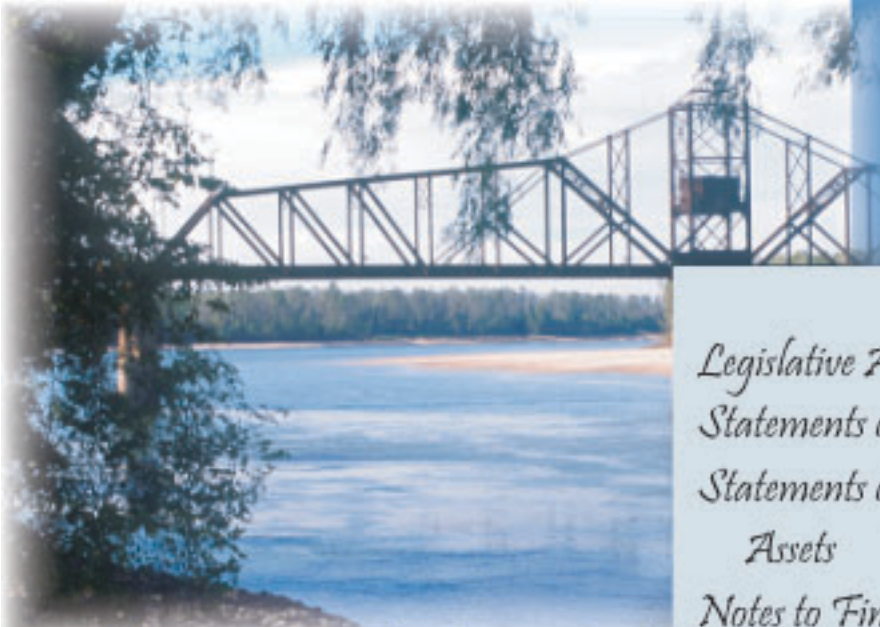
Total Retirees

Number	19,872
Average Monthly Benefit	\$ 853

2004 Retirees

	Age and Service	Disability
Number	1,101	70
Average Age	61.4	51.1
Average Years of Service	17.3	13.5
Average Monthly Benefit	\$ 663	\$ 482

Financial Section



*A view of the Mississippi River from the Heritage Trail
in the Delta region of Arkansas.*

*Legislative Auditors' Report
Statements of Plan Net Assets
Statements of Changes in Plan Net
Assets
Notes to Financial Statements
Schedule of Employer Contributions
Schedule of Funding Progress
Note to Required Supplementary
Information
Schedule of Administrative Expense
Schedule of Investment Expense
Schedule of Payments for
Professional Consultants*

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Public Employees Retirement System
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the fiduciary pension trust fund of the Arkansas Public Employees Retirement System (the "System"), an Office of Arkansas State government, administered by the Arkansas Public Employees Retirement System Board of Trustees as of and for the year ended June 30, 2004, as listed in the forgoing table of contents. These financial statements are the responsibility of the management of the System. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements for the year ended June 30, 2003 were audited by us and we expressed an unqualified opinion on them in our report dated November 26, 2003, but we have not performed any auditing procedures since that date.

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 that our audit provides a reasonable basis for our opinion.

As indicated above, the financial statements of the Arkansas Public Employees Retirement System are intended to present the financial position and the changes in financial position of only that portion of the fiduciary pension trust fund of the State that is attributable to the transactions of the Arkansas Public Employees Retirement System. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary pension trust fund for the Arkansas Public Employees Retirement System as of June 30, 2004, and the changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The 2003-2004 fiscal year supplementary information on pages 31 through 33 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

We did not audit the data included in the Introductory, Investment, Actuarial and Statistical Sections of this report, and accordingly, express no opinion thereon.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 10, 2004

Statements of Plan Net Assets

June 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 175,809,182	\$ 307,971,958
Securities Lending Collateral Investments in Cash Equivalents (Notes 3 & 5)	215,840,817	85,046,293
<u>Receivables:</u>		
Contributions	1,522,786	1,249,804
Investment Principal Receivable	26,916,374	42,257,698
Accrued Investment Income Receivable	<u>12,051,686</u>	<u>18,024,628</u>
Total Receivables	40,490,846	61,532,130
<u>Investments, At Fair Value (Notes 3, 4 & 5):</u>		
Government Securities:		
U.S. Government Securities	80,641,818	224,969,741
Government Agency Securities	315,412,784	446,898,220
Corporate Securities:		
Asset Backed Securities	36,099,669	86,521,339
Corporate Bonds	313,807,921	494,471,306
Commercial Loans	0	874,189
Corporate CMO	43,834,240	40,635,055
Convertible Bonds	137,058,613	82,920,414
Convertible Preferred Stock	36,059,855	19,541,207
Common Stock	1,223,768,276	1,223,168,940
Equity Index Funds	893,277,051	354,379,995
High Yield Income Fund	38,703,011	58,148,922
International Securities:		
Government Fixed Obligations	14,363,917	20,071,797
Corporate Fixed Income	1,644,786	350,202
Equity Securities	382,353,841	196,801,497
Equity Pooled Fund Units	391,641,407	203,212,461
Emerging Markets	24,930,353	37,444,343
Real Estate	64,908,065	62,105,003
Timberland	157,301,764	163,116,119
Municipal Bonds	<u>22,818,100</u>	<u>37,881,993</u>
Total Investments	4,178,625,471	3,753,512,743
<u>Securities Lending Collateral Investments, At Fair Value (Notes 3 & 5):</u>		
Corporate Bonds	263,472,042	460,678,934
Bank Obligations	59,998,003	178,940,350
Asset Backed Securities	10,000,000	0
Commercial Paper	<u>0</u>	<u>44,951,319</u>
Total Securities Lending Collateral Investments	333,470,045	684,570,603
Prepays and Other Assets	1,873,848	14,299,157
Fixed Assets, Net	<u>50,499</u>	<u>73,592</u>
TOTAL ASSETS	4,946,160,708	4,907,006,476
LIABILITIES		
Accrued Expenses and Other Liabilities	6,269,500	5,566,972
Investment Principal Payable	83,734,304	249,159,215
Securities Lending Liability	<u>549,310,862</u>	<u>769,616,896</u>
TOTAL LIABILITIES	639,314,666	1,024,343,083
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Note 6)	<u>\$ 4,306,846,042</u>	<u>\$ 3,882,663,393</u>

(A Schedule of Funding Progress is on page 32.)

Statements of Changes in Plan Net Assets
For the Years Ending June 30, 2004 and 2003

ADDITIONS	<u>2004</u>	<u>2003</u>
<u>Contributions:</u>		
Employer	\$ 118,419,346	\$ 115,690,798
Plan Members	<u>117,955</u>	<u>159,642</u>
Total Contributions	118,537,301	115,850,440
<u>Investment Income:</u>		
Interest	71,972,312	89,645,117
Dividends	29,635,270	24,105,818
Net Appreciation in Fair Value of Plan Investment	390,465,636	83,393,618
Security Lending Income	8,911,120	15,012,022
Real Estate Income	3,133,752	3,170,322
Other	<u>16,184</u>	<u>(3,200)</u>
Total Investment Income	504,134,274	215,323,697
Less: Investment Expense	<u>19,974,768</u>	<u>23,394,479</u>
Net Investment Income	484,159,506	191,929,218
<u>Other Sources:</u>		
Miscellaneous Additions	3,101,053	2,503,720
Transfer from Teachers Retirement System	6,363,145	6,317,993
Miscellaneous Transfers from State Agencies	<u>57,848</u>	<u>52,945</u>
Total Other Additions	9,522,046	8,874,658
TOTAL ADDITIONS	612,218,853	316,654,316
DEDUCTIONS		
Benefits	182,901,681	169,763,198
Refunds of Contributions	374,972	678,143
Administrative Expenses	<u>4,759,527</u>	<u>4,370,719</u>
TOTAL DEDUCTIONS	188,036,180	174,812,060
NET INCREASE	424,182,673	141,842,256
Reserve Adjustments	(24)	(217)
NET ASSETS (Note 6)		
Beginning of Year	<u>3,882,663,393</u>	<u>3,740,821,354</u>
End of Year	<u>\$ 4,306,846,042</u>	<u>\$ 3,882,663,393</u>

See Notes to Financial Statements

Notes To The Financial Statements

For the Years Ending June 30, 2004 and 2003

Note 1. Description of the System

A brief description of the Arkansas Public Employees Retirement System (“APERS” or the “System”) follows.

General Information - APERS is a cost-sharing, multiple employer, defined benefit pension plan established by authority of the Arkansas General Assembly with the passage of Act 177 of 1957 to provide retirement benefits for eligible employees and elected officials of state and local governmental entities in Arkansas. The laws governing operations of APERS are set forth in Arkansas Code of 1987 Annotated and 1993 Cumulative Supplement, Title 24, Chapter 4, with related laws in Chapter 2.

The general administration and responsibility for the proper operation of the system is vested in the nine member Board of Trustees of the Arkansas Public Employee Retirement System. Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of State, the Treasurer of State and the Director of the Department of Finance and Administration.

Reporting Entity - The executive director and administrative staff of APERS also serve as the executive director and administrative staff of two other state retirement systems, the State Police Retirement System and the Arkansas Judicial Retirement System. These systems do not constitute part of the APERS reporting entity under the provisions of Governmental Accounting and Financial Reporting Standards Statement No. 14, The Financial Reporting Entity, because these systems are legally separate, fiscally independent entities with separate Boards of Trustees. The nature of the relationship between these systems and APERS is merely a sharing of administrative resources, and as such, does not require inclusion of these systems in APERS financial statements.

Membership - APERS covers all state employees who are not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under the System, college and university employees and certain non-teaching school employees and other public entities specifically defined by law.

Reporting Entities

As of June 30, 2004 and 2003, the number of participating employers was as follows:

	<u>2004</u>	<u>2003</u>
State	242	241
County	85	85
Municipal	155	152
School	248	260
Other Non-State	<u>18</u>	<u>17</u>
Total	<u>748</u>	<u>755</u>

As of June 30, 2004 and 2003, membership was as follows:

Retirees and beneficiaries receiving benefits	19,872	18,838
Terminated plan members entitled to but not receiving benefits	9,617	8,958
Active Plan Members	42,826	42,879

Notes To The Financial Statements *(Continued)*

Contributions - Contribution provisions applicable to the participating employers are established by the APERS Board of Trustees, and shall be based on the actuary's determination of the rate required to fund the Plan. The additional cost of public safety service for public safety employees is determined by the actuary as well. Administrative costs of APERS are financed through investment earnings. APERS was established as a contributory plan. However, with the passage of Act 793 of 1977, existing members and previous members were offered the opportunity to choose to become non-contributory members. Anyone joining the System subsequent to January 1, 1978, and had not previously been a member, was automatically enrolled as a non-contributory member. Contributory members are required by statute to contribute 6% of gross wages to APERS. Employee contributions are refundable if APERS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with APERS for a period of five (5) or more years earn interest credits which are included in the refund. Pursuant to the provisions of Act 625 of 1983 and Act 1097 of 1993, certain agencies employing individuals in public safety positions are required to remit additional contributions in amounts determined by an independent actuary.

Employer contribution rates during the fiscal year ending June 30, 2004 and 2003, are as follows:

Employee Contribution Rates	<u>2004</u>	<u>2003</u>
State Division	10.00%	10.00%
Wildlife Subdivision	22.00%	22.00%
State Capitol Police Subdivision	10.00%	10.00%
Administrative Offices of the Courts Subdivision	12.00%	12.00%
County Division	10.00%	10.00%
Municipal Division	10.00%	10.00%
School Division	4.00%	4.00%
Other Non-State Division	10.00%	10.00%

Benefits - Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full benefits (1) at age sixty-five (65) with five (5) years of actual service, (2) at any age with twenty-eight (28) years of actual service, or (3) under the contributory plan, at age sixty (60) with twenty (20) years of actual service, or under the non-contributory plan, at age fifty-five (55) with thirty-five (35) years of credited service. The normal retirement benefit amount, paid on a monthly basis, is determined by the member's final average salary and the number of years of service. A member may retire with a reduced benefit at age fifty-five (55) with at least five (5) years of actual service or at any age with 25 years of actual service. APERS also provides for disability and survivor benefits.

Tax Status - During the fiscal years ended June 30, 2004 and 2003, APERS confirmed as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code.

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Note 2. Summary of Significant Accounting Practices

Method of Accounting - The financial statements of the System presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned.

Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

Cash and Cash Equivalents - Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments are stated at amortized cost, which approximates fair value.

Investments - According to the Arkansas Code of 1987 Annotated (A.C.A.) and 2001 Cumulative Supplement, Title 24, Chapter 2, the System's investments are governed by the prudent investor rule, and include U.S. Government and government agency obligations, state and local government obligations, real estate, commercial mortgages, and corporate debt and equity obligations. Investments are reported at fair value.

Security transactions and any resulting gains or losses are accounted for on a trade date basis.

Investments other than real estate, commercial mortgages, private placements, and municipal revenue bonds are reported at fair values determined by the custodial agent. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Commercial mortgages, private placements, and municipal revenue bonds have been valued on an amortized cost basis which approximates market or fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. Short-term investments are reported at cost which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

Approximately 9.2% of the net assets available for benefits are invested in bonds of the U.S. government and its instrumentalities. The System has no investments of any commercial or industrial organization whose market value equals 5% or more of the System's net assets available for benefits.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

Fixed Assets - Fixed assets used in the plan operations consist of furniture and equipment, which are recorded at historical cost less accumulated depreciation. All such assets are depreciated over five years using the straight-line method of depreciation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reported period. Actual results could differ from those estimates.

Note 3. Deposits, Investments, And Securities Lending Collateral Investments

The following is a reconciliation of the carrying amounts of cash and investments at June 30, 2004 and 2003. As presented in the Statement of Plan Net Assets.

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents, including securities lending cash collateral	\$ 391,649,999	\$ 393,018,251
Investments, including securities lending collateral investments	<u>4,512,095,516</u>	<u>4,438,083,346</u>
Total	<u>\$ 4,903,745,515</u>	<u>\$ 4,831,101,597</u>
As presented in (a) and (b) below:		
	<u>2004</u>	<u>2003</u>
Deposits	\$ 525,369	\$ 674,228
Investments	<u>4,903,220,146</u>	<u>4,830,427,369</u>
Total	<u>\$ 4,903,745,515</u>	<u>\$ 4,831,101,597</u>

Listed below is a summary of the deposit and investment portfolio as of June 30, 2004 and 2003. Investing is governed by the prudent investor rule (in accordance with A.C.A. 24-2-601 et. seq.). All investments of the System are considered to have been made in accordance with these governing statutes.

(a) Deposits

Deposits with financial institutions are classified depending on whether they are insured or collateralized. Bank balances are classified in the following categories of credit risk:

- Category 1: The deposits are insured or collateralized with securities held by the entity or by its agent in the System's name.
- Category 2: Deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name.
- Category 3: Deposits are uncollateralized or deposits are collateralized and the related securities are held by the pledging financial institution or by its trust department or agent, but not in the System's name.

A summary of deposits at June 30, 2004 and 2003 follows:

June 30, 2004	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Insured deposits	\$ 503,851	\$	\$	\$ 503,851
Total deposits	<u>\$ 503,851</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 503,851</u>

Carrying amount of insured deposits totaling \$503,851 is \$499,552. In addition to cash deposits with financial institutions APERS has a petty cash fund of \$200 and cash in the State Treasury of \$25,617 at year end.

June 30, 2003	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Insured deposits	\$ 12,941,913	\$	\$	\$ 12,941,913
Total deposits	<u>\$ 12,941,913</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,941,913</u>

Carrying amount of insured deposits totaling \$12,941,913 is \$663,222. In addition to cash deposits with financial institutions APERS has a petty cash fund of \$200 and cash in the State Treasury of \$10,806 at year end.

(b) Investments

The table which follows provides information about the collateral credit risk associated with the System's investments. Investments are categorized as follows:

- Category 1: The custodian is the System's agent and is not the counterparty or the counterparty financial institution's trust department. The custodian holds the securities in the System's name.
- Category 2: The custodian is the counterparty financial institution's trust department or the counterparty's agent and the custodian holds the securities in the System's name.
- Category 3: The custodian is the counterparty, regardless of whether it holds the securities in the system's name.

OR

The custodian is the counterparty financial institution's trust department or the counterparty's agent and the custodian does not hold the securities in the System's name.

Collateral Credit Risk				
June 30, 2004				
	Category 1	Category 2	Category 3	Total
Investments:				
<u>Categorized:</u>				
U.S. Government securities	\$ 294,237,870			\$ 294,237,870
Corporate securities	1,388,947,733			1,388,947,733
International securities	386,482,172			386,482,172
Municipal bonds	20,493,902			20,493,902
Total	<u>2,090,161,677</u>			<u>2,090,161,677</u>
<u>Uncategorized:</u>				
Mutual funds (STIF)				175,283,812
Commercial loans				0
Real estate				64,908,065
Timberland				157,301,764
Private placements				2,324,199
Domestic Pooled Funds				931,980,062
International Pooled Funds				395,128,771
Total				<u>1,726,926,673</u>
<u>Investments under securities loans</u>				
<u>for cash collateral:</u>				
U.S. Government securities				101,816,732
Corporate securities				401,680,841
International securities				33,323,361
Total				<u>536,820,934</u>
Total Investments	<u>\$ 2,090,161,677</u>			<u>\$ 4,353,909,284</u>
Invested cash collateral:				
<u>Categorized:</u>				
Corporate securities			\$ 263,472,042	263,472,042
Repurchase agreements			108,342,921	108,342,921
Asset backed securities			10,000,000	10,000,000
Bank obligations			59,998,003	59,998,003
Certificates of Deposit			107,497,896	107,497,896
Total			<u>549,310,862</u>	<u>549,310,862</u>
<u>Uncategorized:</u>				
Mutual funds				0
Total invested cash			<u>\$ 549,310,862</u>	<u>\$ 549,310,862</u>

Collateral Credit Risk
 June 30, 2003

	Category 1	Category 2	Category 3	Total
Investments:				
<u>Categorized:</u>				
U.S. Government securities	\$ 424,726,887			\$ 424,726,887
Corporate securities	1,466,838,864			1,466,838,864
International securities	227,123,466			227,123,466
Municipal bonds	34,926,331			34,926,331
Total	<u>2,153,615,548</u>			<u>2,153,615,548</u>
<u>Uncategorized:</u>				
Mutual funds (STIF)				307,297,730
Commercial loans				874,189
Real estate				62,105,003
Timberland				163,116,120
Private placements				2,955,662
Domestic Pooled Funds				412,528,917
International Pooled Funds				210,824,138
Total				<u>1,159,701,759</u>
<u>Investments under securities loans</u>				
<u>for cash collateral:</u>				
U.S. Government securities				247,141,073
Corporate securities				480,419,397
International securities				19,932,696
Total				<u>747,493,166</u>
Total Investments	<u>\$ 2,153,615,548</u>			<u>\$ 4,060,810,473</u>
Invested cash collateral:				
<u>Categorized:</u>				
Corporate securities			\$ 460,678,934	460,678,934
Repurchase agreements			60,046,293	60,046,293
Commercial paper			44,951,319	44,951,319
Bank obligations			178,940,350	178,940,350
Total			<u>744,616,896</u>	<u>744,616,896</u>
<u>Uncategorized:</u>				
Mutual funds				25,000,000
Total invested cash			<u>\$ 744,616,896</u>	<u>\$ 769,616,896</u>

Note 4. Derivatives

Mortgage-Backed Securities – As of June 30, 2004 and 2003, the System held mortgage-backed securities of approximately \$321 million and \$442 million, respectively, at fair value.

The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan type and geographic location of the related properties.

Asset-Backed Securities - As of June 30, 2004 and 2003 the System held asset-backed securities with a fair value of approximately \$36 million and \$87 million, respectively. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Forward Currency Contracts - The System enters into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net appreciation in fair value of investments in the statement of changes in plan net assets. At June 30, 2004 and 2003, the System had outstanding forward exchange currency contracts to sell foreign currencies with contract amounts of \$41,186,221 and \$37,730,217, respectively. Market values of these outstanding contracts were \$41,460,298 at June 30, 2004, and \$37,358,065 at June 30, 2003, resulting in net loss of \$274,077 and gain of \$372,152 in fiscal years 2004 and 2003, respectively. The System also had outstanding forward currency contracts to purchase foreign currency with contract amounts of \$28,538,770 and \$48,033,118 at June 30, 2004 and 2003, respectively. Market values of these contracts were \$28,627,636 at June 30, 2004 and \$48,581,512 at June 30, 2003, resulting in net gains of \$88,866 and net gains of \$548,394 in fiscal years 2004 and 2003, respectively.

Pooled Funds - APERS has approximately \$395 million invested in international pooled funds. APERS could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

Note 5. Securities Lending Arrangements

Arkansas Code and the Board of Trustees policies permit the System to participate in a securities lending program.

The Program is administered by Bank of New York (the "Custodian"). The legal and contractual authorization for the securities lending program is contained in the Securities Lending Discretionary Agency Agreement executed between APERS and the Custodian. For the year ended June 30, 2004, there were no violations of the Agency Agreement. Certain securities of the trust fund are loaned to participating brokers. As of June 30, 2004, types of securities loaned included U.S. Government Securities, corporate securities and international securities. Brokers who borrow the securities provide collateral in the form of cash and cash equivalents, U.S. Treasury or Government Agency securities, or letters of credit (for the marginal percent collateralization only). Collateral must be provided in the amount of 102% for domestic loans and 105% for international loans. Securities on loan at fiscal year-end for cash collateral are presented as "not subject to classification" in the preceding investment schedule in Note 3; securities on loan for non-cash collateral are classified according to the category pertaining to the collateral. The Custodian provides for full indemnification to the System funds for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the trust funds for income of the securities while on loan. The System cannot pledge or sell collateral securities received unless the borrower defaults.

Cash collateral received is invested in APERS' name; accordingly, investments made with cash collateral appear as an asset on the Statement of Plan Net Assets. A corresponding liability is recorded as APERS must return the cash collateral to the borrower upon expiration of the loan. The loan maturity dates generally do not match the maturity dates of the investments made with cash collateral received.

The cash collateral investments had an average weighted maturity of 36 days on June 30, 2004, whereas the weighted average loan maturity was 1 day. As of June 30, 2004 and 2003, investments with cash collateral were approximately \$549 million and \$770 million, respectively.

Note 6. Legally Required Reserves

By law, APERS must maintain reserve accounts showing each division's equity in the System's net assets available for benefits.

Act 308 of 1999 consolidated County, Municipal, School and other Non-State employers into the Local Government Division. Significant reserve accounts and a brief description of those accounts are as follows:

The Members' Deposit Account ("MDA") represents members' contributions held in trust until member retirement, at which time contributions are transferred to the Retirement Reserve Account, described below.

The MDA Interest Reserve Account represents the accumulated interest paid on the Members Deposit Account held in trust until member retirement, at which time interest on member contributions is transferred to the Retirement Reserve Account described below.

The Employers' Accumulation Account accumulates employers' contributions to be used in providing the reserves required for transfer to the Retirement Reserve Account as members retire or become eligible for disability benefits.

The Retirement Reserve Account is the account to which member contributions, interest on those contributions, and employer contributions are transferred upon member retirement.

The Deferred Annuity Account is the amount set up to cover estimated retirement benefits to inactive vested members who are not currently receiving benefit payments.

As a by-product of achieving level contribution financing, actuarial accrued liabilities usually become more and more funded over a period of years. Funded ratios in the 80% to 95% range are common in public sector retirement plans. The reserve strength of APERS remains strong, both by absolute and relative measures. Sufficient assets were available to pay estimated retirement benefits applicable to retired individuals or beneficiaries currently receiving benefits and inactive vested individuals who are not currently receiving benefits.

Tables on the following page explain reserve balances for the respective divisions for the fiscal years ending June 30, 2004 and 2003.

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**Divisions and Respective Reserve Balances
as of June 30, 2004 and 2003**

2004 Reserve Balances

<u>June 30, 2004</u>	<u>State Division</u>	<u>Local Government Division</u>			<u>Non-State Employers</u>	<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>		
Members' Deposit Account	\$ 11,969,897	\$ 2,048,130	\$ 1,930,876	\$ 1,391,245	\$ 35,686	\$ 17,375,834
MDA Interest Reserve	2,706,234	358,552	179,717	336,164	5,117	3,585,784
Employer Accumulation Account	1,828,198,930	310,845,512	154,052,181	133,074,837	2,864,506	2,429,035,966
Retirement Reserve	1,050,967,112	265,019,144	98,771,814	182,594,359	791,083	1,598,143,512
Deferred Annuity	132,319,601	30,261,964	12,335,338	25,656,317	363,115	200,936,335
DROP Reserve	50,468,209	3,998,216	1,772,054	1,255,010	0	57,493,489
Delinquent Receivable Reserve	65	8	0	0	0	73
Refund Overpayment Receivable Reserve	351	0	0	0	0	351
Outlawed Warrants	71,231	4,359	1,539	10,301	0	87,430
Partial Purchase of Service Reserve	140,728	34,276	5,034	7,030	0	187,068
Petty Cash Reserve	200	0	0	0	0	200
Total	\$ 3,076,842,558	\$ 612,570,161	\$ 269,048,553	\$ 344,325,263	\$ 4,059,507	<u>\$ 4,306,846,042</u>

2003 Reserve Balances

<u>June 30, 2003</u>	<u>State Division</u>	<u>Local Government Division</u>			<u>Non-State Employers</u>	<u>System Total</u>
		<u>County Employers</u>	<u>Municipal Employers</u>	<u>School Employers</u>		
Members' Deposit Account	\$ 11,700,520	\$ 2,069,272	\$ 1,383,546	\$ 1,554,353	\$ 52,864	\$ 16,760,555
MDA Interest Reserve	2,672,577	437,821	197,444	372,952	3,429	3,684,223
Employer Accumulation Account	1,629,593,535	271,068,762	131,998,554	119,536,458	2,813,665	2,155,010,974
Retirement Reserve	960,171,622	245,436,357	90,426,426	179,329,876	256,597	1,475,620,878
Deferred Annuity	126,440,564	27,475,050	10,593,400	24,123,293	105,088	188,737,395
DROP Reserve	37,695,304	2,809,691	1,231,473	867,160	0	42,603,628
Delinquent Receivable Reserve	65	9	0	0	0	74
Refund Overpayment Receivable Reserve	351	0	0	0	0	351
Outlawed Warrants	45,517	5,210	1,213	7,641	0	59,581
Partial Purchase of Service Reserve	155,758	15,461	4,434	9,857	0	185,510
Petty Cash Reserve	200	0	0	0	0	200
MDA Receivable Reserve	24	0	0	0	0	24
Total	\$ 2,768,476,037	\$ 549,317,633	\$ 235,836,490	\$ 325,801,590	\$ 3,231,643	<u>\$ 3,882,663,393</u>

Note 7. Required Supplementary Schedules

The historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information.

Required supplementary information is included immediately following the notes to the financial statements.

* * * * *

Required Supplementary Information Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1995	75,028,320	100
1996	76,772,911	100
1997	82,050,663	100
1998	87,528,945	100
1999	93,322,444	100
2000	96,348,947	100
2001	100,925,338	100
2002	109,037,491	100
2003	115,690,798	100
2004	118,419,346	100

See Note to Required Supplementary Information

Required Supplementary Information
Schedule of Funding Progress (Dollars in Millions)

Valuation Date	(1)	(2)	(3)	(4)	(5)	(6)
June 30	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded (Excess) AAL (UAAL) (2) - (1)	Funded Ratio (1)/(2)	Annual Covered Payroll (Millions)	UAAL (Excess) As Percentage of Covered Payroll (3)/(5)
6/30/95	\$ 2,248	\$ 2,060	(188)	109 %	\$ 835	(22.5)%
6/30/96	2,522	2,291	(231)	110	889	(26.0)
6/30/97	2,876	2,607	(269)	110	939	(28.6)
6/30/98 @#	3,297	2,921	(376)	113	975	(38.6)
6/30/99 @	3,712	3,479	(233)	107	1,009	(23.1)
6/30/00	4,121	3,803	(318)	108	1,050	(30.3)
6/30/01 @	4,342	4,111	(231)	106	1,070	(21.6)
6/30/02 #	4,404	4,398	(6)	100	1,112	(0.5)
6/30/03 #	4,416	4,674	258	95	1,148	22.5
6/30/04	4,438	5,005	567	89	1,176	48.2

Note: Years previous to 1995 are not shown because such information is not available in accordance with the parameters of GASB 25.

See Note to Required Supplementary Information.

@ After legislated changes in benefit provisions.

After changes in actuarial assumptions.

* Please note that columns designated (1), (2) and (5) may not add across due to rounding.

Note To Required Supplementary Information

A *ctuarial Assumptions* – The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated.

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry age
Amortization Method	30 year open
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	4.7% – 9.8%
Wage Inflation Rate	4.0%
Post-Retirement Cost-of-Living Adjustment	3.0% - Compounded
Mortality Table	1983 Group Annuity Mortality Table

Supporting Schedule

Schedule of Administrative Expense
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
PERSONNEL SERVICES:		
Salaries and wages	\$ 1,963,244	\$ 1,788,823
Employee benefits	316,676	295,187
Insurance	182,167	155,474
Other	<u>(5,116)</u>	<u>5,366</u>
Total Personnel Services	2,456,971	2,244,850
 COMMUNICATIONS:		
Postage	82,774	102,736
Telecommunications	33,774	38,461
Printing and advertising	12,050	21,535
Freight and express	663	706
Subscriptions and publications	<u>5,621</u>	<u>11,572</u>
Total Communications	134,882	175,010
 PURCHASES:		
Office Supplies	99,657	48,415
Equipment	<u>11,477</u>	<u>9,100</u>
Total Purchases	111,134	57,515
 SERVICES AND CHARGES:		
Professional fees and services	142,309	150,470
Rent expense	358,032	367,654
Travel and conference fees	46,177	33,059
Taxes, licenses and permits	79	124
Repairing and servicing	36,674	46,835
Training fees	0	1,775
Insurance and surety bonds	4,169	3,331
Bank and federal service charges	27,898	23,965
Data processing charges	1,386,578	1,214,633
Claims commission expense	11,396	8,892
Uncollectible Receivables	<u>0</u>	<u>0</u>
Total Services and Charges	2,013,312	1,850,738
 DEPRECIATION EXPENSE	<u>43,228</u>	<u>42,606</u>
 TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 4,759,527</u>	<u>\$ 4,370,719</u>

Supporting Schedule

Schedule of Investment Expense
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Investment consultant fee	\$ 147,000	\$ 140,490
Money manager fees	12,090,353	10,598,855
Custodian bank fees	531,887	477,754
International withholding taxes	578,610	371,221
Securities lending expenses	<u>6,626,918</u>	<u>11,806,159</u>
TOTAL INVESTMENT EXPENSE	<u><u>\$ 19,974,768</u></u>	<u><u>\$ 23,394,479</u></u>

Supporting Schedule

Schedule of Payments for Professional Consultants
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Gabriel, Roeder, Smith & Company	\$ 139,490	\$ 148,670
Other	<u>2,819</u>	<u>1,800</u>
TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS	<u><u>\$ 142,309</u></u>	<u><u>\$ 150,470</u></u>

For fees paid to investment managers, please see "Schedule of Investment Fees" shown on page 50 in the Investment Section of this report.

Investment Section



The historic and stately Old State House located in Little Rock, Arkansas.

Report on Investments
Outline of Investment Policies
Actual vs. Target Asset Allocation
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Paul V. Troup III
Executive Vice President



September 8, 2004

SAN FRANCISCO

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Dear Trustees:

We are pleased to provide a brief review of the progress of the APERS Retirement Plan for the fiscal year ending June 30, 2004.

Following the APERS review is Callan's observations regarding the markets, institutional behavior and our general views.

Introduction and Background

As with all retirement plans, there are three factors which influence performance:

- Manager Investment Strategies
- Investment Policy adopted by the Fund, and
- The Investment Environment

During the fiscal year ending June 30, 2004 returns continued to improve. Domestic and International stocks were the best performing asset classes. The S&P 500 had a 19% return for the year while MSCI EAFE, an international index, rose over 32%.

Fund Progress and Results

The APERS portfolio structure is based on the Fund's Investment Policy. The target asset mix is established based on an analysis of the financial needs of the Fund and the Trustees' tolerance for investment risk. The target asset mix and the actual allocation as of 6/30/04 are listed below:

	<u>Target</u>	<u>Actual</u>
Domestic Equity	50%	53%
International Equity	18%	18%
Domestic Fixed	22%	21%
Other	0%	2%
Alternative Inv./Real Estate	10%	6%

The asset allocation is different from the target due to the positive returns for domestic equity.

For fiscal year ended 2004, the total fund rate of return, including gains, losses and income was 13.40%. This return is calculated using the time-weighted rate of return methodology endorsed by the Association for Investment Management and Research (AIMR). All performance results presented in the investment section of the CAFR are based on AIMR methodology.

Over the past 5 years, the Fund has had an annualized return of 3.49%. This level of performance fails to meet the performance objective of the Fund which is to deliver a real rate of return (return in excess of the inflation rate) of 2.25%. The return also failed to exceed the actuarially assumed interest rate assumption of 8%. Given the poor investment environment during fiscal year 2001 and 2002, this is hardly suprising. The fund exceeded a passive benchmark by about 1% per year.

At the beginning of the year, the assets of the fund totaled \$3.88 billion; at June 30, 2004, the Fund assets totaled \$4.31 billion. Positive performance of the equity markets contributed to the increase in assets at fiscal year-end.

Summary

The operations of the investment program continue to function within the *long-term* guidelines established by the Board of Trustees.

Sincerely,

A handwritten signature in cursive script that reads "Paul V. Troup III". The signature is written in dark ink and is positioned to the left of the printed name.

Paul V. Troup III

Outline of Investment Policies

Investment Objectives

The investment objectives shall be:

(1) the protection of the APERS' Fund (the "Fund") so that such assets are preserved for providing benefits to participants and their beneficiaries;

and (2) to maximize total return - either in the form of income or capital appreciation or both - consistent with prudent risk taking on the amounts available to provide such benefits. For this purpose, short-term fluctuations in value shall be considered secondary to long-term investment results. The long-term return objective for the Fund shall be to achieve a real rate of return of 3.5%. This is the return over the rate of inflation (as measured by the Consumer Price Index). This objective is not to be a goal from year to year, but is intended as a long-term guideline to those involved in investing the Fund's assets. An additional overall investment objective will be to achieve a total fund return of at least the actuarial rate of 8%. The investments of the Fund shall be so diversified as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. Investments will be further diversified by hiring an appropriate number of managers whose investment styles are varied enough to provide a balance to the overall risk of the Fund.

Asset Allocation

To avoid extreme exposure to investment risk, the following percentages represent the minimum and maximum portion at market of the portfolio that may be invested by types:

Market Value Exposure

Asset Class	Target	Range
Equities	68%	63% - 73%
Fixed Income	22%	17% - 27%
Alternatives	10%	5% - 10%

The Board of Trustees shall review its asset allocation at least annually to determine if the asset allocation is consistent with the level of risk and volatility acceptable to the Fund.

Review of Investment Process

A. On a timely basis, but not less than twice a year, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether:

1. The investment managers performed in adherence to the investment philosophy and policy guidelines; and
2. The investment managers performed satisfactorily when compared with the objectives set and other similarly managed funds.

B. In addition to reviewing each investment manager's results, the Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed-income and international equity segments objectives.

C. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of:

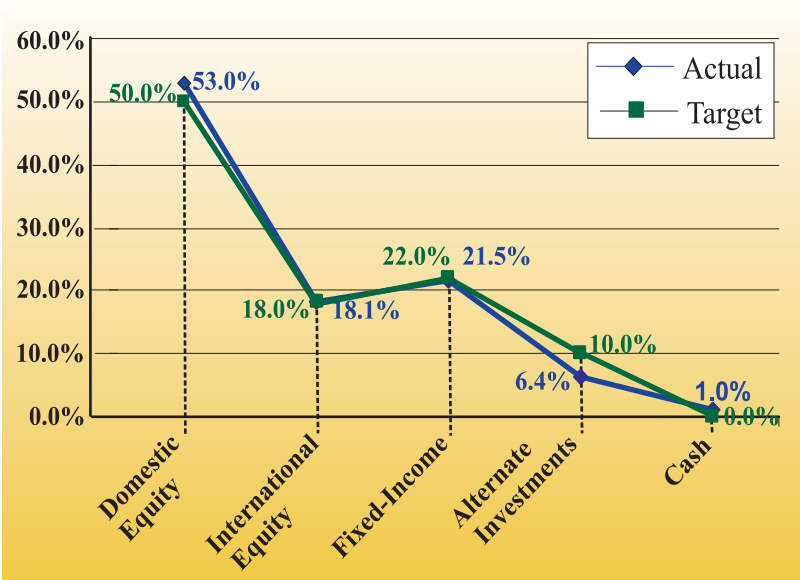
1. The manager structure;
2. The allocation of assets among the managers; and
3. The investment objectives for the Fund's assets.

D. The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultants selected by the Board are expected to be familiar with the investment practices of other similar retirement plans and will be responsible for suggesting appropriate changes in the Fund's investment program over time.

• • • •

Actual vs. Target Asset Allocation

Actual Asset and Target Asset Allocation
For the Period Ended June 30, 2004



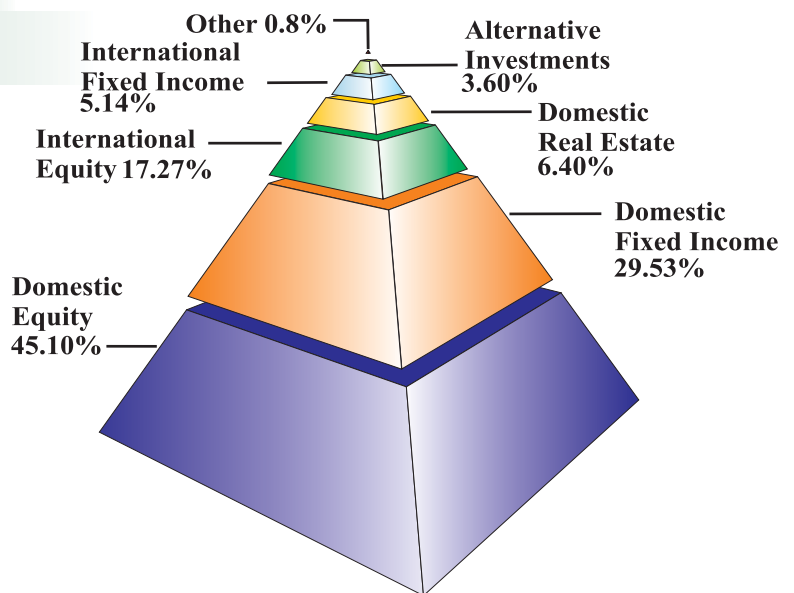
The graph to the left shows the Fund's asset allocation as of June 30, 2004. The blue line represents the actual asset allocation; the green line represents the target asset allocation as outlined in the investment policy statement.

The table below gives a further breakdown of the asset allocation, showing the difference in percentage and actual dollar amounts between the Actual and Target allocations.

Asset Class	\$ 000s	Percent	Percent	Percent	\$ 000s
	<u>Actual</u>	<u>Actual</u>	<u>Target</u>	<u>Difference</u>	<u>Difference</u>
Domestic Equity	\$ 2,283,910	53.0 %	50 %	3.0 %	\$ 130,115
Int'l Equity	779,845	18.1	18	0.1	4,479
Fixed-Income	925,428	21.5	22	(0.5)	(22,242)
Alt. Investments	275,985	6.4	10	(3.6)	(154,774)
Cash	<u>42,422</u>	<u>1.0</u>	<u>0</u>	1.0	42,422
Total	\$ 4,307,590	100.0 %	100 %		

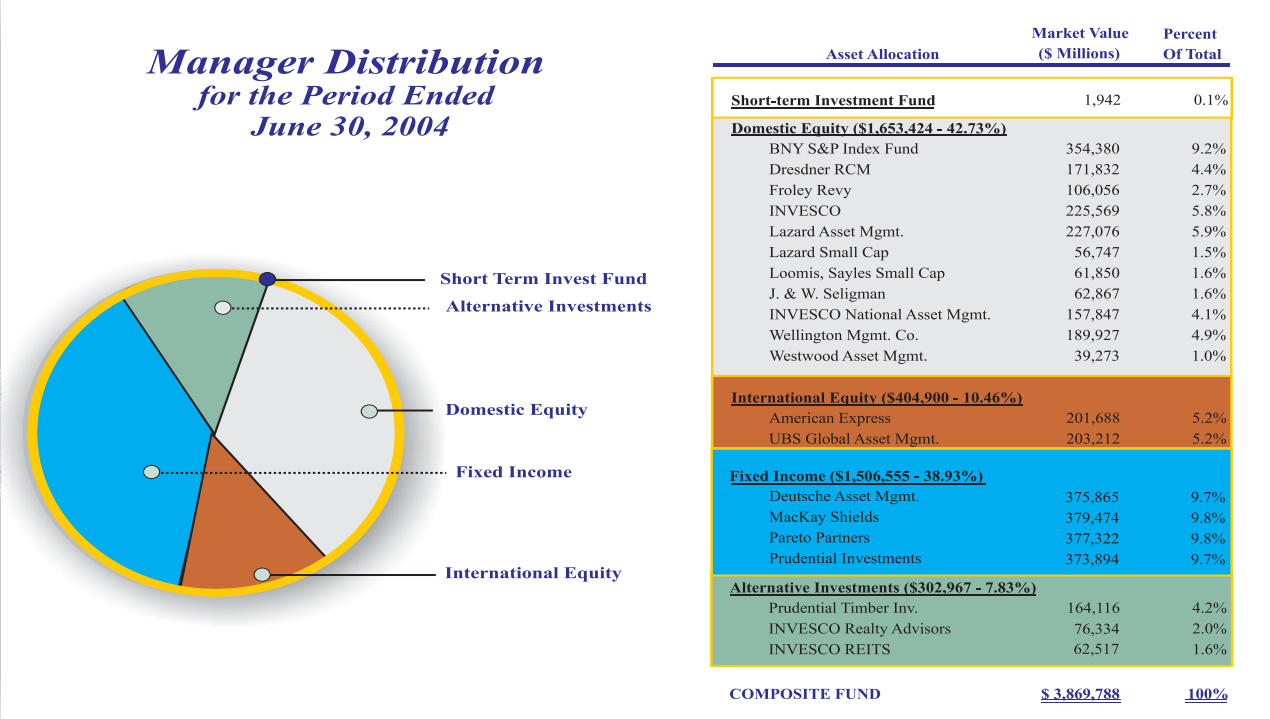
Public Plan Sponsor Database

This pyramid graph to the right shows the average percentage of asset allocations by asset type for the Callan Associates Inc. Public Plan Sponsor Database.

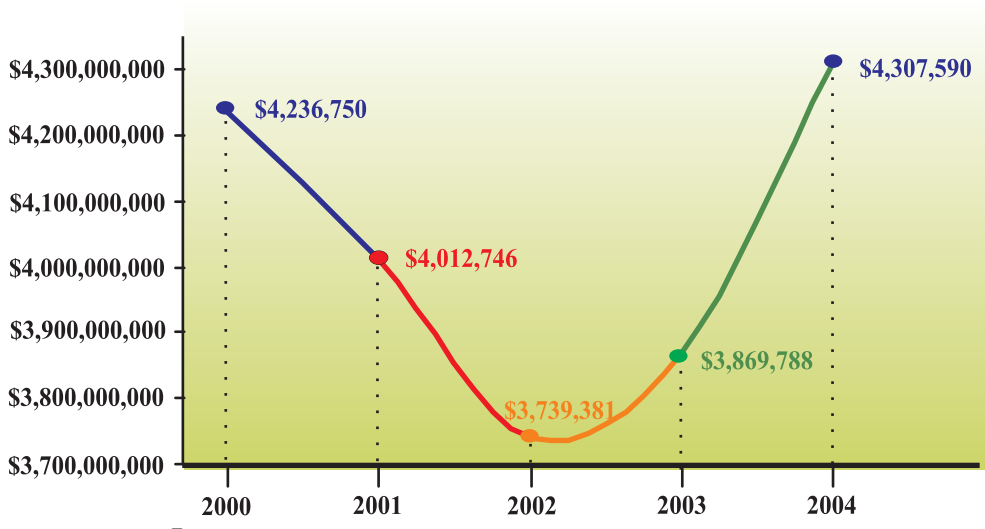


Manager Distribution

Manager Distribution For the Period Ended June 30, 2004



Composite Fund Comparison For the Years 2000 - 2004



Portfolio Characteristics
For Fiscal Year Ended June 30, 2004

	<u>2004</u>	<u>2003</u>
Selected Bond Characteristics:		
Yield to Maturity (Market)	5.06 %	4.11 %
Current Yield	5.63	5.26
Average Coupon Rate	5.51	5.12
Average Maturity	6.74 Yrs.	6.40 Yrs.
Quality Breakdown:		
AAA (Includes Govts. & Agencies)	57.00 %	56.00 %
AA	3.00	4.00
A	7.00	5.00
BAA	18.00	14.00
BA	5.00	5.00
B	4.00	4.00
Below C	2.00	2.00
*Cash	4.00	9.00
Selected Stock Characteristics:		
Average P/E Ratio	21.52 x	20.68 x
Estimated Earnings Growth Rate (Next 5 Years)	12.94 %	12.67 %
Current Yield	1.41	1.58

* Includes Short-Term Investment Fund.

**Performance Comparisons
For Fiscal Year Ended June 30, 2004**

Fiscal Years Ended June 30	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Total Fund:					
Arkansas Public Employees Retirement System	13.40 %	5.53 %	(5.74) %	(3.82) %	9.42 %
Callan Total Public Fund Median	14.96	3.74	(5.36)	(4.06)	10.00
Inflation (Consumer Price Index)	3.17	2.10	0.74	3.19	3.87
Equities:					
Arkansas Public Employees Retirement System	20.21 %	(0.19) %	(16.39) %	(12.87) %	12.52 %
Callan Total Equity Database Median	23.54	(0.15)	(14.21)	(5.28)	11.63
Standard & Poor's 500 Index	19.11	0.25	(17.99)	(14.83)	7.24
International Equities:					
Arkansas Public Employees Retirement System	27.23 %	(7.03) %	(5.93) %	(23.18) %	18.47 %
Callan Total Non-US Equities Database Median	31.35	(6.03)	(7.88)	(23.05)	23.98
MSCI-EAFE Index	32.37	(6.46)	(9.49)	(23.60)	17.15
Fixed Income:					
Arkansas Public Employees Retirement System	2.41 %	12.30 %	6.04 %	9.72 %	4.64 %
Callan Total Fixed Income Database Median	0.71	10.52	7.98	11.03	4.57
Lehman Bros. Aggregate Index	0.32	10.40	8.63	11.22	4.57

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds).

Performance Comparisons
Current Year and Preceding 3-Year and 5-Year Rates of Return

<u>Fiscal Years Ended June 30</u>	2004		<u>Annualized</u>		<u>5-Year</u>	
			<u>3-Year</u>			
Total Fund:						
Arkansas Public Employees Retirement System	13.40	%	4.10	%	3.49	%
Callan Total Public Fund Median	14.96		4.42		3.91	
Inflation (Consumer Price Index)	3.17		2.00		2.62	
Equities:						
Arkansas Public Employees Retirement System	20.21	%	0.11	%	(0.33)	%
Callan Total Equity Database Median	23.54		2.38		3.75	
Standard & Poor's 500 Index	19.11		(0.70)		(2.20)	
International Equities:						
Arkansas Public Employees Retirement System	27.23	%	3.62	%	0.25	%
Callan Total Non-US Equities Database Median	31.35		4.94		2.67	
MSCI-EAFE Index	32.37		3.87		0.06	
Fixed Income:						
Arkansas Public Employees Retirement System	2.41	%	6.84	%	6.96	%
Callan Total Fixed Income Database Median	0.71		6.42		6.90	
Lehman Bros. Aggregate Index	0.32		6.36		6.95	

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds).

List of Ten Largest Assets Held
As of June 30, 2004

Domestic Fixed Income Holdings (By Market Value)

	<u>Par</u>	<u>Security</u>	<u>Market Value</u>
1)	14,880,000	US Treasury Note 4.375% 08/15/12	\$ 14,810,250
2)	9,227,754	FNMA Pool #254983 5.50% 12/01/33	9,210,222
3)	9,247,000	US Treasury Note 3.00% 02/15/08	9,119,854
4)	7,715,000	US Treasury Note 2.50% 05/31/06	7,688,480
5)	6,865,000	Fed. Home Loan Mtg. Corp 3.375% 04/15/09	6,609,708
6)	6,750,000	US Treasury Note 4% 02/15/14	6,433,594
7)	6,122,884	FNMA Pool #545998 6% 11/01/32	6,270,261
8)	5,798,000	U S Treasury Bond 6% 02/15/26	6,247,345
9)	5,742,000	US Treasury Bond 5.50% 02/15/31	5,790,448
10)	5,545,000	Fed. Nat'l Mtg. Assn. 5.50% 05/02/06	<u>5,789,327</u>
		<u>Total</u>	<u>\$ 77,969,489</u>

Domestic Equity Holdings (By Market Value)

	<u>Shares</u>	<u>Security</u>	<u>Market Value</u>
1)	591,546	Citigroup Inc.	\$ 27,506,889
2)	895,040	Microsoft Corp.	25,562,342
3)	480,154	Exxon Mobil Corp.	21,323,639
4)	248,815	Bank of America Corp.	21,054,725
5)	721,300	Cisco Systems, Inc.	17,094,810
6)	298,830	Johnson & Johnson	16,644,831
7)	181,510	International Business Machines	16,000,107
8)	379,300	Pfizer Inc.	13,002,404
9)	361,955	General Electric Co.	11,727,342
10)	122,850	Goldman Sachs Group, Inc.	<u>11,567,556</u>
		<u>Total</u>	<u>\$ 181,484,645</u>

List of Ten Largest Assets Held
As of June 30, 2004

International Equity Holdings (By Market Value)

	<u>Shares</u>	<u>Security</u>	<u>Market Value</u>
1)	1,318,462	BP PLC	\$ 11,644,741
2)	50,916	TOTAL SA Ser B	9,707,431
3)	573,936	HSBC Holdings PLC	8,610,508
4)	3,745,602	Vodafone Group	8,202,420
5)	102,119	UBS AG	7,196,935
6)	245,982	Royal Bank of Scotland Group	7,084,139
7)	1,315,830	Tesco PLC	6,353,641
8)	54,462	Roche Holding PLC	5,393,138
9)	7,463	Porsche AG	4,994,553
10)	314,329	Great Universal Stores PLC	<u>4,819,825</u>
		Total	<u><u>\$ 74,007,331</u></u>

Schedule of Brokerage Commissions
As of June 30, 2004

<u>Brokerage Firm</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Deutsche Bank Securities Inc.	4,275,230	\$ 477,220	0.11
Goldman, Sachs & Co.	5,610,453	432,862	0.08
Credit Suisse First Boston LLC	4,209,245	338,853	0.08
Merrill Lynch	6,169,103	295,931	0.05
J. P. Morgan Securities Inc.	2,879,276	233,519	0.08
Lehman Brothers Inc.	17,471,793	200,271	0.01
Citigroup Global Markets Inc.	3,444,805	169,078	0.05
Bear Stearns	3,696,492	161,104	0.04
Morgan Stanley	3,177,350	131,793	0.04
UBS Securities LLC	6,520,329	107,759	0.02
Banc Of America Securities LLC	1,911,550	104,939	0.05
Robert W. Baird & Co. Inc.	1,479,546	80,583	0.05
Wachovia Securities LLC	1,665,935	72,448	0.04
SG Cowen & Co., Inc.	1,065,325	52,851	0.05
CIBC World Markets Corp.	988,550	47,394	0.05
Jefferies & Company, Inc.	991,049	46,943	0.05
Citation Financial Group	700,700	42,042	0.06
RBC Capital Markets Corp.	837,600	40,589	0.05
Legg Mason Wood Walker, Inc.	792,525	40,482	0.05
Prudential	736,465	36,198	0.05
Other (Includes 166 Brokerage Firms)	<u>18,472,524</u>	<u>774,166</u>	0.04
	<u>87,095,845</u>	<u>\$ 3,887,025</u>	0.04

Schedule of Investment Fees
As of June 30, 2004

<u>Equities</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Froley, Revy - Convertible Securities	\$ 179,740,692	\$ 605,846	40
INVESCO - Value	188,821,099	635,000	30
Lazard Asset Mgmt. - Value	195,109,395	602,088	30
Lazard Asset Mgmt. - Small Cap	74,518,581	348,451	50
Loomis, Sayles - Small Cap	81,949,238	226,299	30
J & W Seligman - Growth	82,943,975	232,671	30
RCM Global - Growth **	0	366,738	30
BNY S & P 500 Index Fund	893,277,051	146,785	3
Westwood Asset Mgmt. - Small Cap *	449,423,349	69,647	77
INVESCO National Asset Mgmt. - Growth	186,134,299	447,321	25
CastleArk Mgmt. - Growth	209,333,452	296,040	35
Wellington Mgmt. Co. - Value	192,082,007	591,001	30
UBS Global Asset Mgmt. - Int'l Value	391,641,407	1,372,462	50
American Express - Int'l Growth	<u>388,203,888</u>	<u>1,380,268</u>	50
Total Equity	\$ 3,513,178,433	\$ 7,320,617	
* Manager Terminated September 2003			
** Manager Terminated February 2004			
<u>Fixed Income</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
Deutsche Asset Mgmt. - Core Plus	\$ 230,229,206	\$ 555,839	20
MacKay Shields - Core Plus	231,856,144	697,243	20
Pareto Partners - Core Plus	232,900,269	697,567	20
Prudential Asset Mgmt. - Core Plus	<u>230,670,990</u>	<u>681,555</u>	20
Total Fixed Income	\$ 925,656,609	\$ 2,632,204	
<u>Alternatives</u>	<u>Market Value</u>	<u>Fee</u>	<u>Basis Points</u>
PruTimber - Timberland	\$ 157,301,764	\$ 1,173,939	90
INVESCO Realty - Real Estate & REITS	<u>118,683,001</u>	<u>940,646</u>	65
Total Alternatives	\$ 275,984,765	\$ 2,114,585	
<u>Other Investment Services</u>		<u>Fee</u>	
Bank of New York (Custodian)		\$ 531,722	
Bank of New York (Securities Lending)		793,735	
Callan Associates (Consultant)		<u>145,373</u>	
Total Other Services		\$ <u>1,470,830</u>	
Total Investment Service Fees		<u>\$ 13,538,236</u>	

Comparative Schedule of Investments
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
U.S. Government Securities:		
U.S. Government Securities	\$ 80,641,818	\$ 224,969,741
U.S. Government Agency Securities	315,412,784	446,898,220
Corporate Securities:		
Asset Backed Securities	36,099,669	86,521,339
Corporate Bonds	313,807,921	494,471,306
Corporate CMO	43,834,240	40,635,055
Convertible Bonds	137,058,613	82,920,414
Convertible Preferred Stock	36,059,855	19,541,207
Common Stock	1,223,768,277	1,223,168,940
Equity Index Funds	893,277,051	354,379,995
High Yield Income Fund	38,703,011	58,148,922
International Securities:		
Government Fixed Obligations	14,363,917	20,071,797
Corporate Fixed Income	1,644,786	350,202
Equity Securities	382,353,841	196,801,497
Equity Pooled Fund Units	391,641,407	203,212,461
Emerging Markets	24,930,353	37,444,343
Real Estate	64,908,065	62,105,003
Timberland	157,301,764	163,116,119
Municipal Bonds	22,818,100	37,881,993
Commercial Loans/Mtg. Investments	0	874,189
Short Term Investments	<u>175,283,812</u>	<u>307,297,730</u>
TOTAL INVESTMENTS*	<u><u>\$ 4,353,909,284</u></u>	<u><u>\$ 4,060,810,473</u></u>

* At Fair Value.

Actuarial Section



*Beautiful fields of flowers in bloom in the
TimberLand Area of southern Arkansas.*

*Actuary's Certification Letter
Summary of Assumptions Used
Summary of Actuarial Methods
and Assumptions
Active Member Valuation Data
Short Condition Test
Analysis of Financial Experience
Analysis of Financial Experience
-Gain and Losses by Risk Area
Summary of Plan Provisions
(Contributory and Non-Contributory)*



GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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December 2, 2004

The Board of Trustees
Arkansas Public Employees Retirement System
Little Rock, Arkansas

Dear Board Members:

The basic financial objective of the Arkansas Public Employees Retirement System as provided in the Arkansas Code is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens and when combined with present assets and future investment return will be sufficient to meet the financial obligations of APERS to present and future benefit recipients.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2004.

APERS administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report.

Actuarial Section

Summary of Actuarial Assumptions

Percent Retiring Next Year

Probabilities of Retirement for Members Eligible to Retire

Percent Separating Within Next Year

Individual Employee Pay Increases

Analysis of Financial Experience

Financial Section

Schedule of Funding Progress

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2004 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1997-2002 period.

On the basis of the June 30, 2004 valuations and the benefits and contribution rates then in effect, it is our opinion that the retirement system is in sound condition in accordance with actuarial principles of level cost financing. The reserve strength of PERS continues to be exceptionally high.

Respectfully submitted,



Norman L. Jones, F.S.A., M.A.A.A.

Summary of Assumptions Used In Actuarial Valuations

Assumptions Adopted by Board of Trustees after Consulting with Actuary
JUNE 30, 2004 VALUATION

Economic Assumptions

The *investment return* rate used in making the valuation was 8.00% per year, compounded annually (net after investment and administrative expenses).

This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the inflation rate. Considering the assumed wage inflation rate of 4.00%, the 8.00% investment return rate translates to an assumed net real rate of return of 4.00%. This rate of assumption was first used for the June 30, 2002 valuation.

Pay increase assumptions for individual active members are shown on page 60. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.00% recognizes inflation. This assumption was first used for the June 30, 2002 valuation.

Total active member payroll is assumed to increase 4.00% per year, which is the portion of the individual pay increase assumptions attributable to inflation. This assumption was first used for the June 30, 2002 valuation.

The number of active members is assumed to continue at its present number for all divisions with the exception of the School division, which is closed to new entrants.

Non-Economic Assumptions

The *mortality table* used to measure retired life mortality was the 1983 Group Annuity Mortality Table.

Related values are shown on page 59. This table was first used for the June 30, 1998 valuation.

The probabilities of withdrawal from service, *death-in-service*, and *disability* are shown for sample ages on page 60. *The probabilities of retirement for members eligible to retire* are shown on page 61.

The entry age normal cost method of valuation was 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 contribution amounts (the total of principal and interest) which are level percent of payroll contributions.

Recognizing the special circumstances of the General Assembly Sub-Division, modifications of the above assumptions were made where appropriate.

Present assets (cash & investments) were valued on a market related basis in which differences between actual and assumed returns are phased in over a four year period.

The data about persons now covered and about present assets were furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

Summary of Actuarial Methods and Assumptions
June 30, 2004 Valuation

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry age
Amortization Method	30 year open
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	4.7% – 9.8%
Wage Inflation Rate	4.0%
Post-Retirement Cost-of-Living Adjustment	3.0% - Compounded
Mortality Table	1983 Group Annuity Mortality Table

Summary of Actuarial Methods and Assumptions
June 30, 2004 Valuation

Single Life Retirement Values
Based on 1983 Group Annuity Mortality Table
8.00% Interest

Sample Attained Ages	Present Value of		Present Value of		Future Life	
	\$1.00 Monthly for Life		\$1.00 Monthly for Life		Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$ 142.98	\$ 147.82	\$ 142.98	\$ 147.82	38.46	38.46
45	138.18	144.67	138.18	144.67	33.74	33.74
50	132.10	140.42	132.10	140.42	29.18	29.18
55	124.57	134.74	124.57	134.74	24.82	24.82
60	115.04	127.24	115.04	127.24	20.64	20.64
65	103.26	117.61	103.26	117.61	16.69	16.69
70	90.18	105.53	90.18	105.53	13.18	13.18
75	76.40	91.57	76.40	91.57	10.15	10.15
80	62.65	77.16	62.65	77.16	7.64	7.64
85	50.59	62.99	50.59	62.99	5.73	5.73

Sample Attained Ages	Benefit Increasing 3.0 % Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
		60	\$ 100
65	116	94	97
70	134	84	92
75	155	69	84
80	180	51	70

Summary of Actuarial Methods and Assumptions
June 30, 2004 Valuation

Separation from Active Employment Before Age and Service Retirement

Percent of Active Members Separating Within The Next Year

Sample Ages	Years of Service	Withdrawal		Death		Disability	
		Men	Women	Men	Women	Men	Women
	0	40.0%	40.0%				
	1	25.0	25.0				
	2	20.0	20.0				
	3	15.0	15.0				
	4	12.0	12.0				
20	5+	13.8	13.8	0.03%	0.02%	0.07%	0.07%
25		12.7	12.7	0.04	0.02	0.07	0.07
30		8.1	8.1	0.05	0.02	0.07	0.07
35		4.6	4.6	0.07	0.04	0.07	0.07
40		4.0	4.0	0.10	0.06	0.18	0.18
45		3.7	3.7	0.18	0.08	0.23	0.23
50		1.7	1.7	0.31	0.13	0.44	0.44
55		1.2	1.2	0.49	0.20	0.80	0.80
60	1.2	1.2	0.74	0.34	1.27	1.27	

Pay Increase Assumptions for an Individual Member

Age	Merit & Seniority	Base (Economy)	Increase Next Year
20	5.80%	4.00%	9.80%
25	4.60	4.00	8.60
30	3.20	4.00	7.20
35	2.50	4.00	6.50
40	2.10	4.00	6.10
45	1.80	4.00	5.80
50	1.30	4.00	5.30
55	1.00	4.00	5.00
60	0.70	4.00	4.70

These rates were first used in the June 30, 2003 valuation.

Summary of Actuarial Methods and Assumptions
June 30, 2004 Valuation

Probabilities of Retirement for Members Eligible to Retire

Percent of Eligible Active Members Retiring Within Next Year

State and Local Government Division						General Assembly	
Age-Based Retirement			Service-Based Retirement			Age & Service Based Retirement	
Retirement Ages*	Percentages		Years	Percentages		Retirement Ages	Percentages
	Unreduced	Reduced		Retirement	DROP		
55		2%	28	20%	35%	50-60	30%
56		2	29	15	20	61	50
57		3	30-35	15	15	62	30
58		3	36	20		63	30
59		4	37	30		64	50
60		5	38	100		65	30
61		7				66	20
62		23				67-79	20
63		19				80	100
64		16					
65	35%						
66	25						
67	20						
68-72	15						
73	20						
74-77	25						
78	30						
79	40						
80-82	50						
83	60						
84	90						
85	100						

For the state and local government division (retirement percentages shown in the first six columns from the left), a member was assumed eligible for unreduced retirement after attaining age 65 with 5 years of service, or 28 years regardless of age (both unreduced retirement and DROP). A member was assumed eligible for reduced retirement after attaining age 55 with 5 or more years of service. These rates were first used in the June 30, 2003 valuation.

For the General Assembly Division (percentages shown in the two columns to the far right), a member may retire with 28 or more years of service or at age 55 with 10 or more years of General Assembly service.

* (Ages for members with less than 28 years of service).

Schedule of Active Member Valuation Data Comparative Statements

STATE DIVISION

Valuation Date	Active Members in Valuation		Average Pay		% Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	% Change	
1992	22,953	\$ 468,310,059	\$ 20,403	+5.3%	+3.1
1993 #@	23,201	495,874,973	21,373	+4.8	+3.0
1994	24,488	530,532,520	21,665	+1.4	+2.5
1995 #&	25,392	566,317,776	22,303	+2.9	+3.0
1996	25,496	598,416,616	23,471	+5.2	+2.8
1997 #	25,699	636,196,222	24,695	+5.2	+3.0
1998 @	25,776	657,941,805	25,525	+3.4	+2.3
1999	25,726	674,674,818	26,225	+2.7	+1.7
1999 #	25,726	674,941,818	26,225	+2.7	+1.7
2000	25,869	696,187,512	26,912	+2.6	+3.7
9 Year Average				+3.3%	+2.5

LOCAL GOVERNMENT DIVISION

(Combined County, Municipal, School & Other Non-State Employers)

Valuation Date	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	Change	
1998 @	17,150	\$ N/A	\$ 18,385	+3.2%	+2.3
1999	17,216	332,656,169	19,323	+0.0	+1.7
1999 #	17,216	332,656,169	19,323	+5.1	+1.7
2000	17,132	352,354,160	20,567	+6.4	+3.7
4 Year Average				+3.7%	+1.9

STATE AND LOCAL GOVERNMENT DIVISIONS

Valuation Date	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	Number	Annual Payroll	Dollars	Change	
2001	42,469	\$ 1,069,021,325	\$ 25,172	+3.2%	+3.2
2002	42,143	1,110,424,974	26,349	+4.7	+1.1
2003	42,825	1,147,269,521	26,790	+1.7	+2.1
2004	42,772	1,175,040,470	27,472	+2.6%	+3.0

N/A Data not available for this fiscal year.

After legislated changes in benefit provisions.

@ After changes in financial assumptions.

& After changes in asset valuation method.

**Schedule of Active Member Valuation Data
Comparative Statements**

GENERAL ASSEMBLY SUBDIVISION

Valuation Date <u>June 30</u>	Active Members in Valuation		Average Pay		Change in CPI (Inflation)
	<u>Number</u>	<u>Annual Payroll</u>	<u>Dollars</u>	<u>Change</u>	
1993 #@	127	\$ 955,040	\$ 7,520	+0.0	+3.0
1994	128	N/A	12,512	+6.4	+2.5
1995 #	125	N/A	12,512	+0.0	+3.0
1996	124	1,553,000	12,524	+0.0	+2.8
1997 #	125	1,565,500	12,524	+0.0	+3.0
1998 @	121	1,515,500	12,525	+0.0	+2.3
1999	122	1,526,500	12,512	-0.1	+1.7
2000	120	1,500,000	12,500	-0.1	+3.7
2001	87	1,087,500	12,500	+0.0	+3.2
2002	87	1,087,500	12,500	+0.0	+1.1
2003	54	675,000	12,500	+0.0	+2.1
2004	54	745,489	13,805	+10.4	+3.0

N/A Data not available for this fiscal year.

After legislated changes in benefit provisions.

@ After changes in financial assumptions.

Funding policy was to liquidate the Contingency Reserve over a period of years and then return to a normal cost contribution.

Short Condition Test

The PERS funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll.

If the contributions to the System are level in concept and soundly executed, the System will *pay all promised benefits when due — the ultimate test of financial soundness*. Testing for level contribution rates is *the* long term condition test. A *short condition test* is one means of checking a system’s progress under its funding program. In a short condition test, the plan’s present assets (cash and investments) are compared with: 1) Active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; 3) the liabilities for service already rendered by Active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liability for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in unusual circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets.

The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is uncommon. The following schedules illustrate the history of liability 3 of the System and is indicative of the APERS objective of following the discipline of level percent of payroll financing.

<u>Entry Age Accrued Liability</u>									
	(1)	(2)	(3)						
			Active Members		Portion of Present				
Val’n	Active	Retirees	(Employer	Valuation	Values Covered By				
Date:	Member	and	Fin. Portion)	Assets	Present Assets				
June 30	Contr.	Benef.	(\$ in Millions)	Assets	(1)	(2)	(3)	Total	
<u>STATE DIVISION (including subdivisions)</u>									
1998@	\$ 17.2	\$ 640.3	\$ 1,395.9	\$ 2,328.5	100%	100%	119%	113%	
1999	16.9	721.9	1,516.8	2,637.1	100	100	125	117	
1999@#	16.9	784.0	1,634.2	2,637.1	100	100	112	108	
2000	15.8	747.5	1,865.7	2,943.3	100	100	117	112	
<u>LOCAL GOVERNMENT DIVISION</u>									
1998@	\$ 8.8	\$ 337.9	\$ 501.1	\$ 968.1	100%	100%	124%	114%	
1999	8.8	396.9	559.7	1,074.7	100	100	120	111	
1999#	8.8	446.9	587.9	1,074.7	100	100	105	103	
2000	7.6	440.0	706.0	1,178.1	100	100	103	102	
<u>STATE AND LOCAL GOVERNMENT DIVISIONS</u>									
2001#	\$ 23.4	\$ 1,305.0	\$ 2,759.2	\$ 4,335.5	100%	100%	109%	106%	
2002	20.5	1,502.7	2,922.0	4,397.2	100	100	98	99	
2002@	20.5	1,502.7	2,850.8	4,397.2	100	100	101	101	
2003	20.5	1,624.7	3,014.1	4,408.3	100	100	92	95	
2003@	20.5	1,624.7	3,004.7	4,408.3	100	100	92	95	
2004	20.5	1,762.2	3,197.6	4,429.9	100	100	83	89	

@ After changes in financial assumptions

After legislated changes in benefit provisions

Analysis of Financial Experience

Year Ended June 30, 2004

Actual experience will never (except by coincidence) coincide exactly with assumed experience.

It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

	<u>\$ in Millions</u>		
	<u>State and Local Government Division</u>	<u>General Assembly</u>	<u>Total</u>
(1) UAAL*at beginning of year	\$ 241.6	\$ 16.3	\$ 257.9
(2) Normal cost from last valuation	114.0	0.1	114.1
(3) Actual employer contributions	116.6	0.1	116.7
(4) Interest accrual: $[(1) + 1/2[(2) - (3)]] \times .080$	19.2	1.3	20.5
(5) Expected UAAL before changes: $(1) + (2) - (3) + (4)$	258.2	17.6	275.8
(6) Increase from benefit changes	0.0	0.0	0.0
(7) Changes from revised actuarial assumptions and methods	0.0	0.0	0.0
(8) New entrant liabilities	32.3	0.0	32.3
(9) Expected UAAL after changes: $(5) + (6) + (7) + (8)$	290.5	17.6	308.1
(10) Actual UAAL at end of year	<u>550.4</u>	<u>16.1</u>	<u>566.5</u>
(11) Gain (loss): (9) - (10)	<u>\$ (259.9)</u>	<u>\$ 1.5</u>	<u>\$ (258.4)</u>

* *Unfunded actuarial accrued liability.*

**Analysis of Financial Experience
Gains and Losses By Risk Area**

Year Ended June 30, 2004

Type of Risk Area	<u>Gain/(Loss) in Period - (\$ in Millions)</u>			<u>% of Accrued Liabilities</u>
	<u>State and Local Gov. Division</u>	<u>General Assembly</u>	<u>Total</u>	
ECONOMIC RISK AREAS				
<u>Pay Increases</u>				
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 16.2	\$ 0.0	\$ 16.2	0.3 %
<u>Investment Return</u>				
If there is greater investment return than assumed, there is a gain. If less return, a loss.	(274.0)	0.0	(274.0)	(5.5)%
NON-ECONOMIC RISK AREAS				
<u>Non-Casualty Retirements</u>				
If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	18.4	0.0	18.4	0.4 %
<u>Disability Retirements</u>				
If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.5	0.0	0.5	0.0 %
<u>Death-in-Service Benefits</u>				
If there are fewer claims than assumed, there is a gain. If more, a loss.	0.2	0.0	0.2	0.0 %
<u>Withdrawal</u>				
If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	<u>8.6</u>	<u>0.0</u>	<u>8.6</u>	<u>0.2 %</u>
Total Actuarial Gains (Losses)	\$ (230.0)	\$ 0.0	\$ (230.0)	(4.6)%
<u>Other</u>				
Includes data adjustments at retirement, timing of financial transactions, retired life mortality, and miscellaneous unidentified sources.	<u>\$ (29.9)</u>	<u>\$ 1.5</u>	<u>\$ (28.4)</u>	<u>(0.6)%</u>
Total Actuarial Gains (Losses)	<u>\$ (259.9)</u>	<u>\$ 1.5</u>	<u>\$ (258.4)</u>	<u>(5.2)%</u>

Summary of Plan Provisions

JUNE 30, 2004

Contributory

Non-Contributory

Voluntary Retirement

A member may retire with a full benefit at age 65 with 5 or more years of actual service; age 60 with 20 or more years of actual service, or after 28 years of actual service regardless of age.

A member may retire at age 65 with a full benefit with 5 or more years of actual service, or after 28 years of actual service regardless of age. For sheriff and public safety members, the age 65 requirement is reduced 1 month for each 2 months of actual service, but not below age 55 (age 52 for sheriff members with a minimum of 10 years of actual service).

Early Retirement

A member may retire with a reduced benefit if he or she has reached age 55 with 5 years of service or any age with 25 years of service. The reduction is equal to either 1/2 of 1% or 1% for each month retirement precedes normal retirement age.

A member may retire with a reduced benefit if he or she has reached age 55 with 5 years of service or any age with 25 years of service. The reduction is equal to either 1/2 of 1% or 1% for each month retirement precedes normal retirement age.

Vested Retirement Benefits

A member leaving APERS covered employment before full retirement age is considered vested with 5 years of actual service. A death benefit is payable to the surviving spouse of a member who dies before benefit commencement.

A member leaving APERS covered employment before full retirement age is considered vested with 5 years of actual service. A death benefit is payable to the surviving spouse of a member who dies before benefit commencement.

Deferred Retirement

A vested member who leaves covered employment before full retirement age is on deferred retirement. Deferred full retirement benefit, based on service and pay at termination, begins at age 65 with 5 years of service; or age 60 with 20 years service. In place of deferred full benefit, at age 55 or older an employee can elect an immediate reduced benefit, equal to the full amount reduced by 1/2 of 1% for each month of difference in benefit beginning ages. To be eligible, a member must have 5 years of service when leaving APERS-covered employment before full retirement age.

A vested member who leaves covered employment before full retirement age is on deferred retirement. Deferred full retirement benefit, based on service and pay at termination, begins at age 65 with 5 years of service. In place of deferred full benefit, a qualifying employee can elect an immediate reduced benefit, equal to the full amount reduced by at least 1/2 of 1% for each month of difference in benefit beginning ages.

Disability Retirement

For an active member, disabled after 5 years of service, including credit for 18 of the 24 months preceding disability, the amount payable is computed as an age and service benefit, based on service and pay at disability.

For an active member, disabled after 5 years of service, including credit for 18 of the 24 months preceding disability, the amount payable is computed as an age and service benefit, based on service and pay at disability.

Final Average Compensation

A member's final average compensation is the average of the highest 36 calendar months of covered compensation.

A member's final average compensation is the average of the highest 36 calendar months of covered compensation.

Summary of Plan Provisions

JUNE 30, 2004

Contributory

Non-Contributory

Full Age and Services Retirement Benefits

The annuity benefit equals 2.07% of FAC times years of credited service (2.11% for service prior to July 1, 2001).

The annuity benefit is calculated as 1.72% of FAC times years and months of credited service (1.75% for service prior to July 1, 2001). If retirement is prior to age 62, an additional .33% of FAC times years of service will be paid until age 62. The portion of the benefit based on service before 1978 cannot be less than amount provided by contributory provisions in effect at time of retirement. The minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

Benefit Increases After Retirement

Annually, there will be a cost of living adjustment equal to 3% of the current benefit.

Annually, there will be a cost of living adjustment equal to 3% of the current benefit.

Death After Retirement

If death occurs before total monthly benefit payments equal member's accumulated contributions, the difference is refunded. Should a member elect a straight life benefit and die within 12 months of the date of retirement, a benefit may be payable to the surviving spouse under certain circumstances. A retiring member can also elect an optional form of benefit, which provides beneficiary protection and is paid for by reducing the retired member's benefit amount.

Member contributions before 1978 are protected in the same manner as under the contributory plan. Should a member elect a straight life benefit and die within 12 months of the date of retirement, a benefit may be payable to the surviving spouse under certain circumstances. Retiring members can also elect an optional form of benefit, which provides beneficiary protection and is paid for by reducing the retired member's benefit amount.

Death While in PERS - Covered Employment

If death occurs while in APERS-covered employment, member's accumulated contributions are refundable. However, if a member has 5 years or more of service, monthly benefits are payable instead. The surviving spouse receives a benefit, payable immediately, computed as if member had retired and elected the Joint and 75% Survivor Option. Each dependent child receives benefit of 10% of compensation, subject to a 25% maximum for all children. Dependent parent benefits are payable if neither spouse nor children benefits are payable.

If death occurs while in APERS covered employment, member's accumulated contributions before 1978 are refundable. However, if a member has 5 years or more of service, monthly benefits are payable instead. The surviving spouse receives a benefit, payable immediately, computed as if member had retired and elected the Joint and 75% Survivor Option. Each dependent child receives benefit of 10% of compensation, subject to maximum of 25% for all children. Dependent parent benefits are payable if neither spouse nor children benefits are payable.

Member's Contribution Rates

Contributory plan members are required to contribute 6% of covered compensation. Member contributions are refundable if APERS covered employment terminates before a monthly benefit is payable (if contributions were for 5 or more years, interest credits are included in the refund).

There are no employee contributions for service after January 1, 1978. If there is service before January 1, 1978, contributions for that period are refundable later in the same manner as under the Contributory Plan.

Summary of Plan Provisions

JUNE 30, 2004

Contributory

Non-Contributory

Deferred Retirement Option Plan (DROP)

Members with 28 or more years of actual service in PERS or in combination with a reciprocal system are eligible to participate. Members, for a maximum of 84 months, may continue employment and have a percentage of their retirement benefits accumulate in a tax-deferred account. The current DROP percentages range from 63% for 28 years of service to 75% for 30+ years of service. DROP accounts earn interest of 6 percent on the balance and are paid to members upon retirement in a lump sum, as an additional monthly benefit, or rolled over into a qualified retirement plan.

Members with 28 or more years of actual service in PERS or in combination with a reciprocal system are eligible to participate. Members, for a maximum of 84 months, may continue employment and have a percentage of their retirement benefits accumulate in a tax-deferred account. The current DROP percentages range from 63% for 28 years of service to 75% for 30+ years of service. DROP accounts earn interest of 6 percent on the balance and are paid to members upon retirement in a lump sum, as an additional monthly benefit, or rolled over into a qualified retirement plan.

Partial Annuity Withdrawal (PAW)

Members who have worked past the date they became eligible for an unreduced benefit, can participate in the Partial Annuity Withdrawal (PAW). To be eligible to participate, the member must be eligible for an unreduced benefit and not be participating in the Deferred Retirement Option Plan (DROP). Members may take a lump sum distribution of their retirement benefits for each month they work beyond the date of first eligibility for an unreduced benefit - up to a maximum of 60 months. The member's lifetime annuity is then reduced by an actuarial factor tied to the age of the retiree. The election to participate in the PAW is made at retirement.

Members who have worked past the date they became eligible for an unreduced benefit, can participate in the Partial Annuity Withdrawal (PAW). To be eligible to participate, the member must be eligible for an unreduced benefit and not be participating in the Deferred Retirement Option Plan (DROP). Members may take a lump sum distribution of their retirement benefits for each month they work beyond the date of first eligibility for an unreduced benefit - up to a maximum of 60 months. The member's lifetime annuity is then reduced by an actuarial factor tied to the age of the retiree. The election to participate in the PAW is made at retirement.

Statistical Section



Enjoying the view in Hot Springs of the leaves changing in the Quachita area of Arkansas.

Schedule of Revenues by Source
Schedule of Expenses by Type
Schedule of Benefit Expenses by Type
Schedule of Retired Members by
Type of Benefit
Schedule of Average Benefit Payments
Statistical Graphs

**Schedule of Revenues By Source
For the Fiscal Years 1999-2004**

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Transfers And Other	Total
1999	\$ 452,946	\$ 93,322,444	\$ 281,941,948	\$ 7,515,334	\$ 383,232,672
2000	368,751	96,348,947	350,016,319	7,976,988	454,711,005
2001	301,349	100,925,338	(190,474,072)	7,533,778	(81,713,607)
2002	221,186	109,037,491	(232,741,183)	8,066,949	(115,415,557)
2003	159,642	115,690,798	191,929,218	8,874,658	316,654,316
2004	117,955	118,419,346	484,159,506	9,522,046	612,218,853

Note: Investment income includes investment gain calculated in accordance with GASB 25.

**Schedule of Expenses By Type
For the Fiscal Years 1999-2004**

Year Ending June 30	Benefit Payments¹	Administrative Expenses	Refunds	Misc.	Total
1999	\$ 99,224,501	\$ 3,582,665	\$ 55,378	-	\$ 102,862,544
2000	121,714,351	3,549,098	42,725	-	125,306,174
2001	135,330,351	3,853,726	369,060	8,367	139,561,504
2002	153,007,132	4,067,319	805,155	-	157,879,606
2003	169,763,198	4,370,719	678,143	-	174,812,060
2004	182,901,681	4,759,527	374,972	-	188,036,180

¹ Includes DROP and PAW distributions.

**Schedule of Benefit Expenses by Type
For the Fiscal Years 1999-2004***

Year Ending June 30	Age & Service		Death in Service	Disability	
	Retirees	Survivors		Retirees	Survivors
1999	\$ 100,343,772	\$ 2,595,384	\$ 2,629,740	\$ 5,793,600	\$ 612,372
2000	107,580,516	2,896,032	2,972,712	6,066,588	676,764
2001	116,824,476	3,335,940	3,347,184	6,946,980	749,196
2002	132,059,052	3,746,064	3,531,648	7,624,128	785,868
2003	142,976,196	4,018,200	3,866,724	8,308,800	857,136
2004	\$ 154,032,252	\$ 4,461,732	\$ 4,121,640	\$ 9,000,408	\$ 924,480

* Expenses are based on June 30 benefit amounts annualized.

**Schedule of Retired Members by Type of Annuities Being Paid
As of June 30, 2004**

Type of Annuity	Number	Annual Annuities
Age & Service Retirees		
Life	13,122	\$ 127,021,392
Option A- 60 (5 years certain)	408	3,883,164
Option A-120 (10 years certain)	911	7,962,984
Option B- 50 (joint and 50% survivor)	521	6,998,400
Option B- 75 (joint and 75% survivor)	647	6,905,556
Option B-100 (joint and 100% survivor)	<u>88</u>	<u>1,260,756</u>
Totals	15,697	154,032,252
Beneficiaries of Age & Service Retirees		
Life	85	467,484
Option A- 60	15	110,676
Option A-120	101	746,880
Option B- 50	168	1,070,364
Option B- 75	189	1,470,852
Option B-100	<u>37</u>	<u>595,476</u>
Totals	<u>595</u>	<u>4,461,732</u>
Total Age & Service Retirees & Beneficiaries	16,292	158,493,984
Disability Retirees		
Life	1,074	7,028,088
Option A- 60	59	318,828
Option A-120	119	732,828
Option B- 50	62	435,600
Option B- 75	79	485,064
Option B-100	<u>0</u>	<u>0</u>
Totals	1,393	9,000,408
Beneficiaries of Disability Retirees		
Life	20	132,432
Option A- 60	5	20,616
Option A-120	37	235,320
Option B- 50	20	79,368
Option B- 75	81	445,224
Option B-100	<u>1</u>	<u>11,520</u>
Totals	164	924,480
Total Disability Retirees & Beneficiaries	1,557	9,924,888
Death-in-Service Beneficiaries	<u>751</u>	<u>4,121,640</u>
Total Retirees & Beneficiaries	18,600	172,540,512
DROP Participants	<u>1,272</u>	<u>30,885,072</u>
GRAND TOTAL	<u>19,872</u>	<u>\$ 203,425,584</u>

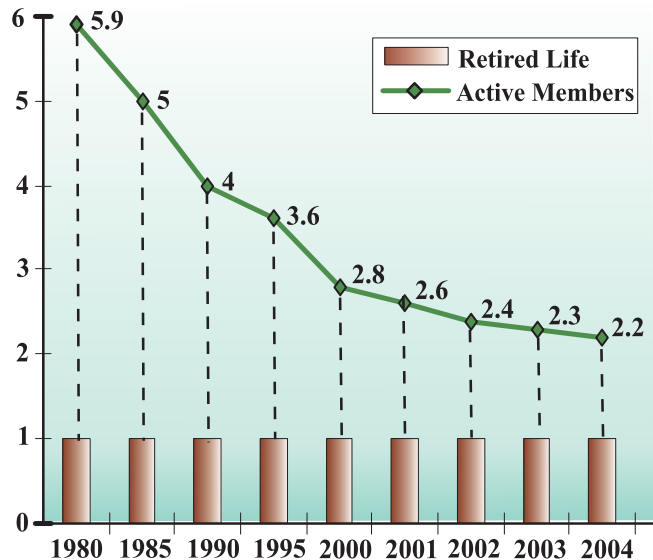
**Schedule of Average Benefit Payments
As of June 30, 2004**

	<u>Years of Credited Service</u>				
	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>
Retirement Effective Dates					
<u>July 1, 2003 to June 30, 2004</u>					
Avg. Monthly Benefit	\$ 355.03	\$ 543.84	\$ 769.36	\$ 1,322.75	\$ 1,445.94
Avg. Monthly Final Average Salary	1,911.00	2,133.16	2,321.34	2,770.33	2,835.72
Number of Active Retirants	236	194	179	201	65
Retirement Effective Dates					
<u>July 1, 2002 to June 30, 2003</u>					
Avg. Monthly Benefit	324.36	525.13	791.06	1,469.68	1,980.34
Avg. Monthly Final Average Salary	1,717.86	1,896.90	2,274.76	2,897.36	3,133.16
Number of Active Retirants	219	205	186	228	96
Retirement Effective Dates					
<u>July 1, 2001 to June 30, 2002</u>					
Avg. Monthly Benefit	351.27	529.32	744.90	1,474.26	1,908.78
Avg. Monthly Final Average Salary	1,787.91	1,928.96	2,117.30	2,680.43	3,002.46
Number of Active Retirants	237	181	185	256	91
Retirement Effective Dates					
<u>July 1, 2000 to June 30, 2001</u>					
Avg. Monthly Benefit	352.54	517.46	935.81	1,569.46	1,782.83
Avg. Monthly Final Average Salary	1,611.21	1,750.49	2,188.66	2,757.98	2,718.89
Number of Active Retirants	246	196	191	202	103
Retirement Effective Dates					
<u>July 1, 1999 to June 30, 2000</u>					
Avg. Monthly Benefit	321.26	540.06	832.86	1,714.30	2,128.48
Avg. Monthly Final Average Salary	1,523.45	1,840.56	2,153.50	2,815.31	3,138.42
Number of Active Retirants	202	180	151	246	163
Retirement Effective Dates					
<u>July 1, 1999 to June 30, 2004</u>					
Avg. Monthly Benefit	341.84	530.96	815.20	1,515.55	1,908.05
Avg. Monthly Final Average Salary	1,714.94	1,910.29	2,212.49	2,783.14	2,992.16
Number of Active Retirants	1,140	956	892	1,133	518

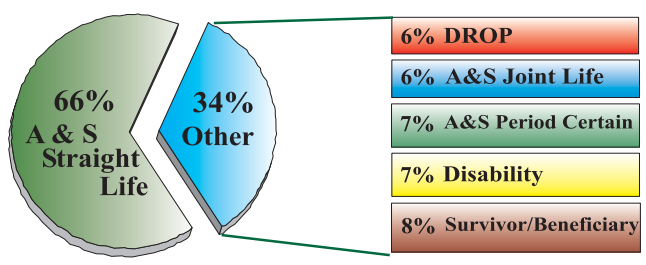
Statistical Graphs

As of June 30, 2004

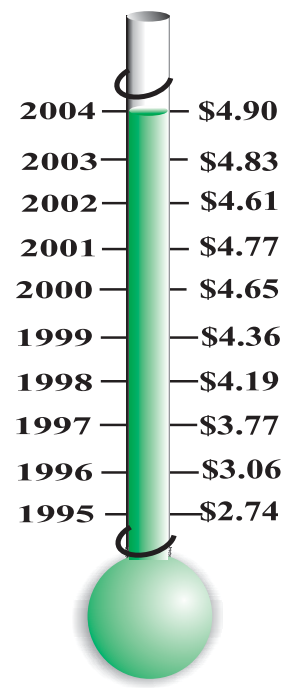
Active Members Per Retired Life
1980 Through 2004 Comparison



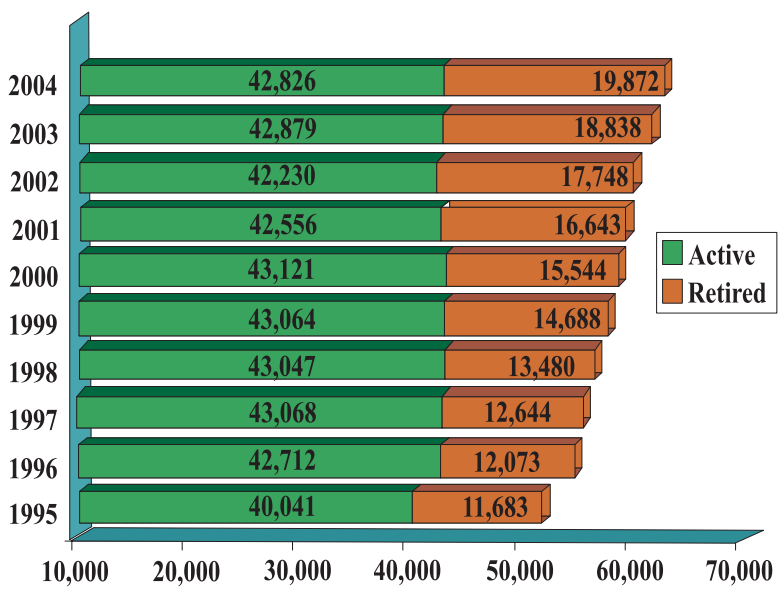
Annuities Being Paid By Type



APERS Assets 10 Year Summary*
(\$ In Billions)



Active and Retired Members' Population
10 Year Comparison



* The figures listed above represent dollar amounts rounded to the nearest tens of millions. The dollar amounts were taken from the "Deposits, Investments and Securities Lending Collateral Investments" table found in the Financial section of the APERS Annual Financial Reports for the years 1996-2004.

Appendix



Sunset over one of the many vineyards found in the River land Area.

Schedule of Participating Employers

Schedule of Participating Employers As of June 30, 2004

State Agencies

Abstractor's Board of Examiners	Board of Collection Agencies
Administrative Office of The Courts	Board of Cosmetology
Administrative Office of the Courts-Director	Board of Dental Examiners
Arkansas Crime Information Center	Board of Dispensing Opticians
Arkansas Economic Development Commission	Board of Embalmers and Funeral Directors
Arkansas Public Defender Commission	Board of Examiners in Counseling
Arkansas Tobacco Settlement Commission	Board of Nursing
Arkansas Fair Housing Commission	Board of Pharmacy
Arkansas Dept. of Environmental Quality	Board of Physical Therapy
Arkansas Appraisers Licensing/Certification.	Board of Registry for Professional Geologists
Arkansas County Conservation District	Board of Registry for Progress Engineers
Arkansas Ethics Commission	Boone County Conservation District
Arkansas Heritage	Buffalo Conservation District
Arkansas Minority Health Commission	Building Authority
Arkansas Northeastern College	Burial Association Board
Arkansas Sentencing Commission	Calhoun County Conservation District
Arkansas State Board of Massage Therapy	Capitol Zoning District Commission
Arkansas State Board of Optometry	Carroll County Conservation District
Arkansas State Capitol Police	Chicot County Conservation District
Arkansas State Library	Claims Commission
Arkansas State University	Clark County Conservation District
Arkansas State University - Beebe	Clay County Conservation District
Arkansas State University-Mountain Home	Cleburne County Conservation District
Arkansas State University-Newport	Code Revision Commission
Arkansas Tech University	Columbia County Conservation District
Arkansas Tobacco Control Board	Constitutional Officers
Arkansas Towing & Recovery Board	Contractors Licensing Board
Arkansas Transitional Employment Board	Conway County Conservation District
Ashley County Conservation District	Cossatot Community College - University of Arkansas
Assessment Coordination Department	Cossatot Conservation District
Arkansas State University-Newport	Court of Appeals
Attorney General	Court Reporters
Auctioneers Licensing Board	Craighead County Conservation District
Auditor of State	Crawford County Conservation District
Baxter County Conservation District	Crittenden County Conservation District
Board of Examiners in Speech, Language & Pathology	Crooked Creek Conservation District
Benton County Conservation District	Cross County Conservation District
Board of Accountancy	Crowley's Ridge Technical Institute
Board of Architects	Dallas County Conservation District
Board of Barber Examiners	Department of Aeronautics
Board of Chiropractic Examiners	Department of Community Correction
	Department of Corrections

(Continued)

State Agencies (Continued)

Department of Emergency Management	Independence County Conservation District
Department of Finance & Administration	Insurance Department
Department of Health	Izard County Conservation District
Department of Higher Education	Jackson County Conservation District
Department of Human Services	Jefferson County Conservation District
Department of Information Systems	Johnson County Conservation District
Department of Labor	Judicial Discipline/Disability Commission
Deputy Prosecuting Attorney	Lafayette County Conservation District
Desha County Conservation District	Law Enforcement Standards
Development Finance Authority	Lawrence County Conservation District
Dietetic Licensing Board	Lee County Conservation District
Disability Determination for Social Security Admin.	Legislative Council
Disabled Veterans Service	Lieutenant Governor
Division of Legislative Audit	Lincoln County Conservation District
Drug Task Force - 1st & 3rd Judicial Districts	Liquified Petroleum Gas Division
Drug Task Force - 5th Judicial District	Little River Conservation District
Drug Task Force - 8th Judicial District	Livestock & Poultry Commission
Drug Task Force - 13th Judicial District	Logan County Conservation District
Drug Task Force - 14th Judicial District	Lonoke County Conservation District
Drug Task Force - 15th Judicial District	Madison County Conservation District
Drug Task Force – 18th W. Judicial District	Manufactured Home Commission
Drug Task Force - Batesville	Martin Luther King Jr. Commission
Drug Task Force - Monticello	Medical Board
East Arkansas Community College	Miller County Conservation District
Educational Television Commission	Mine Creek Conservation District
Employment Security Division	Mississippi County Conservation District
Examiners in Psychology	Monroe County Conservation District
Faulkner County Conservation District	Montgomery County Conservation District
Fire Protection Licensing Board	Motor Vehicle Commission
Forestry Commission	National Park Community College
Franklin County Conservation District	Nevada County Conservation District
Fulton County Conservation District	Newton County Conservation District
Game & Fish Commission	North Arkansas College
Game & Fish Commission - Wildlife Officer	Northwest Arkansas Community College
General Assembly - House	Office of Information Technology
General Assembly - Senate	Office of Rural Advocacy
Geological Commission	Oil & Gas Commission
Governor's Office	Ouachita County Conservation District
Grant County Conservation District	Ozarka Technical College
Greene County Conservation District	Parks & Tourism
Hempstead County Soil Conservation	Perry County Conservation District
Henderson State University	Phillips Community College - University of Arkansas
History Commission	Phillips County Conservation District
Hot Spring County Conservation District	Pike County Conservation District
House Speaker's Office	Poinsett County Conservation District

(Continued)

State Agencies (Continued)

Pope County Conservation District
 Post Prison Transfer Board
 Poteau River Conservation District
 Prairie County Conservation District
 Professional Bail Bondsman Licensing Board
 Prosecuting Attorney
 Prosecutor Coordinator
 Public Employees Retirement System
 Public Service Commission
 Pulaski County Conservation District
 Pulaski Technical College
 Randolph County Conservation District
 Real Estate Commission
 Rich Mountain Community College
 Rich Mountain Conservation District
 Saline County Conservation District
 School for the Blind
 School for the Deaf
 Science & Technology Authority
 Sebastian County Conservation District
 Secretary of State
 Securities Department
 Senate Clerk
 Sharp County Conservation District
 Social Work Licensing Board
 Soil & Water Conservation
 South Arkansas Community College
 Southeast Arkansas Technical College
 Southern Arkansas University
 Southern Arkansas University Tech
 Spinal Cord Commission
 St. Francis County Conservation District
 State Bank Department
 State Board of Election Commissioners
 State Crime Lab
 State Land Commission
 State Military Department
 State Plant Board
 State Police (Non-Troopers)
 State Treasurer
 Stone County Conservation District
 Student Loan Authority
 Supreme Court
 Title Insurance Agents Licensing Board
 Trial Court Administrative Assistants

University of Arkansas Community College at Hope
 University of Arkansas Community College at Morrilton
 Union County Conservation District
 University of Arkansas Community College at Batesville
 University of Arkansas - Fayetteville
 University of Arkansas - Little Rock
 University of Arkansas - Medical Sciences
 University of Arkansas at Monticello
 University of Arkansas-Fort Smith
 University of Central Arkansas
 Van Buren County Conservation District
 Veterans Affairs Department
 Veterans Child Welfare
 Veterinary Medical Examining Board
 Vocational/Technical Education/ Division of Rehabilitation
 War Memorial Stadium
 Washington County Conservation District
 Waterways Commission
 White County Conservation District
 Woodruff County Conservation District
 Worker's Compensation Commission
 Yell County Conservation District

County Employers

Arkansas River Valley Regional Library
 Arkansas
 Ashley
 Association of Counties
 Baxter
 Benton
 Boone
 Bradley
 Calhoun
 Carroll
 Chicot
 Clark
 Clay
 Clay County-Western District
 Cleburne
 Cleveland
 Columbia
 Conway
 Craighead
 Crawford
 Crittenden

(Continued)

County Employers (Continued)

Crittenden County Drainage District
Cross
Dallas
Desha
Drew
East Central Arkansas Regional Library
Faulkner
Franklin
Fulton
Garland
Grant
Grassy Lake-Tyronza Drainage
Greene
Hempstead
Hot Spring
Howard
Independence
Izard
Jackson
Jefferson
Johnson
Lafayette
Lawrence
Lee
Lincoln
Little River
Logan
Lonoke
Madison
Marion
Miller
Mississippi
Monroe
Montgomery
Nevada
Newton
Ouachita
Perry
Phillips
Pike
Poinsett
Polk
Pope
Prairie
Pulaski

Randolph
Randolph County Nursing Home
Saline
Scott
Searcy
Sebastian
Sevier
Sharp
St. Francis
Stone
Union
Van Buren
Washington
White
White County Public Library
White River Regional Library
Woodruff
Yell
Yell County Library

Municipal Employers

Alma
Alma Water & Sewer Department
Arkansas Local Police & Fire Retirement System
Arkadelphia
Arkansas City
Arkansas Municipal League
Ash Flat
Ashdown
Augusta
Batesville Water Works
Beebe
Bentonville
Biscoe
Bono
Bradford
Bradford Water & Sewer System
Brinkley
Brinkley Municipal Water & Sewer Service
Bryant
Cabot
Caddo Valley
Calico Rock

(Continued)

Municipal Employers (Continued)

Camden Water & Utilities	Heber Springs
Cammack Village	Highfill
Carlisle	Holly Grove
Cave City	Hope
Central Arkansas Water	Hope Water & Light
Charleston	Horatio
Cherry Valley	Hot Springs
Clarksville	Hot Springs Advertising & Promotion Commission
Clinton	Humnoke
Clinton Water & Sewer	Huntington
Corning	Huntsville
Cotter	Huttig
Crossett	Jacksonville
Crossett Public Library	Jacksonville Wastewater Utility
Crossett Water Commission	Jacksonville Water Commission
Des Arc	Jasper
Dierks	Lamar
Dover	Lepanto
El Dorado Water Works	Lewisville
Elm Springs	Lincoln
England	Lockesburg
Eudora	Lowell
Farmington	Little Rock Wastewater Utility
Flippin	Magnolia
Fordyce	Magnolia Municipal Water System
Fordyce Water & Sewer	Magnolia Sewer Department
Foreman	Malvern
Forrest City	Malvern Waterworks
Forrest City Water Utilities	Mammoth Spring
Fort Smith Public Library	Marked Tree
Fountain Hill	Marshall
Fulton	Marvell
Gassville	McGehee Water & Sewer System
Gravette	McRae
Green Forest	Melbourne
Gum Springs	Mena
Hackett	Mena Water & Sewer
Hamburg	Monette
Hampton	Monticello
Hardy	Morrilton
Harrisburg	Mount Ida
Harrisburg Water & Gas Division	Mountain Home
Harrison	Mountain Pine
Haskell	Mountain View
Hazen	Mt. Pleasant

(Continued)

Municipal Employers (Continued)

Nashville
 North Little Rock Advertising & Promotion Commission
 Norman
 Ola
 Pangburn
 Paragould
 Paris
 Perryville
 Piggott
 Piggott Light & Water System
 Plumerville
 Prairie Grove
 Prescott
 Quitman
 Ravenden
 Rison
 Rogers
 Rogers Water Utilities
 Russellville
 Salem
 Searcy
 Shannon Hills
 Sheridan
 Shirley
 Smackover
 Stamps
 Star City
 Star City Water & Sewer
 Stuttgart
 Stuttgart & North Arkansas County Library
 Summit
 Van Buren
 Van Buren Municipal Utilities
 Vilonia Waterworks Association
 Viola
 Warren
 Warren Water & Sewer
 West Fork
 Western Grove
 Wilmar
 Wynne
 Wynne Municipal Water Utilities
 Yellville

School Employers

Acorn
 Alma
 Alpena
 Altheimer Unified
 Altus-Denning
 Arkadelphia
 Ashdown
 Atkins
 Augusta
 Bald Knob
 Barton Lexa
 Batesville
 Bauxite
 Bay Brown
 Bearden
 Beebe
 Benton
 Bentonville
 Bergman
 Berryville
 Biggers Reyno
 Bismarck
 Black Rock
 Blevins
 Blytheville
 Booneville
 Bradford
 Bradley
 Bright Star
 Brinkley
 Brookland
 Bryant
 Cabot
 Caddo Hills
 Calico Rock
 Carthage
 Cedarville
 Centerpoint
 Clarendon
 Clarksville
 Clinton
 Concord

(Continued)

School Employers (Continued)

Conway	Fourche Valley
Cord-Charlotte	Genoa Central
Corning	Gentry
Cotter	Gillett
County Line	Glen Rose
Crawfordsville	Gosnell
Cross County	Grady
Crossett	Green Forest
Cushman	Greenbrier
Cutter Morning Star	Greene County Tech
Danville	Greenwood
Dardanelle	Gurdon
Decatur	Hamburg
Deer	Harrisburg
Delta Special	Harrison
DeQueen	Hartford
Dermott Special	Hazen
Des Arc	Heber Springs
DeValls Bluff	Hector
DeWitt	Helena-West Helena
Dollarway	Hermitage
Dover	Highland
Drew Central	Holly Grove
Dumas	Hope
Earle	Horatio
East End	Hot Springs
East Poinsett County	Hoxie
El Dorado	Huntsville
Elaine	Huttig
Emerson	Izard County Consolidated
England	Jackson County Schools
Eudora	Jasper
Eureka Springs	Jessieville
Fairview	Jonesboro
Farmington	Junction City
Fayetteville	Kingston
Flippin	Lafayette County
Fordyce	Lake Hamilton
Foreman	Lakeside - Garland County
Forrest City	Lakeside - Chicot County
Fort Smith	Lakeview
Fouke	Lamar
Fountain Lake	Lavaca

(Continued)

School Employers (Continued)

Lead Hill	Palestine-Wheatley
Lee County	Paragould
Lincoln Consolidated	Paris
Little Rock	Parkin
Lonoke	Paron
Magazine	Pea Ridge
Magnet Cove	Piggott
Magnolia	Pine Bluff
Malvern	Plainview Rover
Manila	Pleasant View
Mansfield	Pocahontas
Marion	Pottsville
Marion County Rural	Prescott
Marked Tree	Pulaski County Special
Marshall	Quitman
Marvell	Randolph
Maynard	Rector School District
McCrary	Riverside
McNeil	Riverview
McRae	Rogers
Melbourne	Rural Special
Mena	Russellville
Midland	Salem Consolidated
Monticello	Saratoga
Mount Vernon-Enola	Scotland
Mountain Home	Scranton
Mountain View	Searcy
Mountainburg	Sheridan
Mt. Holly	Shirley
Mt. Pleasant	Siloam Springs
Murfreesboro	Sloan-Hendrix
Nashville	Smackover
Nettleton	South Central Service Cooperative
Nevada	South Conway County
Newark	South Mississippi County
Newport Special	South Side
Norfolk	Sparkman
Norphlet	Springdale
North Little Rock	St. Paul
Oark	Star City
Omaha	Stone County
Osceola	Strong
Ozark	Stuttgart

(Continued)

School Employers (Continued)

Sulphur Rock
 Taylor
 Texarkana
 Trumann
 Turrell
 Umpire
 Union
 Valley Springs
 Valley View
 Van Buren
 Van Cove
 Vilonia
 Viola
 Waldron
 Walker
 Walnut Ridge
 Warren
 Watson Chapel
 Weiner
 West Memphis
 West Memphis Cafeteria
 West Side
 Western Yell County
 Westfork
 Westside
 Westside Consolidated
 White County Central
 White Hall
 Wickes
 Williford
 Wonderview
 Woodlawn
 Wynne
 Yellville Summit

Other Non-State Employers

Blytheville – Gosnell Regional Airport
 Boone County Airport
 Clark County Country Water Facilities
 Hot Spring County Solid Waste Authority
 Kimzey Regional Water District
 Marion County Regional Airport
 Nevada County Prescott Solid Waste Management
 North Garland County Regional Water District
 Paron-Owensville Water Authority
 Pulaski County Regional Solid Waste Management District
 Rehab, Industry & Business
 Riversouth Rural Water District
 Saline County Regional Waste Management District
 South Sebastian County Water User Association
 Southwest Boone County Water Association
 Tri-County Solid Waste
 Upper SW Arkansas Solid Waste Management District
 Washington Water Authority

**Number of Participating Employers
As of June 30, 2004**

State Agencies	242
County Agencies	85
Municipal Agencies	155
School Employers	248
Other Non-State Agencies	18

Arkansas Public Employees Retirement System
124 West Capitol Avenue • Suite 400
Little Rock, Arkansas 72201
