

Minnesota State Retirement System

Pension Trust Funds of the State of Minnesota

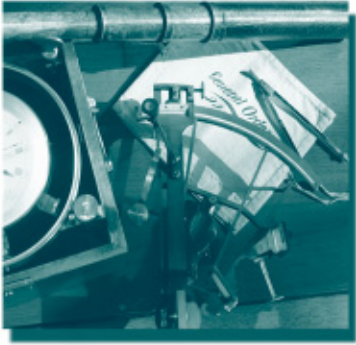


Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

David Bergstrom, Executive Director





Minnesota State Retirement System



Pension Trust Funds of the State of Minnesota



David Bergstrom
Executive Director



Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003

Prepared by MSRS Finance and Systems Divisions
Retirement Systems of Minnesota Building
60 Empire Drive, Suite 300
Saint Paul, MN 55103-3000



Table of Contents

- Introductory Section 1**
 - Certificate of Achievement for Excellence in Financial Reporting 2
 - Board Chairperson's Report 3
 - Letter of Transmittal 4
 - Administrative Organization 8
 - Organization Chart 9
 - Summary of Retirement System Plans 10

- Financial Section 15**
 - Legislative Auditor's Opinion 16
 - Management Discussion and Analysis 18
 - Basic Financial Statement
 - Statement of Plan Net Assets 20
 - Statement of Changes in Plan Net Assets 22
 - Notes to the Financial Statements 24
 - Required Supplemental Information
 - Schedule of Funding Progress 36
 - Schedule of Employer Contributions 37
 - Schedule of Administrative Expenses 38
 - Schedule of Changes in Plan Net Assets 39
 - Summary Schedule of Commissions and Payments to Consultants 47
 - Schedule of Investment Expenses 47

- Investment Section 49**
 - Investment Report 50
 - Investment Results and Investment Allocation 52
 - Investment Results and Investment Performance 53
 - Largest Assets Held 54
 - Investment Summary at Fair Value 55
 - Fair Value of Assets 56

- Actuarial Section 57**
 - Actuary's Certification Letter 58
 - Summary of Actuarial Assumptions and Methods 60
 - Required Reserves and Actual Rates as Compared to Recommended Rates 62
 - Schedule of Changes in Unfunded Actuarial Accrual Liabilities 63
 - Schedule of Active Member Valuation Data 64
 - Schedule of Retirees and Beneficiaries 65
 - Solvency Test — Funding Ratio 66
 - Summary of Unfunded Accrued Liabilities (UAL) 67
 - Sample Assumed Annual Rates of Termination per 10,000 Members and Assumed Salary Increases 68

- Statistical Section 71**
 - Revenues by Sources 72
 - Expenses by Type 73
 - Active Employees' Average Age Tables 75
 - Employees Eligible to an Immediate Annuity 76
 - Refund Statistics 77
 - Schedule of Retired Members by Type of Benefit 78
 - Schedule of New Retirees and Initial Benefit Paid 81
 - Participating Employers 84



Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minnesota State Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in blue ink, reading "William Patrick Costa".

President

A handwritten signature in blue ink, reading "Jeffrey R. Emer".

Executive Director

Board Chairperson's Report

December 22, 2003

Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, Minnesota 55103-3000

Dear Board Members, Benefit Recipients and Employers:

As I present the MSRS comprehensive Financial Report for the fiscal year that ended June 30, 2003, I am optimistic that we have weathered the financial storm of the last three years, and see some sunnier days ahead. The market returns started gaining strength during the last quarter of the year, and allowed us to finish with a positive rate of return for the fiscal year of 2.4 percent.

MSRS net assets held relatively steady, declining from \$7.426 billion June 30, 2002 to \$7.405 billion as of June 30, 2003. Liabilities declined from \$668 million to \$590 million. For the first time since 1996 and 1994 respectively, the MSRS General Employees Retirement Plan and the Correctional Plan funding levels fell below 100 percent. At some point, both of these plans may require additional employee and employer contributions to bring the plans back to full funding.

Eligible retirees will receive a post-retirement increase of 2.103 percent on January 1, 2004. This increase is equal to the rate of inflation during the fiscal year. Recent market declines have made it unlikely that MSRS will be able to pay any increase based on investment income for the next ten years. The increases will still equal inflation, up to 2.5 percent.

Assets in the Health Care Savings account grew from \$2.7 million to \$25.6 million in FY 2003. Assets in the Minnesota Deferred Compensation Plan increased from \$2.1 billion to \$2.2 billion.

As always, the MSRS Board is committed to improving services. We have begun the process of being able to counsel participants on their retirement benefits, Minnesota Deferred Compensation Plan, and their Health Care Savings Plan accounts. This change will allow us to provide comprehensive retirement counseling.

The economy shows signs of improvement, the stock market appears on the upswing, and MSRS remains in a solid position to pay benefits to both current and future retirees. As always, we thank you for your support.

Sincerely,



Mary Benner, Chair
MSRS Board of Directors

Letter of Transmittal

December 22, 2003

Board of Directors
Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, Minnesota 55103-3000

Dear Directors:

We are pleased to present the Minnesota State Retirement System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The Minnesota State Retirement System (MSRS) provides coverage for 59,200 active employees, 25,100 retirees and 24,200 members who no longer contribute, but are eligible for either monthly benefits or a lump-sum distribution.

MSRS management takes full responsibility for the financial data published in this report. The data contained in this report is factual and constitutes a full disclosure of the financial status of the funds administered by the MSRS.

MSRS is directly responsible for the following retirement plans:

- ▶ General Employees
- ▶ State Patrol
- ▶ Correctional
- ▶ Judges
- ▶ Elected State Officers
- ▶ Legislators
- ▶ Military Affairs
- ▶ Transportation Pilots
- ▶ Fire Marshals
- ▶ Unclassified
- ▶ Health Care Savings Plan

MSRS also shares oversight of the Minnesota State Deferred Compensation Plan (MNDCP) with the State Board of Investment. The plan is available to all public employees in the state, with 80,000 active participants and assets of almost \$2.2 billion as of June 30, 2003.

The Comprehensive Annual Financial Report is divided into 5 sections.

Introduction — consists of administrative materials, such as an organizational chart, a summary of the retirement plans and a report from the board chairperson.

Financial — consists of the independent auditor's opinion, management's discussion and analysis, financial statements and footnotes for fiscal year 2003, and the required supplemental information.

Investment — consists of the State Board of Investment's report, rates of return on investments held and various investment portfolio information.

Actuarial — consists of summaries of the actuarial assumptions and methods, and other information prepared by an independent actuarial firm.

Statistical — consists of tables detailing revenue sources, expense types, employee statistics and investment performance.

Major Initiatives

The 2003 fiscal year was another busy year for MSRS. Many state employees were laid off, which increased refund applications and the number of employees requesting retirement estimates. Membership in the Health Care Savings Plan grew from 1,300 to 6,100 during the fiscal year, and we paid out over \$4 million in claims.

We have almost finished a major data base conversion, which will enhance our service capabilities. The new system will result in further development of on-line capabilities where participants can access important information through our website.

Much of the year has been devoted to a change in how we will provide retirement educational services to our members. MSRS staff will consolidate retirement counseling along with providing information about the Minnesota State Deferred Compensation Plan and the Health Care Savings Plan. By joining these services, we will be able to provide one-stop counseling for our members.

Financial Information

Accounting Systems and Reports

This report is prepared in accordance with the generally accepted accounting principles of the Governmental Accounting Standards Board. These financial statements comply with reporting requirements established under Minnesota Statutes, section 356.20. Transactions of plans administered by MSRS are reported on the accrual basis of accounting.

MSRS' system of internal accounting controls has been designed to provide reasonable assurance that system assets are safeguarded and financial records are accurate and reliable. These controls are reviewed by the accounting and finance staff on an as needed basis and revised when necessary. Our independent auditors reported no material weaknesses in internal control, nor any departures from finance-related statutes for the fiscal year ended June 30, 2003.

In the opinion of MSRS management, the internal accounting control system is adequate and these financial statements, supporting schedules, and statistical tables are fairly presented in all material respects.

Revenues (Additions)

MSRS' revenue is derived from three sources: 1) employee contributions; 2) employer contributions; and 3) largely from investment returns. Income for fiscal year 2003 totaled \$399 million. This fiscal year's return on investment was \$141 million, an increase of \$795 million over last fiscal year. Employee and employer contributions totaled \$241 million; appropriations and other sources provided an additional \$17 million.

	(In Thousands)		
	FY 2003	FY 2002	Increase (Decrease)
Employee Contributions	130,557	101,961	28,596
Employer Contributions	110,793	105,429	5,364
Investment Income	140,689	(653,784)	794,473
Other	16,954	15,202	1,752
Total	<u>398,993</u>	<u>(431,192)</u>	<u>830,185</u>

Expenses (Deductions)

Expenses in fiscal year 2003 came to \$420 million, a \$25 million increase over last year's expenses. Expenses combined with investment gains and other revenues resulted in a net decrease of \$21 million.

	(In Thousands)		
	FY 2003	FY 2002	Increase (Decrease)
Annuity and Health Care Benefits	388,567	366,010	22,557
Refunds	14,111	14,456	(345)
Administrative Expenses	5,316	4,813	503
Other	12,337	9,426	2,911
Total	420,331	394,705	25,620

Additional information can be found in the Management's Discussion and Analysis on pages 18 and 19.

Funding Status

On an actuarial basis, the figures below show the assets, liabilities and funding ratios of each fund as of the latest actuarial valuation.

	(In Thousands)		
Fund	Liabilities	Assets	Actuarial Basis Funding Ratio
State Employees (06-30-03)	\$7,830,671	\$7,757,292	99.06%
State Patrol (06-30-03)	\$533,980	\$591,383	109.72%
Correctional (06-30-03)	\$484,974	\$470,716	97.06%
Judges (06-30-03)	\$176,291	\$134,142	76.09%
Legislators (06-30-02)	\$78,070	\$45,501	58.28%
Elective State Officers (06-30-02)	\$4,075	\$201	4.93%

More information regarding the funding of MSRS' plans can be found on pages 36 through 37. The assumptions and actuarial details are in accordance with Minnesota Statutes section 356.215. The entry age normal method, with level contributions as a percent of payroll, is used as the actuarial funding method.

Investment Activities

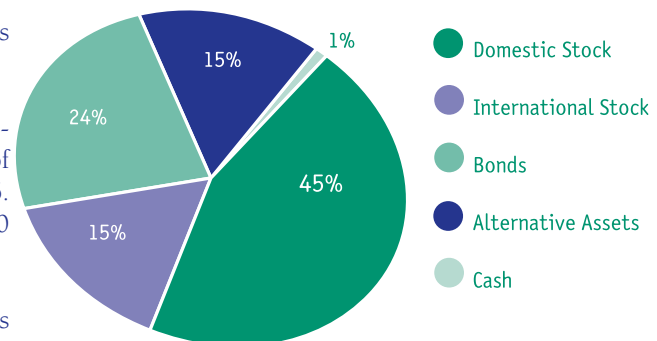
Assets of the MSRS funds are invested by the State Board of Investment (SBI). The board includes the governor, attorney general, secretary of state, state auditor and the state treasurer. Members of the board are subject to the Prudent Person rule, fiduciary standards detailed in Minnesota Statutes section 356A, and investment guidelines in Minnesota Statutes section 11A.

Basic Retirement Fund

The rate of return in the Basic Retirement Fund was 1.9% in the fiscal year ending June 30, 2003.

The goal of the Basic Fund is to finance future retirement benefits. The actuarial assumed rate of return of 8.5% is set by law in Minnesota Statutes section 356. That is the expected rate of return over the ensuing 30 years.

The Basic Retirement Fund's asset allocation target is displayed at right.



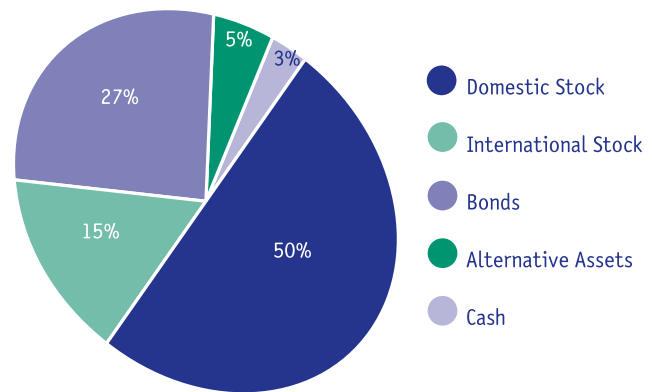
Post Retirement Investment Fund

The rate of return for the Post-Retirement Fund was 2.8% in fiscal year 2003. A 2.103% increase will be paid to eligible retirees on January 1, 2004.

When a member retires, funds sufficient to pay monthly benefits for his or her lifetime are transferred from the Basic Retirement Fund to the Post-Retirement Fund. The assumed rate of return for the Post-Retirement Fund is 6%. The goal of the Post Fund is to provide income to pay monthly benefits, plus a cost-of-living increase based on inflation

up to, but not exceeding, 2.5 percent. The inflation rate is determined by the U.S. Consumer Price Index. If investment returns from the Post-Retirement Fund are higher than the 6 percent plus the Cost of Living increase, the additional investment return is spread over a five-year period to help fund additional increases. If the Post-Fund experiences an investment loss (earns less than 6% + inflation rate) the loss is spread out over a five year period.

The Post-Retirement Fund's asset allocation target is displayed at the right.



Economic Outlook

The economic recovery continues from the post 1990s recession, both at the National and State levels. The recovery in employment from the prior highs has been slow, but this is typically a lagging indicator in an economic recovery. Improvement in economic productivity has been very good with continued improvement from technology and innovation. The on-going war on terrorism and the continued presence in Iraq will, to some extent, be a drag on the economy. The stock market has rebounded from the 3-year down cycle after the historical highs of the 1990s. Hopefully, the economy is developing a foundation to support stable growth in the market without the excesses of the 1990s or the early 2000s.

Last fiscal year, we reported an investment loss of \$650 million. This year we had an investment gain of only \$141 million. If the experts' forecasts hold true, we hope to see a gain in 2004.

It is important to take a long-term view of our retirement plans. Since our inception in 1929, MSRS has survived wars, weak and strong economies, as well as, bull and bear markets. While we need to plan for tough times. The structure of our benefits and investment decisions should help us meet any future challenges.

Review of Operations and Activities of Fiscal Year 2003

MSRS is managed by an 11-member board of directors. Mary Benner is the Chair and Matt Hodapp is the Vice Chair.

Independent Audit

The state legislative auditor conducted an independent audit of MSRS financial statements. The auditor's comments are on pages 16 and 17.

Professional Services

The Minnesota Attorney General's Office provides legal counsel for MSRS. The 2003 actuarial valuations were completed by Milliman & Robertson Inc. and reviewed by William M. Mercer Inc.

Acknowledgments

This report provides complete and reliable information to assist management decisions and set out legal and fiduciary compliance requirements. A summary of the CAFR will be published in the next issue of the MSRS newsletter.

We recognize and give special thanks to all the board of directors, MSRS staff and our other business associates. Without your hard work and commitment, MSRS would not experience the success it has enjoyed year after year.

Respectfully submitted,

David Bergstrom
Executive Director

Arvin Herman
Assistant Director

Administrative Organization – June 30, 2003

MSRS Board of Directors

Mary Benner, Chairperson

Department of Labor and Industry
443 Lafayette Road, Third Floor, CSG
St. Paul, MN 55155
Telephone: (651) 284-5630
Elected: General/Unclassified Plan representative

Mathew Hodapp, Vice Chairman

Minnesota State Patrol, Investigative Services
2055 North Lilac Drive
Golden Valley, MN 55422
Telephone: (763) 591-4701
Appointed: State Patrol Plan representative

Donald M. Buckner

1152 Stryker Ave.
W. St. Paul, MN 55118
Telephone: (651) 457-3853
Elected: Retiree representative

David Crockett

Moorhead State University
1104 Seventh Ave. S.
Moorhead, MN 56563
Telephone: (218) 477-2070
Elected: General/Unclassified Plan representative

Commissioner Dan McElroy

Department of Finance
400 Centennial Building
658 Cedar Street
St. Paul, MN 55155
Telephone: (651) 297-7881
Appointed: State official

Michelle Smith

Minnesota Correctional Facility, Stillwater
970 Pickett Street North
Bayport, MN 55003
Telephone: (651) 779-2761
Elected: Correctional Plan representative

Jim Brooks

Minnesota Department of Natural Resources
2300 Silver Creek Road NE
Rochester, MN 55906
Telephone: (507) 280-5580
Elected: General/Unclassified Plan representative

Ronald L. Lloyd

Metro Transit-Amalgamated Transit Union
312 Central Ave., Suite 438
Minneapolis, MN 55414
Telephone: (612) 379-2914
Appointed: Metro Transit designate

Sally (R.W.) Olsen

c/o Minnesota State Retirement System
60 Empire Drive, Suite 300
St Paul, MN 55103-3000
Telephone: (651) 296-1512
Appointed: public representative

Susan O'Connell

University of Minnesota
1300 South Second Street
Room 262E, WBOB
Minneapolis, MN 55454
(612) 626-0090
Elected: General/Unclassified Plan representative

Roy Watson

PO Box 72
Rochester, MN 55903
Telephone: (507) 282-7080
Appointed: public representative

Administrative Staff

Executive Director:

David Bergstrom

Assistant Directors:

Arvin Herman

Ronald Schweitzer

Professional Consultants

Legislative Actuary:

Milliman & Robertson Inc.

Consulting Actuary:

Mercer Human Resource Consulting

Legal Counsel:

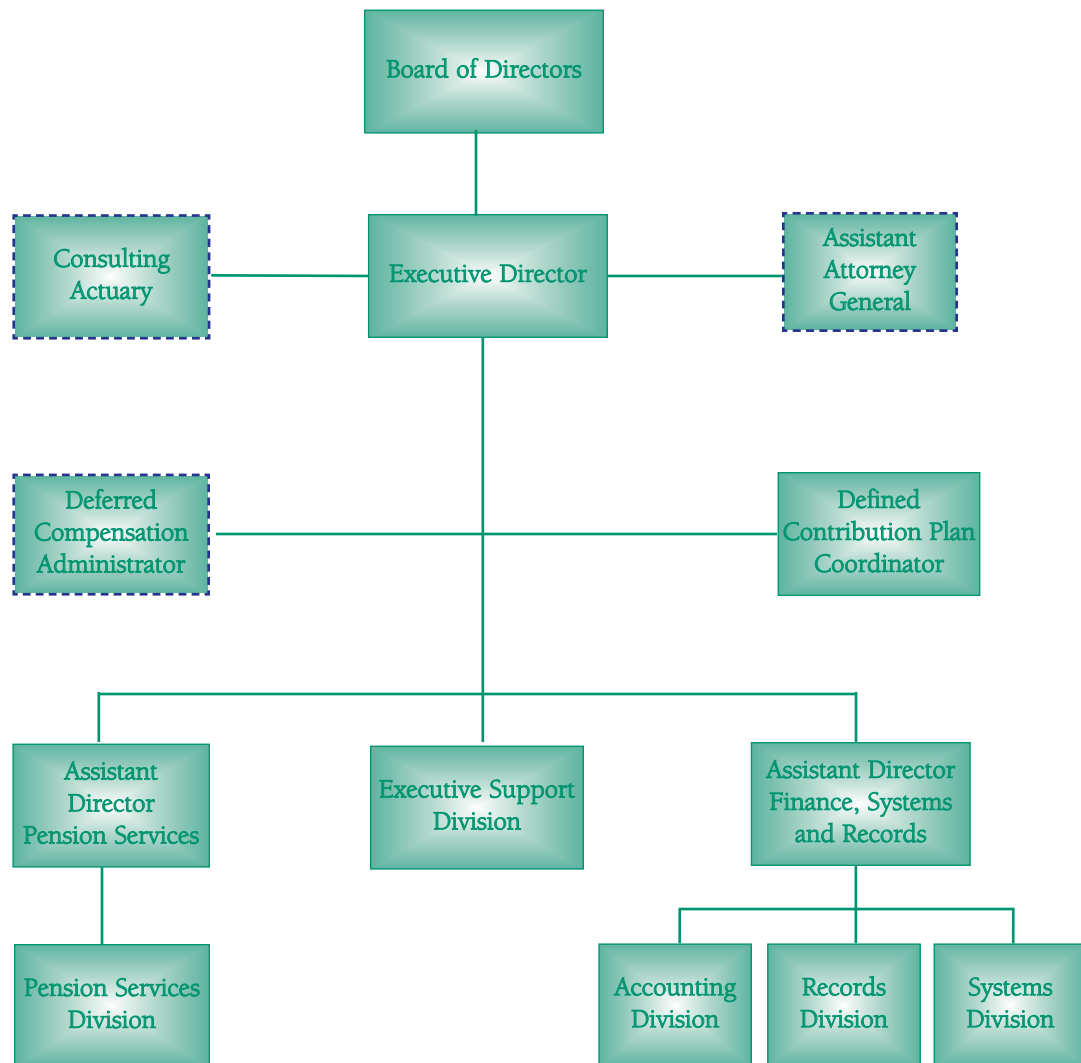
Assistant Attorney General Jon Murphy

Assistant Attorney General Rory Foley

Medical Advisor:

Minnesota Department of Health

Organization Chart - June 30, 2003



NOTE: MSRS invests its funds in various investment pools administered by the State Board of Investment (SBI). The SBI retains various investment advisors whose fees are paid by the pool participants, including MSRS. A schedule of these advisors and MSRS' share of their fees is included on page 47 of the Financial Section.

Summary of Retirement System Plans

Purpose

The Minnesota State Retirement System was established by the state legislature in 1929 to provide retirement benefits to state employees. MSRS administers seven defined benefit plans and one defined contribution plan for state employees and other selected public employees.

Administration

MSRS administration is governed by an 11 member board of directors. The board includes four elected General Plan members, one elected State Patrol Plan member, one elected Correctional Plan member, one elected retired member, one designated Metropolitan Council Transit Operations representative, and three members appointed by the governor.

MSRS management is vested with the executive director who administers the plans in accordance with Minnesota law and board policies. Plan descriptions follow.

Defined Benefit Plans

1. General Employees Plan

- A. Coverage: most state employees and selected metropolitan agency employees
Contributions: 4 percent, employee; 4 percent, employer
- B. Benefit formula
 - 1.2 percent of a five high year salary for first 10 years, then 1.7 percent each year beyond 10 years with subsidized early retirement adjustment
 - or 1.7 percent for all years of service with an actuarial equivalent, early retirement reduction
- C. Retirement age and service years
 - age 65 (pre 7/1/89) or between 65 to 66 (post 7/1/89) with one year of service, no reduction
 - age 62 with 30 years of service, no reduction (pre 7/1/89 only)
 - Rule of 90, no reduction (pre 7/1/89 only)
 - age 55 with three years of service, reduced from age 65 (pre 7/1/89 only)
 - any age with 30 years of service, reduced from age 62 (pre 7/1/89 only)
 - total and permanent disability with three years of service
- D. Surviving spouse benefit
 - if employee has at least 3 years of service at death, generally, the spouse is eligible for a 100 percent Joint and Survivor annuity or a refund
- E. Refunds
 - contributions with 6 percent interest
- F. Annuity and disability options
 - 100 percent, Joint and Survivor with bounce back
 - 50 percent, Joint and Survivor with bounce back
 - 15 Year Certain and Life Thereafter

2. Military Affairs, Transportation Pilots and Fire Marshals Plans (provisions differing from General Plan)

- A. Coverage: required retirement from federal military status at age 60, or 62 for transportation pilots, no such requirements for deputy fire marshals.
Contributions:
 - Military Affairs and Transportation Pilot - 5.6 percent, employee; 5.6 percent, employer.
 - Deputy Fire Marshals - 6.78 percent employee; 8.20 percent employer.
- B. Retirement age and service years
 - military affairs, age 60, with at least three years of service, no reduction
 - transportation pilots, age 62
 - fire marshals, age 55 with 2.0 percent accrual rate
- C. Disability
 - eligible for disability if unable to perform duties with five years of service
 - General Plan formula, no reduction
 - pilots are entitled to 75 percent of salary for maximum of five years
 - deputy fire marshals receive minimum of 15 years of service, 20 years if duty related

3. State Patrol Retirement Plan

- A. Coverage: state troopers, conservation officers, crime bureau and gambling enforcement agents
Contributions: 8.4 percent, employee; 12.6 percent, employer
- B. Benefit formula: 3 percent of successive, five high year salary for each year of service
- C. Retirement age and service years
 - age 55 with three years of service, no reduction
 - age 50 with three years of service, reduction from age 55
- D. Disability
 - eligible for disability if unable to perform duties with three years of service, and immediate coverage if disabled on the job.
 - job related disability, benefit is equal to 60 percent of five high year average salary, plus 3 percent for each year beyond 20; minimum non-job related disability is 45 percent
- E. Survivor benefits
 - member death in service: spouse gets 50 percent of final average salary; with 10 or more years of service spouse's entitlement changes to 100 percent Joint and Survivor annuity when the employee would have reached age 55
 - children get 10 percent of final average salary per child plus \$20 per month, prorated equally to the children until age 18, or 23 if a student, or until married; total benefit limited to 40 percent of final average salary
 - refund with 6 percent interest if no survivor benefit payable
- F. Refunds
 - contributions with 6 percent interest
- G. Annuity and disability option
 - 100 percent Joint and Survivor with bounce back
 - 50 percent Joint and Survivor with bounce back

4. Correctional Employees Plan (provisions differing from General Plan)

- A. Coverage: employees who have direct contact with inmates at Minnesota correctional facilities
 - Contributions: 5.69 percent, employee; 7.98 percent, employer
- B. Benefit formula
 - 2.4 percent of five high year average salary for each year of service or an accelerated annuity to age 62 or 65, then an actuarially adjusted benefit thereafter
- C. Retirement age and service years
 - age 55 with three years of service
 - age 50 with three years of service, reduction from age 55
 - job related disability, benefit equals 50 percent of five high year average salary plus 2.4 percent for each year beyond 20; the minimum non-job related disability is 36 percent

5. Judges Retirement Plan

- A. Coverage: district, appellate and supreme court judges
 - Contributions: 8.0 percent, employee; 20.5 percent, employer
- B. Benefit formula
 - 2.7 percent for each year of service prior to July 1, 1980, plus 3.2 percent of same average salary for service after June 30, 1980; formula applied to five high year average salary within last decade; the formula is capped at 76.8 percent
- C. Retirement age and service years
 - age 70 with one year of service, no reduction
 - age 65 with five years of service, no reduction
 - age 62 with five years of service, reduction from age 65
- D. Disability
 - eligible for disability if unable to perform duties
 - continuation of full salary for one year, then as computed under the formula with no reduction, and subject to minimum of 25 percent of five high year salary
- E. Survivor benefits
 - spouse eligible for 60 percent of normal annuity, subject to a minimum of 25 percent of final average salary
- F. Refunds
 - contributions with 5 percent interest
- G. Annuity and disability options
 - 100 percent Joint and Survivor with or without bounce back
 - 50 percent Joint and Survivor with or without bounce back
 - 15 Year Certain and Life Thereafter
 - 10 Year Certain and Life Thereafter

General Fund Plans

6. Legislators Retirement Plan

- A. Coverage: legislators; newly elected legislators are covered by the Unclassified Plan as of Jan. 1, 1997
Contributions: 9 percent, employee; as needed from General Fund appropriation
- B. Benefit formula
-2.5 percent five high year average salary, plus a variable actuarial adjustment based on retirement age
- C. Retirement age and service years
-age 62 with six years of service, no reduction
-age 55 with six years of service, reduction from age 62
- D. Survivor benefits
-spouse gets 50 percent of benefit or 100 percent Joint and Survivor amount, if legislator is age 60 or more at death
-first child gets 25 percent, next two children get 12.5 percent for a 100 percent maximum
- E. Refunds
-contributions with 6 percent interest
- F. Annuity options
-100 percent Joint and Survivor with bounce back, discounted by value of automatic 50 percent spousal benefit applicable
-100 percent and 50 percent Joint and Survivor options for other than spouse

7. Elected State Officers Plan

- A. Coverage: elected constitutional officers; newly elected constitutional officers are covered by the Unclassified Plan as of Jan. 1, 1999
Note: All constitutional officers are new since the last election, therefore, this plan is closed.

Defined Contribution Plan

1. Unclassified Employees Plan

- A. Coverage: specified employees in unclassified positions
Contributions: 4 percent, employee; 6 percent, employer
- B. Benefits: account balance or annuity benefit withdrawal based on age and 6 percent interest assumption
- C. Retirement age and service years: age 55 with any length of service
- D. Refunds: account value
- E. Annuity and Disability Option
-100 percent Joint and Survivor with bounce back
-50 percent Joint and Survivor with bounce back
-15 Year Certain and Life Thereafter

2. Health Care Savings Plan

- A. Coverage: Negotiated by Bargaining or policy unit.
Contribution: Employee or negotiated employer funding criteria bargained per labor contract; may include severance pay.
- B. Benefits: account balance and investment experience
- C. When used: upon termination of employment, designation of disability, during medical leave beyond 6 months, or if normal leave of absence extends beyond 1 year.
- D. Refunds: none; dependents, or if none, beneficiaries use the account after the death of the member for medical reimbursements as designated in Internal Revenue Service Code
- E. Availability: All public employees of the State of Minnesota.



Financial Section



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Board of Trustees
Minnesota State Retirement System
and
Mr. David Bergstrom, Executive Director
Minnesota State Retirement System

We have audited the accompanying basic financial statements of the Minnesota State Retirement System (MSRS) as of and for the year ended June 30, 2003, as listed in the Table of Contents. These financial statements are the responsibility of MSRS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSRS as of June 30, 2003, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 18 to 19 and the other required supplementary information on pages 36 to 37 are not a required part of MSRS's basic financial statements, but are supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board of Trustees
Minnesota State Retirement System
and
Mr. David Bergstrom, Executive Director
Minnesota State Retirement System
Page 2

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MSRS's basic financial statements. The accompanying financial information listed as supporting schedules in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2003, on our consideration of MSRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



James R. Nobles
Legislative Auditor



Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

December 5, 2003

Management's Discussion and Analysis

Our discussion and analysis of the Minnesota State Retirement System's financial performance provides an overview of the system's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter on pages 4 to 7 and the financial statements beginning on page 20.

Financial Highlights

The three largest MSRS funds remain very well funded on the actuarial basis used to determine contribution rates. The funding percentages are the State Employees Retirement Fund 99.06%, the State Patrol Retirement Fund 109.75%, and the Correctional Employees Retirement Fund 97.06%. Total investment gains were \$141 million, compared to a \$654 million loss the previous year. Total monthly benefit recipients increased by over 2,000 and total monthly benefits paid increased by over \$23 million. Total contributions increased by more than \$34 million or over 16 %. Administrative expenses increased by only \$503,000 or 10.5%.

Overview of the Financial Statements

This Comprehensive annual financial report includes two basic financial statements, the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. The purpose of these statements, along with the accompanying Notes to the Financial Statements, is to comply with Minnesota Statutes Chapter 356.20 and to provide the reader with financial information in a format that is reasonably comparable to that of other public pension trust funds. As indicated in Note 2, these statements are prepared using the accrual basis of accounting as required by generally accepted accounting principles.

The Statement of Plan Net Assets provides a summary of financial resources on hand and obligations owed as of a particular point in time, June 30, 2003. The assets available and the liabilities owed are reported at fair value as of that date. The difference between the two is the net amount of assets in excess of the liabilities which are available for payment of future pension benefits or other obligations. Net Assets at the June 30, 2003 compared to June 30, 2002 were as follows:

	(in millions)			
	F.Y. 2002	F.Y. 2003	Change	% Change
Total Assets	8,094	7,995	(99)	-1.22%
Total Liabilities	668	590	(78)	-11.68%
Net Assets	7,426	7,405	(21)	-0.28%

The Statement of Changes in Plan Net Assets presents the revenues and other items that added to and the expenses and other items that deducted from the Net Assets since the last fiscal year ended June 30, 2002. Total Additions by Major Type and Total Deductions by Type for the fiscal year ended June 30, 2003 compared to fiscal year 2002 were as follows:

	(in millions)			
	F.Y. 2002	F.Y. 2003	Change	% Change
Total Additions (by Major Source):				
Member Contributions	102	130	28	27.45%
Employer Contributions	105	111	6	5.71%
Investment Income (Net)	(654)	141	795	121.56%
Other (includes transfers)	15	17	2	13.33%
Total Additions	(432)	399	831	192.36%
Total Deductions (by Type):				
Benefits	366	389	23	6.28%
Refunds	14	14	0	0.00%
Administrative Expenses	5	5	0	0.00%
Other (includes transfers)	9	12	3	33.33%
Total Deductions	394	420	26	6.60%
Net Increase (Decrease)	(826)	(21)	805	97.46%

The Notes to the Financial Statements are an integral part of the financial statements. They provide additional information relevant to what has been reported in the statements. This information can be either descriptive as in the case of significant accounting policies or supplemental such as the debt redemption schedule. The Required Supplemental Information is additional schedules provided for the purpose of giving the statement reader some historical information that can be used to determine whether the financial condition of MSRS funds is improving or deteriorating over a longer period of time.

Financial Analysis of Individual Funds

MSRS administers six defined benefit funds and two defined contribution funds. While each of the funds has some characteristics that are different from the others, such as membership served, each also has some characteristics in common, such as the shared investment pools.

Defined Benefit Funds

The following table compares various performance measures of each of the funds to the previous fiscal year. The Legislative Retirement Fund and the Elected State Officers Retirement Fund are excluded from this analysis because they are funded mostly by state General Fund appropriations.

	(in millions)			
	SERF	SPRF	CERF	JRF
Total Assets, 06/30/2003	\$6,660	\$503	\$408	\$114
Total Assets, 06/30/2002	\$6,769	\$518	\$405	\$118
Change	(\$109)	(\$15)	\$ 3	(\$4)
% Change	-1.61%	-2.90%	0.74%	-3.39%
Total Liabilities, 06/30/2003	\$496	\$41	\$31	\$ 8
Total Liabilities, 06/30/2002	\$569	\$41	\$32	\$11
Change	(\$73)	\$0	(\$1)	(\$3)
% Change	- 12.83	0.00	-3.13	- 27.27%
Net Assets, 06/30/2003	\$6.164	\$462	\$377	\$106
Net Assets, 06/30/2002	\$6,200	\$477	\$373	\$107
Change	(\$ 36)	(\$15)	\$ 4	(\$1)
% Change	- 0.58%	- 3.15%	1.07%	-0.93%

The overall financial position of these funds declined slightly from the previous year. Except for the Judges Retirement Fund, they all approach or exceed 100% funding on an actuarial basis. The Judges Retirement Fund is reasonably well funded at over 76%.

	SERF	SPRF	CERF	JRF
Total Additions, year ended 06/30/2003	\$290	\$21	\$24	\$12
Total Additions, year ended 06/30/2002	(\$380)	(\$31)	(\$15)	\$2
Change	\$670	\$52	\$39	\$10
% Change	176.32%	167.74%	260.00%	500.00%
Total Deductions, year ended 06/30/2003	\$326	\$35	\$20	\$14
Total Deductions, year ended 06/30/2002	\$312	\$33	\$18	\$13
Change	\$14	\$2	\$2	\$1
% Change	4.49%	6.06%	11.11%	7.69%
Net Addition (Deduction) year ended 06/30/2003	(36)	(14)	4	(2)
Net Addition (Deduction) year ended 06/30/2002	(692)	(64)	(33)	(11)
Change	656	50	37	9
% Change	94.80%	78.13%	112.12%	81.82%

Although most of the funds showed a small decrease in net assets, all of the funds are financially healthy and experienced improvement in investment returns.

Defined Contribution Funds

The Health Care Savings Fund has shown rapidly increasing membership since it began operations in October, 2001. The Unclassified Employees Retirement Fund was affected by the same investment market conditions that affected the defined benefit funds. Fortunately for its members, they have the option to annuitize their account balance at retirement or, during periods of market decline, elect the optional defined benefit in the State Employees Retirement Fund. Because individual members select their own investment options for both of these funds, comparisons of fund investment earnings are not meaningful.

Summary

MSRS experienced no significant changes in net assets during the past fiscal year. All of the funds remain financially sound and are beginning to realize the benefits of the investment market improvements that are now occurring. This financial report is intended to provide a general overview of MSRS' finances. Questions or comments concerning the contents of this report should be sent to Minnesota State Retirement System, 60 Empire Drive Suite 300, St. Paul, MN 55103-3000 or to www.msrs.state.mn.us.

Statement of Plan Net Assets (as of June 30, 2003)

	Defined Benefit Plans			
	State Employees	State Patrol	Correctional Employees	Judges
Assets:				
Cash & Short-Term Investments				
Cash	\$240	\$24	\$26	\$21
Short-Term Investment Pools	41,478	5,144	6,413	5,171
	<u>\$41,718</u>	<u>\$5,168</u>	<u>\$6,439</u>	<u>\$5,192</u>
Receivables:				
Accounts Receivable	5,779	362	633	40
Accrued Interest	23	1	1	0
Due from Other Plans	1,351	0	0	0
Due from MPRI Fund	8,281	0	0	1,715
	<u>\$15,434</u>	<u>\$363</u>	<u>\$634</u>	<u>\$1,755</u>
Investment Pools (at fair value)				
Equity in Post Retirement Fund	\$2,396,292	\$256,051	\$150,786	\$72,426
Fixed Investment Pool	877,491	48,298	51,992	6,183
External Domestic Equity Fund	1,248,125	68,698	73,995	8,795
Passive Domestic Equity Pool	536,938	29,553	31,815	3,783
Real Estate Fund Pool	133,274	7,336	7,897	939
MN Resources Fund Pool	59,266	3,262	3,512	418
MN Venture Capital Pool	318,478	17,529	18,871	2,244
Global Equity Pool	538,691	29,650	31,919	3,795
Supplemental Investment Fund	0	0	0	0
	<u>\$6,108,555</u>	<u>\$460,377</u>	<u>\$370,747</u>	<u>\$98,583</u>
Securities Lending Collateral	488,522	37,033	29,591	8,262
Capital Assets	6,022	0	0	0
Nondedicated Member Deposits	0	0	0	0
Total Assets	<u>\$6,660,251</u>	<u>\$502,941</u>	<u>\$407,411</u>	<u>\$113,792</u>
Liabilities:				
Accounts Payable	\$1,485	\$72	\$76	\$9
Accrued Compensated Absences	457	0	0	10
Securities Lending Collateral	488,522	37,033	29,591	8,262
Deferred Revenue	0	0	0	10
Due to MPRI fund	0	3,324	664	0
Due to other plans	24	91	282	34
Due to General Fund	0	0	0	0
Bonds Payable	5,709	0	0	0
Total Liabilities	<u>\$496,197</u>	<u>\$40,520</u>	<u>\$30,613</u>	<u>\$8,315</u>
Net Assets Held in Trust for Pension Benefits:	<u>\$6,164,054</u>	<u>\$462,421</u>	<u>\$376,798</u>	<u>\$105,477</u>

(A Schedule of Funding Progress for each of the defined benefit plans are on page 36.)

(In Thousands)

Defined Contribution Plans

Legislators	Elected State Officers	Unclassified Employees	Health Care Savings Plan	Totals
\$3	\$0	\$232	\$576	\$1,122
0	0	2,324	2,967	63,497
<u>\$3</u>	<u>\$0</u>	<u>\$2,556</u>	<u>\$3,543</u>	<u>\$64,619</u>
0	0	269	2,597	9,680
0	0	0	0	25
0	0	0	24	1,375
74	0	0	0	10,070
<u>\$74</u>	<u>\$0</u>	<u>\$269</u>	<u>\$2,621</u>	<u>\$21,150</u>
\$30,991	\$0	\$0	\$0	\$2,906,546
0	0	0	0	983,964
0	0	0	0	1,399,573
0	0	0	0	602,089
0	0	0	0	149,446
0	0	0	0	66,458
0	0	0	0	357,122
0	0	0	0	604,055
0	0	228,965	20,159	249,124
<u>\$30,991</u>	<u>\$0</u>	<u>\$228,965</u>	<u>\$20,159</u>	<u>\$7,318,377</u>
2,618	0	10,787	335	577,148
0	0	0	0	6,022
7,895	203	0	0	8,098
<u>\$41,581</u>	<u>\$203</u>	<u>\$242,577</u>	<u>\$26,658</u>	<u>\$7,995,414</u>
\$0	\$0	\$0	0	\$1,642
0	0	0	0	457
2,618	0	10,787	335	577,148
0	0	0	0	10
0	0	0	0	3,988
27	1	234	682	1,375
3	0	0	0	3
0	0	0	0	5,709
<u>\$2,648</u>	<u>\$1</u>	<u>\$11,021</u>	<u>\$1,017</u>	<u>\$590,332</u>
<u>\$38,933</u>	<u>\$202</u>	<u>\$231,556</u>	<u>\$25,641</u>	<u>\$7,405,082</u>

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Plan Net Assets (As of June 30, 2003)

(In Thousands)

	Defined Benefit Funds			
	State Employees	State Patrol	Correctional Employees	Judges
Additions:				
Contributions:				
Member contributions	\$83,850	\$4,555	\$7,611	\$2,574
Employer contributions	80,399	6,826	10,480	6,923
General Fund Contributions	0	0	0	0
Total Contributions	\$164,249	\$11,381	\$18,091	\$9,497
Investment income:				
Investment Income	\$122,256	\$9,597	\$5,754	\$2,690
Less Investment Expense:	8,323	638	510	142
Net Investment Income	\$113,933	\$8,959	\$5,244	\$2,548
Income from securities lending activities:				
Security Lending Income	\$9,336	\$709	\$565	\$158
Security Lending Expenses:				
Borrower Rebates	\$6,091	\$464	\$369	\$104
Management Fees	825	62	50	14
Total Security Lending Expenses	\$6,916	\$526	\$419	\$118
Net Income From Security Lending Activities	\$2,420	\$183	\$146	\$40
Total Net Investment Income	\$116,353	\$9,142	\$5,390	\$2,588
Other additions:				
Transfers From Other Plans	\$9,549	\$0	\$529	\$0
Other income	217	0	0	10
Total Other Additions	\$9,766	\$0	\$529	\$10
Total Additions	\$290,368	\$20,523	\$24,010	\$12,095
Deductions:				
Annuity benefits	\$311,472	\$34,316	\$19,256	\$13,558
Health Care Benefits	0	0	0	0
Refunds	8,195	12	607	0
Interest to MPRI Fund	852	134	327	38
Transfers to Other Plans	1,320	0	0	0
Administrative expenses	4,191	94	286	37
Total Deductions	\$326,030	\$34,556	\$20,476	\$13,633
Net increase	\$(35,662)	\$(14,033)	\$3,534	\$(1,538)
Net Assets, July 1, 2002	\$6,199,716	\$476,454	\$373,264	\$107,015
Net Assets, June 30, 2003	\$6,164,054	\$462,421	\$376,798	\$105,477

The accompanying notes are an integral part of the financial statements.

Defined Contribution Plans				
Legislators	Elective State Officers	Unclassified Employees	Health Care Savings Plan	Totals
\$433	\$0	\$4,642	\$26,892	\$130,557
0	0	6,165	0	110,793
5,396	371	0	0	5,767
<u>\$5,829</u>	<u>\$371</u>	<u>\$10,807</u>	<u>\$26,892</u>	<u>\$247,117</u>
\$561	\$0	\$6,133	\$505	\$147,496
46	0	0	0	9,659
<u>\$515</u>	<u>\$0</u>	<u>\$6,133</u>	<u>\$505</u>	<u>\$137,837</u>
\$50	\$0	\$212	\$4	\$11,034
\$33	\$0	\$147	\$2	\$7,210
4	0	16	1	972
<u>\$37</u>	<u>\$0</u>	<u>\$163</u>	<u>\$3</u>	<u>\$8,182</u>
\$13	\$0	\$49	\$1	\$2,852
<u>\$528</u>	<u>\$0</u>	<u>\$6,182</u>	<u>\$506</u>	<u>\$140,689</u>
\$0	\$0	\$791	\$0	\$10,869
0	0	33	58	318
<u>\$0</u>	<u>\$0</u>	<u>\$824</u>	<u>\$58</u>	<u>\$11,187</u>
<u>\$6,357</u>	<u>\$371</u>	<u>\$17,813</u>	<u>\$27,456</u>	<u>\$398,993)</u>
\$5,539	\$370	\$0	\$0	\$384,511
0	0	0	4,056	4,056
94	0	5,203	0	14,111
40	0	76	0	1,467
0	0	9,550	0	10,870
27	1	200	480	5,316
<u>\$5,700</u>	<u>\$371</u>	<u>\$15,029</u>	<u>\$4,536</u>	<u>\$420,331</u>
\$657	\$0	\$2,784	\$22,920	\$21,338
<u>\$38,276</u>	<u>\$202</u>	<u>\$228,772</u>	<u>\$2,721</u>	<u>\$7,426,420</u>
<u>\$38,933</u>	<u>\$202</u>	<u>\$231,556</u>	<u>\$25,641</u>	<u>\$7,405,082</u>

Notes of the Financial Statements

1. Description of the System

The Minnesota State Retirement System is the administrator of a multiple employer, cost sharing public employee retirement system. It consists of six defined benefit funds and two defined contribution funds. On June 30, 2003, the number of employers contributing to the various funds was:

-State of Minnesota & Branches	9
-University of Minnesota	1
-Metropolitan agencies	6
-Counties	26
-Cities	47
-School Districts	96
-Unions	3
	<u>188</u>

MSRS funds are pension trust funds of the state of Minnesota and as such are included with similar funds in its comprehensive annual financial report. This report includes financial information for MSRS only.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

These financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period when they become due. Benefits and refunds are recognized when due and payable as specified by statute.

B. Investment Policies

Pursuant to Minnesota Statutes, the assets of MSRS funds are pooled with those of other funds and invested by the State Board of Investment. Investments primarily include obligations and stocks of the United States and Canadian governments, their agencies, registered corporations and short-term obligations of specifically high quality. Various alternative investments, including international securities, are limited by statute to 35 percent of the fund pool.

C. Investment Valuations

Investments are reported at fair value. Fair value is the proportionate share of the aggregate market value of the investment portfolio of the pool in which the funds participate. Market value is the last reported sales price for securities traded on national or international exchanges. If a security is not actively traded, then the market value is its estimated fair value. Short-term securities are reported at cost, which approximates fair value.

D. Capital Assets

Capital assets consist of office equipment and fixtures, land, building, and unamortized bond issuance charges. All were capitalized at historical cost at the date of acquisition, issuance, or completion. Balances at June 30, 2003 were:

	<u>Cost</u>	(in 000s) <u>Accumulated Depreciation/ Amortization</u>	<u>Undepreciated/ Unamortized Balance</u>
Office equipment & Fixtures	\$444	\$236	\$208
Land	87	N/A	87
Building	5,954	298	5,656
Building Equipment	2	0	2
Deferred Bond Issuance Charges	74	5	69
Totals	<u>6,561</u>	<u>539</u>	<u>6,022</u>

The estimated useful lives and the depreciation methods used were as follows:

	<u>Useful Life</u>	<u>Depreciation Method</u>
Office equipment & Fixtures	3 - 10	Straight Line
Land	N/A	Not Depreciated
Building	30	Straight Line
Building Equipment	10	Straight Line
Deferred Bond Issuance Charges	30	Straight Line

E. Accrued Compensated Absences

MSRS employees accrue vacation, sick, and compensatory leave in accordance with various collective bargaining agreements. The obligation, \$ 457,313, for future payment of these balances at June 30, 2003 has been accrued to the extent that the right to receipt is vested or expected to become vested.

F. Nondedicated Member Deposits

Member contributions to the Legislators' and Elective State Officers' Funds are deposited into the general operating revenues of the state. In the event of plan termination, the state Department of Finance believes that Minnesota's General Fund is obligated to repay member contributions. Because this contingency is considered unlikely, these amounts have not been appropriated in the state's General Fund. These balances at June 30, 2003, were:

	(in 000s)
- Legislators Retirement Fund	\$7,895
- Elective State Officers' Fund	203
	<u>\$8,098</u>

G. Reserve Accounts

-Employee reserve

For the defined benefit funds, the employee reserve is credited with the cumulative employee contributions. Upon retirement, these contributions are combined with the necessary state reserve moneys and transferred to the Minnesota Post-Retirement Investment Fund to provide the resources for future annuity benefits. Employees who terminate their employment prior to retirement can choose to receive a refund of their contributions plus interest or a deferred annuity benefit. For the defined contribution funds (Unclassified Employees' Retirement Fund and Health Care Savings Fund), the employee reserve includes all assets that are not reserved for the payment of administrative expenses. These balances at June 30, 2003 were:

	(in 000s)
State Employees' Retirement Fund	\$855,953
State Patrol Retirement Fund	40,619
Correctional Employees' Retirement Fund	55,441
Judges' Retirement Fund	18,313
Legislators' Retirement Fund	6,585
Elective State Officers' Retirement Fund	80
Unclassified Employees' Retirement Fund	230,901
Health Care Savings Fund	26,231
	<u>\$1,234,123</u>

-Benefit Reserve

For all funds except the Unclassified Employees' Retirement Fund and the Health Care Savings Fund, the benefit reserve is credited with all investment earnings and employer contributions. For the Unclassified Employees' Retirement Fund and the Health Care Savings Fund, they include the remaining balances of fees collected to pay administrative expenses and short-term interest earnings on contribution balances awaiting transfer to investment funds.

These balances at June 30, 2003, were:

	(in 000s)
State Employees' Retirement Fund	\$2,486,689
State Patrol Retirement Fund	119,098
Correctional Employees' Retirement Fund	143,756
Judges' Retirement Fund	15,555
Legislators' Retirement Fund	(1,838)
Elective State Officers' Retirement Fund	122
Unclassified Employees' Retirement Fund	655
Health Care Savings Fund	(590)
	<u>\$2,763,447</u>

-Minnesota Post-Retirement Investment Fund reserve

The MPRI Fund reserve equals the corresponding assets invested in it. The proceeds of the MPRI Fund are used to pay the monthly pension benefits of eligible retirees. This account is adjusted annually to fund the actuarial value of benefits remaining. The Elected State Officers, the Unclassified Employees Retirement Fund and the Health Care Savings Fund do not participate in this reserve. These balances at June 30, 2003 were:

	(in 000s)
State Employees' Retirement Fund	\$2,821,412
State Patrol Retirement Fund	302,704
Correctional Employees' Retirement Fund	177,601
Judges' Retirement Fund	71,609
Legislators Retirement Fund	34,186
	<u>\$3,407,512</u>

H. Actuarial Assumptions

Actuarial valuations and experience studies are performed annually at fiscal year end for all defined benefit funds, except the Legislative Retirement Fund and the Elected State Officers Retirement Fund. For this report, fiscal year end was June 30, 2003. The entry age normal actuarial cost method - a projected benefit cost method - is used to value all of the defined benefit funds. Contributions are made as a level percentage of covered salary. The actual inflation rate for all funds was 2.103%, there is no assumed inflation rate for any of the funds. The assumed investment rate of return for all funds is 8.5%. The designated period for amortizing any unfunded liabilities is an open-ended 30 years. Assumed salary scales for the State Employees Retirement Fund are increased in annual increments ranging from 6.75% at age 20 to 5.25% at age 70. The State Patrol Retirement Fund assumes similar increases ranging from 7.75% to 5.25%. The Correctional Retirement Fund assumes similar increases ranging from 7.75% to 5.25%. The Judges Retirement Fund assumes salary increases of 5% annually. The Legislative Retirement Fund and the Elected State Officers Retirement Fund, a closed plan, also assume salary increases of 5% annually. The Unclassified Retirement Fund is a defined contribution plan and therefore there are neither assumptions nor actuarial valuations. These financial statements and the supplementary schedules that follow were prepared using the preceding assumptions.

3. Cash and Investments

A. Cash

MSRS cash is deposited into the state's treasury accounts. On June 30, 2003, and throughout the year, these accounts were secured by pledged collateral and deposit insurance to the extent required by Minnesota Statutes.

B. Credit risk

Investments are classified according to their risk level. The three categories are:

- 1) -insured and registered investments or those securities which are held by the state or its agent in the state's name.
- 2) -uninsured or unregistered investments whose securities are held by a counterparty's trust department or agent in the state's name.

- 3) - uninsured or unregistered investments whose securities are held by a counterparty's trust department or agent, in other than the state's name

All MSRS investments are held in State Board of Investment administered pools, open-end mutual funds or guaranteed investment contracts. None of these are considered securities for risk assessment purposes.

C. Investment Valuation

The combined funds' proportionate share in the cost and fair values of the State Board of Investments' pools at June 30, 2003, were:

	(In 000s)	
	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	978,907	983,964
External Domestic Equity	1,556,936	1,399,573
Passive Domestic Equity	639,655	602,089
Real Estate	127,162	149,446
Minnesota Resources	68,586	66,458
Minnesota Venture Capital	473,624	357,122
Global Equity	692,467	604,055
Post-Retirement Fund	3,777,100	2,906,546
Supplemental Investment Fund	133,214	249,124
Total	<u>\$8,447,651</u>	<u>\$7,318,377</u>

D. Securities Lending

The amounts shown on the financial statement are MSRS' proportionate share of securities loaned, collateral pledged and loan income that resulted from the lending activity of investment managers retained by the State Board of Investment.

GASB Statement 28 Disclosures

State statutes do not prohibit Minnesota from participating in securities lending transactions, and Minnesota has, by way of a Custodial Trust Agreement, authorized State Street Bank and Trust Company ("State Street") to act as agent in lending Minnesota's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, State Street lent, on behalf of Minnesota, certain securities held by State Street as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than one hundred percent (100%) of the market value of loaned securities.

Minnesota did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. And State Street indemnified Minnesota by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, Minnesota and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, in the Minnesota State Board of Investments Fund, a separately managed vehicle. As of June 30, 2003, such pool had an average duration of 70 days and an average weighted maturity of 793 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. On June 30, 2003 Minnesota had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for Minnesota as of June 30, 2003 were \$3,387,545,848.95 and \$ 3,275,226,066.46, respectively.

GASB Statement 31 Disclosures

During the fiscal year, SBI, has, via a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Cash collateral received in respect of such loans was invested at the direction of SBI, in the Minnesota State Board of Investments Fund, a separately managed vehicle (the "Fund"). Please note the following:

- a. Method for determining fair value. The fair value of investments held by the Fund is based upon valuations provided by a recognized pricing service.
- b. Policy for utilizing amortized cost method. Because the Fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the Fund's investments at fair value for reporting purposes.
- c. Regulatory oversight. The Fund is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors (including the Fund) are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of SBI's position in the Fund is the same as the value of the Fund shares.
- d. Involuntary Participation. There was no involuntary participation in an external investment pool by SBI for the fiscal year.
- e. Necessary Information. Not applicable.
- f. Income assignment. No income from one fund was assigned to another fund by State Street during the fiscal year.

4. Interfund Receivables and Payables

As of June 30, 2003, interfund receivables and payables were:

	(in 000s)	
	Interfund Receivables	Interfund Payables
Defined Benefit Retirement Funds		
State Employees'	\$1,351	\$24
State Patrol		91
Correctional Employees'		282
Judges'		34
Legislators'		27
Elective State Officers'		1
Defined Contribution Retirement Funds		
Unclassified Employees'		234
Health Care Savings	24	682
Totals	\$1,375	\$1,375

Interfund transfers are primarily the result of elective membership eligibility changes that have occurred during the fiscal year. These interfund transfers during fiscal year 2003 were as follows:

	(in 000s)	
	<u>Transfers In</u>	<u>Transfers Out</u>
Defined Benefit Retirement Funds		
State Employees	9,549	1,320
State Patrol	0	0
Correctional Employees	529	0
Judges	0	0
Legislators	0	0
Elected State Officials	0	0
Defined Contribution Retirement Funds		
Unclassified	791	9,549
Health Care Savings Plan	0	0
Totals	<u>10,869</u>	<u>10,869</u>

5. Leases

MSRS moved into its new offices in the Retirement Systems of Minnesota building on September 6, 2001. The three Minnesota statewide retirement systems, MSRS, Public Employees Retirement Association, and Teachers Retirement Association, jointly own this building under the terms of an interagency agreement. MSRS also leases office space in St. Cloud and Mankato for branch offices. Future obligations under the terms of those leases are as follows:

<u>Fiscal Year</u>	<u>St. Cloud</u>	<u>Mankato</u>	<u>Total</u>
2004	\$16,093	\$21,098	\$37,191
2005	8,047	21,783	29,830
2006	-	22,194	22,194
2007	-	22,605	22,605
2008	-	3,767	3,767
Totals	<u>\$24,140</u>	<u>\$91,447</u>	<u>\$115,587</u>

6. Actuarial Asset Valuations

Minnesota statutes provide for a graduated recognition of the unrealized investment gains or losses. The Actuarial Basis of assets is adjusted to spread the differences between actual return (measured on a fair value basis) and expected return (8 1/2 percent of assets) over five years. The amounts shown on the "Statement of Plan Net Assets" are presented at fair value and do not include any of the preceding adjustments. The unfunded liability determined using both methods as of June 30, 2002 for the Legislators' and Elected State Officer' Plans and June 30, 2003 for the other plans were:

	(in 000s)	
	<u>Actuarial Basis</u>	<u>Fair Value Basis</u>
State Employees'	\$73,379	\$1,666,617
State Patrol	(52,441)	76,559
Correctional Employees'	14,258	108,176
Judges'	42,149	70,814
Legislators' (2002)	32,569	39,137
Elective State Officers' (2002)	3,874	3,873
	<u>113,788</u>	<u>1,965,176</u>

7. Optional Retirement Annuities

In the defined benefit funds, two Joint-and-Survivor annuity options are that provide a 50 percent or a 100 percent survivor benefit to the beneficiary, with the right of reversion to the Single-Life amount if the beneficiary dies before the member. A 15-Year Period Certain and Life thereafter annuity is also available. For the Judges' Plan a 10-Year Period Certain and Life Thereafter annuity is provided. By statute, the Legislators' and Elected State Officers' Plans provide, automatically, a 50 percent benefit continuance to a surviving spouse. Also, legislators can choose 100 percent survivor coverage with an actuarially reduced benefit.

8. Descriptions of Individual Defined Benefit Funds

A. State Employees' Retirement Fund

The State Employees' Retirement Fund includes the General Employees' Plan, a multiple employer, cost sharing plan, and the Military Affairs Plan, the Transportation Pilots' Plan, and the Fire Marshal's Plan, all single employer plans. Only certain employees of the Departments of Military Affairs, Transportation and the State Fire Marshal's office are eligible to be members of those plans, but all state employees who are not members of another plan are covered by the General Employees' Plan. Membership statistics, as of June 30, 2003, follow:

Members receiving benefits:	
-retirees	19,049
-beneficiaries	2,405
Terminated members:	
-vested, not receiving benefits	12,679
-nonvested	8,626
Active members:	
-vested	7,113
-nonvested	11,023
Total	90,895
Annual payroll (June 30, 2003):	\$2,009,975,000
Participating employers	33

Minnesota Statutes, Section 352.04 requires that eligible employees contribute 4 percent of their total compensation. The employer contributes 4 percent. Retirement benefits can be computed by two methods: the step formula and the level formula. Step formula benefits are 1.2 percent of the high five-year average salary for each of the first 10 years, plus 1.7 percent for each year thereafter. Also, it includes full benefits under the Rule of 90. In contrast, the level formula does not include the Rule of 90, benefits are 1.7 percent of the high five-year average salary for all years of service, and full benefits are available at normal retirement age.

B. State Patrol Retirement Fund

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single employer plan. Membership is limited to those state employees who are state troopers, conservation officers, crime-bureau officers or gambling-enforcement agents. Membership statistics, as of June 30, 2003, follow:

Members receiving benefits:	
-retirees	623
-beneficiaries	162

Terminated members:	
-vested, not receiving benefits	20
-nonvested	13
Active members:	
-vested	720
-nonvested	85
Total	1,623
Annual payroll (June 30, 2003):	\$ 54,175,000

Minnesota Statutes, Section 352B.02 requires that eligible employees contribute 8.4 percent of their total compensation, The employer contributes 12.60 percent. Members become eligible for normal retirement benefits at age 55 with a minimum of three years of service. The benefit is 3 percent of the high five-year average salary for each year of service.

C. Correctional Employees' Retirement Fund

The Correctional Employees' Retirement Fund includes only the Correctional Plan, a single employer plan. Membership is limited to those state employees who have direct responsibility for inmates at Minnesota correctional facilities. Membership statistics, as of June 30, 2003, follow:

Members receiving benefits:	
-retirees	975
-beneficiaries	85
Terminated members:	
-vested, not receiving benefits	601
-nonvested	340
Active members:	
-vested	2,360
-nonvested	902
Total	5,263
Annual payroll (June 30, 2003):	\$ 131,328,000

Minnesota Statutes, Section 352.91 requires that eligible employees contribute 5.69 percent of their total compensation. The employer contributes 7.98 percent. Members become eligible for normal retirement benefits at age 55 with three years of service. The benefit is 2.4 percent per year of service credit multiplied by the high five-year average monthly salary. The monthly benefit can be received either as level lifelong payments or accelerated payments until age 62 or 65. If the payment is accelerated, upon attaining the reversion age the benefit is adjusted actuarially for the larger payment provided.

D. Judges' Retirement Fund

The Judges' Retirement Fund includes only the Judges' Retirement Plan, a single employer plan. Active membership is limited to Minnesota district, appellate and supreme court judges. Also, retirees include municipal and county court judges. Membership statistics, as of June 30, 2003, follow:

Members receiving benefits:	
-retirees	166
-beneficiaries	87

Terminated members:	
-vested, not receiving benefits	26
-nonvested	1
Active Members:	
-vested	161
-nonvested	127
Total	568
Annual payroll (June 30, 2003):	\$33,771,000

Minnesota Statutes, Section 490.123 requires that eligible employees contribute 8.00 percent of the total compensation. The employer contributes 20.5 percent. Members become eligible for retirement benefits at age 65 with five years of service, age 62 with five years of service and a reduced benefit, or age 70, which is mandatory retirement, with one year of service. The benefit is 2.7 percent for each year of service prior to July 1, 1980, plus 3.2 percent of the same average salary for service after June 30, 1980. The formula is applied to the high five-year average salary.

E. General Fund Plans

The General Fund Plans include the Legislators' Retirement Plan and the Elected State Officers' Plan. Each is a single employer plan. Members of the Minnesota House of Representatives and Senate are included in the Legislators' Retirement Plan; the Elected State Officers' Plan includes only the elected constitutional officers. Both plans are closed to new members. Persons first elected to take office on January 1, 1999 are members of the Unclassified Plan; those who took office prior to January 1, 1999 were given the option of selecting membership in whichever plan they preferred. Membership statistics, as of June 30, 2003, follow:

	Legislators	Elective State Officers
Members receiving benefits:		
-retirees	244	8
-beneficiaries	66	5
Terminated members:		
-vested, not receiving benefits	119	3
-nonvested	5	
Active members:		
-vested	90	0
-nonvested	1	0
Totals	525	16
Annual payroll (June 30, 2003):	\$ 3,610,000	NA*

*The remaining members have either retired or elected coverage under the Unclassified Plan. Since this plan is now closed, there no longer is an active payroll.

Minnesota Statutes, Sections 3A.03 and 352C.09 require that legislators contribute 9 percent of their salary including certain per diem payments, and elected officers contribute 9 percent of their salary. Both plans are funded by annual appropriations from the state's General Fund. Legislators are eligible for full retirement benefits upon reaching age 62 with six years of service or for a reduced benefit at age 60 with the same service. The benefit is 2.5 percent per year of service multiplied by the high five-year average covered compensation, but not to exceed their final annual compensation. Except for a minimum eight-year service requirement, the Elected State Officers' Plan has the same benefit eligibility.

9. Individual Descriptions of Defined Contribution Funds

A. Unclassified Employees' Retirement Fund

The Unclassified Employees' Retirement Fund is a defined contribution fund comprised entirely of a single, multiple-employer defined contribution plan, the Unclassified Employees' Retirement Plan. Membership is limited to certain, specified employees of the state of Minnesota and various statutorily, designated entities. Membership statistics as of June 30, 2003 were:

-Active members	1,731
-Inactive members	1,766
Total	3,497
-Annual payroll (June 30, 2003)	\$ 98,782,000
-Participating employers	12
- Contribution rates	
Employee	4%
Employer	6%

Minnesota Statutes, Section 352D.01.12 authorized creation of this plan. It is considered a money purchase plan, i.e., members vest only to the extent of the value of their accounts (employee contributions plus employer contributions plus (minus) investment gains (losses), less administrative expenses). Retirement and disability benefits are available through conversion, at the member's option, to the General Employees' Plan provided he or she had prior service in that plan or at least 10 years of service. This reversion option is a contingent liability of the State Employees' Retirement Fund and actuarially valued as of June 30, 2003 in the amount of \$ 21,759,000.

B. Health Care Savings Fund

The Health Care Savings Fund is a defined contribution fund comprised entirely of the Health Care Savings Plan. It is an employer-sponsored program authorized by Minnesota Statutes Section 352.98 that allows employees to save tax-deferred contributions in an investment account to be used to reimburse the members for future medical expenses and/or medical insurance premiums after they have terminated employment. As result of various IRS rulings and regulations, benefit payments are tax exempt. Program participation is mandated by either collective bargaining agreement or personnel policy. Membership statistics as of June 30, 2003 follow.

-Active members	4,899
-Inactive members	1,200
Total	6,099
-Annual payroll (June 30, 2003)	NA
-Participating employers	159

- Contribution rates are determined by collective bargaining agreements and employer personnel policies. They are highly variable, ranging from a percentage of weekly earnings to terminal, lump sum benefits such as severance pay.

10. Long-term Debt

MSRS has entered into an agreement with the Teachers Retirement Association and the Public Employees Retirement Association for the purpose of construction and ownership of an administrative office building. Each agency owns an undivided portion of the asset total equal to their relative number of employees at the time the agreement was approved. For MSRS that portion was 20.4 percent of the total; it has since been revised to 20.2 percent. In order to finance building construction, on June 1, 2000 the state Department of Finance issued \$29,000,000 in 30-year revenue bonds. The bonds are secured by the value of the land purchased and the building that was constructed and are to be repaid from the revenues of the three retirement systems. The table that follows shows the debt service amounts for which MSRS is directly responsible. In the event of default, MSRS would be liable for the entire remaining outstanding principal and interest balance of the bonds, \$56,632,956. Bonds Payable on the Statement of Plan Net Assets includes interest accrued for the month of June in the amount of \$27,262.

Debt Repayment Schedule by Fiscal Year

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal & Interest</u>
2004	95,950	327,144	\$423,094
2005	101,000	321,987	\$422,987
2006	106,050	316,558	\$422,608
2007	111,100	310,858	\$421,958
2008	116,150	304,886	\$421,036
2009	121,200	298,643	\$419,843
2010	126,250	292,129	\$418,379
2011	136,350	285,343	\$421,693
2012	141,400	277,980	\$419,380
2013	151,500	270,273	\$421,773
2014	156,550	261,941	\$418,491
2015	166,650	253,252	\$419,902
2016	176,750	243,920	\$420,670
2017	186,850	233,934	\$420,784
2018	196,950	223,283	\$420,233
2019	212,100	211,959	\$424,059
2020	222,200	199,763	\$421,963
2021	237,350	186,875	\$424,225
2022	252,500	172,931	\$425,431
2023	267,650	158,096	\$425,746
2024	282,800	142,372	\$425,172
2025	303,000	125,758	\$428,758
2026	318,150	107,956	\$426,106
2027	338,350	89,265	\$427,615
2028	363,600	69,387	\$432,987
2029	383,800	47,571	\$431,371
2030	409,050	24,543	\$433,593
Total	<u>\$5,681,250</u>	<u>\$5,758,607</u>	<u>\$11,439,857</u>

11. Required Supplemental Information

A [Schedule of Funding Progress](#) and a [Schedule of Employer Contributions](#) for each of the defined benefit plans are presented in the pages that follow these notes.

12. Administrative Expenses

All MSRS administrative expenses are disbursed from the State Employees Retirement Fund. At fiscal year-end, these expenses are allocated pursuant to an approved cost reallocation plan to the various funds administered. Each fund then reimburses the State Employees Retirement Fund for their allocated portion of administrative expenses. After allocation, the expenses by fund at June 30, 2003 are as follows:

Expenses by Fund:

(In 000s)

State Employees Retirement Fund	\$4,191
State Patrol Retirement Fund	94
Correctional Employees Retirement Fund	286
Judges Retirement Fund	37
Legislators Retirement Fund	27
Elected State Officers Retirement Fund	1
Unclassified Employees Retirement Fund	200
Health Care Savings Fund	480
Total Expenses	<u><u>\$5,316</u></u>

Required Supplemental Information

Schedule of Funding Progress

Year Ended June 30,	(In Thousands)					
	Actuarial Value Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A)/(B)	Actual Covered Payroll (Previous FY)(C)	UAAL as Percent of Covered Payroll (B-A)/(C)
State Employees Retirement Fund:						
1998	5,390,526	5,005,165	(385,361)	107.70	1,557,880	-24.74
1999	5,968,692	5,464,207	(504,485)	109.23	1,649,469	-30.58
2000	6,744,165	6,105,703	(638,462)	110.46	1,733,054	-36.84
2001	7,366,673	6,573,193	(793,480)	112.07	1,834,042	-43.26
2002	7,673,028	7,340,397	(332,631)	104.53	1,915,350	-17.37
2003	7,757,292	7,830,671	73,379	99.06	2,009,975	3.65
State Patrol Retirement Fund:						
1998	430,011	371,369	(58,642)	115.79	43,456	-134.95
1999	472,687	406,215	(66,472)	116.36	45,333	-146.63
2000	528,573	458,384	(70,189)	115.31	48,167	-145.72
2001	572,815	489,483	(83,332)	117.02	48,935	-170.29
2002	591,383	510,344	(81,039)	115.88	49,278	-164.45
2003	591,521	538,980	(52,541)	109.75	54,175	-96.98
Correctional Employees Retirement Fund:						
1998	295,291	261,869	(33,422)	112.76	105,796	-31.59
1999	335,408	307,408	(28,000)	109.11	106,131	-26.38
2000	386,964	359,885	(27,079)	107.52	112,587	-24.05
2001	431,134	398,633	(32,501)	108.15	120,947	-26.87
2002	457,416	446,426	(10,990)	102.46	124,373	-8.84
2003	470,716	484,974	14,258	97.06	131,328	10.86
Judges Retirement Fund:						
1998	86,578	130,727	44,149	66.23	24,965	176.84
1999	97,692	139,587	41,895	69.99	32,940	127.19
2000	111,113	153,660	42,547	72.31	26,315	161.68
2001	123,589	165,244	41,655	74.79	28,246	147.47
2002	131,379	171,921	40,542	76.42	31,078	130.45
2003	134,142	176,291	42,149	76.09	33,771	124.81
Legislators Retirement Fund:						
1997	25,678	60,055	34,377	42.76	7,767	442.60
1998	31,212	62,928	31,716	49.60	6,802	466.27
1999	33,474	66,418	32,944	50.40	7,490	439.84
2000	37,265	69,364	32,099	53.72	5,808	552.67
2001	42,608	75,072	32,464	56.76	5,858	554.18
2002	45,501	78,070	32,569	58.28	5,089	639.99
2003						
						This fund was not actuarially valued in this fiscal year.
Elective State Officers Retirement Fund*:						
1997	456	3,214	2,758	14.19	467	590.58
1998	500	3,369	2,869	14.84	461	622.34
1999	198	3,373	3,175	5.87	291	1,091.07
2000	199	3,535	3,336	5.63	0	N/A
2001	201	3,775	3,574	5.32	0	N/A
2002	201	4,075	3,874	4.93	0	N/A
2003						
						This fund was not actuarially valued in this fiscal year.

Required Supplemental Information

Schedule of Employer Contributions

Year Ended June 30,	Actuarially Required Contribution Rate (A)	Actual Covered Payroll (B)	(In Thousands)			
			Actual Member Contribution (C)	Annual Required Contribution [(A)x(B)]-(C)	Actual Employer Contribution*	Percent Contributed
State Employees Retirement Fund:						
1998	7.13	1,557,880	62,901	48,176	62,315	129.35
1999	6.48	1,649,469	66,823	40,063	65,979	164.69
2000	6.12	1,733,054	70,378	35,685	69,322	194.26
2001	7.12	1,834,042	74,364	56,220	73,362	130.49
2002	6.79	1,915,350	79,487	50,565	76,614	151.52
2003	8.34	2,009,975	83,850	83,782	80,399	95.96
State Patrol Retirement Fund:						
1998	15.67	43,456	3,634	3,176	5,475	172.39
1999	14.14	45,333	3,850	2,560	5,712	223.13
2000	15.17	48,167	4,044	3,263	6,069	185.99
2001	15.48	48,935	4,145	3,430	6,166	179.77
2002	14.00	49,278	4,215	2,684	6,209	231.33
2003	14.34	54,175	4,555	3,214	6,826	212.38
Correctional Employees Retirement Fund:						
1998	12.49	105,796	5,954	7,260	8,146	112.20
1999	12.99	106,131	6,378	7,408	8,172	110.31
2000	13.66	112,587	6,526	8,853	8,984	101.48
2001	13.72	120,947	6,996	9,598	9,652	100.56
2002	13.81	124,373	7,207	9,969	9,925	99.56
2003	14.73	131,328	7,610	11,735	10,480	89.31
Judges Retirement Fund:						
1998	27.60	24,965	1,570	5,320	7,129	134.00
1999	27.32	32,940	2,069	6,930	7,051	101.75
2000	26.75	26,315	2,107	4,932	7,298	147.97
2001	24.58	28,246	2,162	4,781	7,793	163.00
2002	26.72	31,078	2,345	5,959	8,369	140.44
2003	26.82	33,771	2,574	6,483	6,923	106.78
Legislators Retirement Fund:						
1997	43.96	7,767	699	2,715	3,176	116.98
1998	48.03	6,802	612	2,655	5,199	195.82
1999	47.19	7,490	674	2,861	2,091	73.09
2000	52.72	5,808	523	2,539	3,192	125.72
2001	47.26	5,858	527	2,241	5,039	224.85
2002	60.14	5,089	458	2,603	4,135	158.86
2003						
						This fund was not actuarially valued in this fiscal year.
Elective State Officers Retirement Fund:						
1997	43.49	467	42	161	167	103.73
1998	51.07	461	42	193	175	90.67
1999	51.66	291	26	124	40	32.26
2000	321	0	-	-	306	N/A
2001	340	0	-	-	330	N/A
2002	371	0	-	-	354	N/A
2003						
						This fund was not actuarially valued in this fiscal year.

Schedule of Administrative Expenses (Year ended June 30, 2003)

(In Thousands)

Staff salaries	\$2,598
Social Security & Medicare	191
Retirement	108
Insurance	384
Other personal services	3
Total	\$3,284
Professional services:	
actuarial	\$76
data processing	307
disability examinations	22
legal counsel	22
other professional services	0
Total	\$427
Communication:	
printing	\$72
telephone	37
postage	180
travel	35
subscriptions, memberships and training	27
Total	\$351
Rentals:	
office space	\$34
Miscellaneous:	
building services	\$298
supplies	153
office furniture	6
repairs and maintenance agreements	16
department head and board member expense	8
statewide indirect cost	78
depreciation	183
interest expense	334
state sales taxes	13
local sales taxes	1
other services	130
Total	\$1,220
Total Operating Expenses	\$5,316
Expenses distributed by fund:	
State Employees	\$4,191
State Patrol	94
Correctional Employees	286
Judges	37
Legislators	27
Elective State Officers	1
Unclassified Employees	200
Health Care Savings	480
Total distribution	\$5,316

Schedule of Changes in Plan Net Assets

State Employees Retirement Fund (Year ended June 30, 2003)

(In Thousands)

	<u>Member</u>	<u>Post-Retirement Investment Fund</u>	<u>Benefit</u>	<u>Totals</u>
Additions:				
Contributions:				
member contributions	\$80,900	\$0	\$2,950	\$83,850
employer contributions	0	0	80,399	80,399
Total contributions	\$80,900	\$0	\$83,349	\$164,249
Investment Income:				
investment income	\$0	\$51,879	\$70,377	\$122,256
less investment expense	0	3,541	4,782	8,323
Net Investment Income	\$0	\$48,338	\$65,595	\$113,933
Income from Securities Lending Activities:				
securities lending income	\$0	\$3,891	\$5,445	\$9,336
securities lending expenses:				
--borrower rebates	0	2,561	3,530	6,091
--management fees	0	336	489	825
Total Securities Lending Expenses	\$0	\$2,897	\$4,019	\$6,916
Net Income from Securities Lending Activities	\$0	\$994	\$1,426	\$2,420
Total Net Investment Income	\$0	\$49,332	\$67,021	\$116,353
Other Additions:				
transfers from other plans	\$1,826	\$0	\$7,723	\$9,549
other income	0	0	217	217
Total Other Additions	\$1,826	\$0	\$7,940	\$9,766
Total Additions	\$82,726	\$49,332	\$158,310	\$290,368
Deductions:				
annuity benefits	\$0	\$311,472	\$0	\$311,472
refunds	5,713	0	2,482	8,195
interest to MPRI Fund	0	0	852	852
transfers to other plans	217	0	1,103	1,320
administrative expenses	0	0	4,191	4,191
Total Deductions	\$5,930	\$311,472	\$8,628	\$326,030
Other Changes in Reserves:				
retirements	\$(28,297)	\$221,387	\$(193,090)	\$0
mortality gains (losses)	0	(8,281)	8,281	0
assumption change adjustment	(512)	0	512	0
Total Other Changes	\$(28,809)	\$213,106	\$(184,297)	\$0
Net Increase	\$47,987	\$(49,034)	\$(34,615)	\$(35,662)
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$807,966	\$2,870,446	\$2,521,304	\$6,199,716
End of the Year	\$855,953	\$2,821,412	\$2,486,689	\$6,164,054

Schedule of Changes in Plan Net Assets

State Patrol Retirement Fund (Year ended June 30, 2003)

(In Thousands)

	<u>Member</u>	<u>Post-Retirement Investment Fund</u>	<u>Benefit</u>	<u>Totals</u>
Additions:				
Contributions:				
member contributions	4,555	0	0	4,555
Employer contributions	0	0	6,826	6,826
Total Contributions	<u>4,555</u>	<u>0</u>	<u>6,826</u>	<u>11,381</u>
Investment Income:				
Investment Income	0	6,812	2,785	9,597
Less Investment Expense:	0	372	266	638
Net Investment Income	<u>0</u>	<u>6,440</u>	<u>2,519</u>	<u>8,959</u>
Income From Security Lending Activities:				
Security Lending Income	0	409	300	709
Security Lending Expenses:				
--Borrower Rebates	0	270	194	464
--Management Fees	0	35	27	62
Total Security Lending Expenses	<u>0</u>	<u>305</u>	<u>221</u>	<u>526</u>
Net Income From Security Lending Activities	<u>0</u>	<u>104</u>	<u>79</u>	<u>183</u>
Total Net Investment Income	<u>0</u>	<u>6,544</u>	<u>2,598</u>	<u>9,142</u>
Other Additions:				
Transfers From Other Plans	0	0	0	0
Other income	0	0	0	0
Total Other Additions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Additions	<u>4,555</u>	<u>6,544</u>	<u>9,424</u>	<u>20,523</u>
Deductions:				
Annuity benefits	0	34,255	61	34,316
Refunds	3	0	9	12
Interest to MPRI Fund	0	0	134	134
Transfers to Other Plans	0	0	0	0
Administrative expenses	0	0	94	94
Total Deductions	<u>3</u>	<u>34,255</u>	<u>298 \$</u>	<u>34,556</u>
Other Changes in Reserves:				
Retirements	(2,436)	17,971	(15,535)	0
Mortality Gains (Losses)	0	3,325	(3,325)	0
Other	(5)	0	5	0
Total Other Changes	<u>(2,441)</u>	<u>21,296</u>	<u>(18,855)</u>	<u>0</u>
Net Increase	<u>2,111</u>	<u>(6,415)</u>	<u>(9,729)</u>	<u>(14,033)</u>
Net Assets Held in Trust for Pension Benefits				
Beginning of the year	38,508	309,119	128,827	476,454
End of the year	<u>40,619</u>	<u>302,704</u>	<u>119,098</u>	<u>462,421</u>

Schedule of Changes in Plan Net Assets

Correctional Retirement Fund (Year ended June 30, 2003)

(In Thousands)

	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$7,498	\$0	\$113	\$7,611
employer contributions	0	0	10,480	10,480
Total contributions	\$7,498	\$0	\$10,593	\$18,091
Investment Income:				
investment income	\$0	\$1,960	\$3,794	\$5,754
less investment expense	0	221	289	510
Net Investment Income	\$0	\$1,739	\$3,505	\$5,244
Income from Securities Lending Activities:				
securities lending income	\$0	\$243	\$322	\$565
securities lending expenses:				
--borrower rebates	0	160	209	369
--management fees	0	21	29	50
Total Securities Lending Expenses	\$0	\$181	\$238	\$419
Net Income from Securities Lending Activities	\$0	\$62	\$84	\$146
Total Net Investment Income	\$0	\$1,801	\$3,589	\$5,390
Other Additions:				
transfers from other plans	\$92	\$0	\$437	\$529
Total Other Additions	\$92	\$0	\$437	\$529
Total Additions	\$7,590	\$1,801	\$14,619	\$24,010
Deductions:				
annuity benefits	\$0	\$19,256	\$0	\$19,256
refunds	484	0	123	607
interest to MPRI Fund	0	0	327	327
transfers to other plans	0	0	0	0
administrative expenses	0	0	286	286
Other expenses	0	0	0	0
Total Deductions	\$484	\$19,256	\$736	\$20,476
Other Changes in Reserves:				
retirements	\$(3,131)	\$27,096	\$(23,965)	\$0
mortality gains (losses)	0	664	(664)	0
other	142	0	(142)	0
Total Other Changes	\$(2,989)	\$27,760	\$(24,771)	\$0
Net Increase	\$4,117	\$10,305	\$(10,888)	\$3,534
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$51,324	\$167,296	\$154,644	\$373,264
End of the Year	\$55,441	\$177,601	\$143,756	\$376,798

Schedule of Changes in Plan Net Assets

Judges Retirement Fund (Year ended June 30, 2003)

	(In Thousands)			
	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$2,574	\$0	\$0	\$2,574
employer contributions	0	0	6,923	6,923
Total contributions	<u>\$2,574</u>	<u>\$0</u>	<u>\$6,923</u>	<u>\$9,497</u>
Investment Income:				
investment income	\$0	\$2,120	\$570	\$2,690
less investment expense	0	109	33	142
Net Investment Income	<u>\$0</u>	<u>\$2,011</u>	<u>\$537</u>	<u>\$2,548</u>
Income from Securities Lending Activities:				
securities lending income	\$0	\$120	\$38	\$158
securities lending expenses:				
--borrower rebates	0	79	25	104
--management fees	0	11	3	14
Total Securities Lending Expenses	<u>\$0</u>	<u>\$90</u>	<u>\$28</u>	<u>\$118</u>
Net Income from Securities Lending Activities	<u>\$0</u>	<u>\$30</u>	<u>\$10</u>	<u>\$40</u>
Total Net Investment Income	<u>\$0</u>	<u>\$2,041</u>	<u>\$547</u>	<u>\$2,588</u>
Other Additions:				
transfers from other plans	0	0	0	0
other income	0	0	10	10
Total Other Additions	<u>\$0</u>	<u>\$0</u>	<u>\$10</u>	<u>\$10</u>
Total Additions	<u>\$2,574</u>	<u>\$2,041</u>	<u>\$7,480</u>	<u>\$12,095</u>
Deductions:				
annuity benefits	\$0	\$11,629	\$1,929	\$13,558
refunds	0	0	0	0
interest to MPRI Fund	0	0	38	38
transfers to other plans	0	0	0	0
administrative expenses	0	0	37	37
Total Deductions	<u>\$0</u>	<u>\$11,629</u>	<u>\$2,004</u>	<u>\$13,633</u>
Other Changes in Reserves:				
retirements	\$(504)	\$4,036	\$(3,532)	\$0
mortality gains (losses)	0	1,715	(1,715)	0
Total Other Changes	<u>\$(504)</u>	<u>\$2,321</u>	<u>\$(1,817)</u>	<u>\$0</u>
Net Increase	<u>\$2,070</u>	<u>\$(7,267)</u>	<u>\$3,659</u>	<u>\$(1,538)</u>
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	<u>\$16,253</u>	<u>\$78,876</u>	<u>\$11,896</u>	<u>\$107,015</u>
End of the Year	<u>\$18,313</u>	<u>\$71,609</u>	<u>\$15,555</u>	<u>\$105,477</u>

Schedule of Changes in Plan Net Assets

Legislators Retirement Fund (Year ended June 30, 2003)

(In Thousands)

	<u>Member</u>	<u>Post-Retirement Investment Fund</u>	<u>Benefit</u>	<u>Totals</u>
Additions:				
Contributions:				
member contributions	\$394	\$0	\$39	\$433
General Fund contributions	0	0	5,396	5,396
Total contributions	394	0	5,435	5,829
Investment Income:				
investment income	0	561	0	561
less investment expense	0	46	0	46
Net Investment Income	\$0	\$515	\$0	\$515
Income from Securities Lending Activities:				
securities lending income	\$0	50	0	50
securities lending expenses:				
--borrower rebates	0	33	0	33
--management fees	0	4	0	4
Total Securities Lending Expenses	\$0	\$37	\$0	\$37
Net Income from Securities Lending Activities	\$0	\$13	\$0	\$13
Total Net Investment Income	\$0	\$528	\$0	\$528
Other Additions:				
transfers from other plans	\$0	\$0	\$0	\$0
Total Other Additions	\$0	\$0	\$0	\$0
Total Additions	\$394	\$528	\$5,435	\$6,357
Deductions:				
annuity benefits	\$0	\$4,955	\$584	\$5,539
refunds	61	0	33	94
interest to MPRI Fund	0	0	40	40
administrative expenses	0	0	27	27
Total Deductions	\$61	\$4,955	\$684	\$5,700
Other Changes in Reserves:				
retirements	\$(841)	\$4,829	\$(3,988)	\$0
mortality gains (losses)	0	73	(73)	0
Total Other Changes	\$(841)	\$4,902	\$(4,061)	\$0
Net Increase	\$508	\$475	\$690	\$657
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$7,093	\$33,711	\$(2,528)	\$38,276
End of the Year	\$6,585	\$34,186	\$(1,838)	\$38,933

Schedule of Changes in Plan Net Assets

Elected State Officers Retirement Fund (Year ended June 30, 2003)

(In Thousands)

	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$0	\$0	\$0	\$0
employer contributions	0	0	0	0
General Fund contributions	0	0	371	371
Total contributions	\$0	\$0	\$371	\$371
Investment Income:				
investment income	\$0	\$0	\$0	\$0
less investment expense	0	0	0	0
Net Investment Income	\$0	\$0	\$0	\$0
Income from Securities Lending Activities:				
securities lending income	\$0	\$0	\$0	\$0
securities lending expenses:				
--borrower rebates	0	0	0	0
--management fees	0	0	0	0
Total Securities Lending Expenses	\$0	\$0	\$0	\$0
Net Income from Securities Lending Activities	\$0	\$0	\$0	\$0
Total Net Investment Income	\$0	\$0	\$0	\$0
Other Additions:				
transfers from other plans	\$0	\$0	\$0	\$0
Total Other Additions	\$0	\$0	\$0	\$0
Total Additions	\$0	\$0	\$371	\$371
Deductions:				
annuity benefits	\$0	\$0	\$370	\$370
refunds	0	0	0	0
interest to MPRI Fund	0	0	0	0
transfers to other plans	0	0	0	0
administrative expenses	0	0	1	1
Total Deductions	\$0	\$0	\$371	\$371
Other Changes in Reserves:				
retirements	\$(114)	\$0	\$114	\$0
mortality gains (losses)	0	0	0	0
Total Other Changes	\$(114)	\$0	\$114	\$0
Net Increase	\$(114)	\$0	\$114	\$0
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$194	\$0	\$8	\$202
End of the Year	\$80	\$0	\$122	\$202

Schedule of Changes in Plan Net Assets

Unclassified Employees Retirement Fund (Year ended June 30, 2003)

(In Thousands)

	<u>Member</u>	<u>Benefit</u>	<u>Totals</u>
Additions:			
Contributions:			
member	\$4,642	\$0	\$4,642
employer	6,165	0	6,165
Total	<u>\$10,807</u>	<u>\$0</u>	<u>\$10,807</u>
Investment Income:			
investment income	\$6,076	\$57	\$6,133
less investment expense:	0	0	0
Net Investment Income	<u>\$6,076</u>	<u>\$57</u>	<u>\$6,133</u>
Income from Securities Lending Activities:			
securities lending income	\$212	0	\$212
securities lending expenses:			
--borrower rebates	147	0	147
--management fees	16	0	16
Total Securities Lending Expenses	<u>\$163</u>	<u>0</u>	<u>163</u>
Net Income from Securities Lending Activities	<u>49</u>	<u>0</u>	<u>49</u>
Total Net Investment Income	<u>\$6,125</u>	<u>\$57</u>	<u>\$6,182</u>
Other Additions:			
transfers from other plans	\$791	\$0	\$791
other income	0	33	33
Total Other Additions	<u>791</u>	<u>33</u>	<u>824</u>
Total Additions	<u>17,723</u>	<u>90</u>	<u>17,813</u>
Deductions:			
refunds	5,203	0	5,203
interest to MPRI Fund	0	76	76
transfers to other plans	9,550	0	9,550
administrative expenses	0	200	200
Total Deductions	<u>\$14,753</u>	<u>276</u>	<u>15,029</u>
Other changes in reserves			
retirements	0	0	0
mortality gains (losses)	0	0	0
Total other changes	<u>0</u>	<u>0</u>	<u>0</u>
Net Increase	<u>\$2,970</u>	<u>\$(186)</u>	<u>2,784</u>
Net Assets Held in Trust for Pension Benefits			
Beginning of the Year	<u>\$227,931</u>	<u>\$841</u>	<u>\$228,772</u>
End of the Year	<u>\$230,901</u>	<u>\$655</u>	<u>\$231,556</u>

Schedule of Changes in Plan Net Assets

Health Care Savings Fund (Year ended June 30, 2003)

(In Thousands)

	<u>Member</u>	<u>Benefit</u>	<u>Totals</u>
Additions:			
Contributions:			
member	26,892	0	26,892
employer	0	0	0
	<hr/>	<hr/>	<hr/>
Total	26,892	0	26,892
	<hr/>	<hr/>	<hr/>
Investment Income:			
investment income	479	26	505
less investment expense:	0	0	0
	<hr/>	<hr/>	<hr/>
Net Investment Income	479	26	505
	<hr/>	<hr/>	<hr/>
Income from Securities Lending Activities:			
securities lending income	4	0	4
securities lending expenses:			
--borrower rebates	2	0	2
--management fees	1	0	1
	<hr/>	<hr/>	<hr/>
Total Securities Lending Expenses	3	0	3
	<hr/>	<hr/>	<hr/>
Net Income from Securities Lending Activities	1	0	1
	<hr/>	<hr/>	<hr/>
Total Net Investment Income	480	26	506
	<hr/>	<hr/>	<hr/>
Other Additions:			
transfers from other plans	\$0	\$0	\$0
other income	0	58	58
	<hr/>	<hr/>	<hr/>
Total Other Additions	0	58	58
	<hr/>	<hr/>	<hr/>
Total Additions	27,372	84	27,456
	<hr/>	<hr/>	<hr/>
Deductions:			
annuity benefits	0	0	0
health care benefits	4,056	0	4,056
administrative expenses	0	480	480
	<hr/>	<hr/>	<hr/>
Total Deductions	4,056	480	4,536
	<hr/>	<hr/>	<hr/>
Net Increase	23,316	(396)	22,920
	<hr/>	<hr/>	<hr/>
Assets Held in Trust for Pension Benefits			
Beginning of the Year	2,915	(194)	2,721
	<hr/>	<hr/>	<hr/>
End of the Year	26,231	(590)	25,641
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Summary Schedule of Commissions and Payments to Consultants (Year Ended June 30, 2003)

(In Thousands)

Individual or Firm Name	Services Received	Fees Paid
William Mercer Inc.	Consulting Actuary	\$42,629
State of Minnesota:		
Department of Health	Medical advisor	\$22,138
Office of the Attorney General	Legal counsel	\$21,740
Legislative Commission on Pensions and Retirement	Consulting Actuary	\$33,108

Schedule of Investment Expenses

(Year Ended June 30, 2003)

(In Thousands)

	<u>State Employees</u>	<u>State Patrol</u>	<u>Correctional Employees</u>	<u>Judges</u>	<u>Legislators</u>	<u>Totals</u>
Outside Money Managers, Equities	\$6,459	\$495	\$395	\$110	35	\$7,494
Outside Money Managers, Bonds	1,397	107	86	24	8	1,622
Minnesota State Board of Investment	354	27	22	6	2	411
Financial Control Systems	48	4	3	1	0	56
Pension Consultants	65	5	4	1	1	76
	<u>\$8,323</u>	<u>\$638</u>	<u>\$510</u>	<u>\$142</u>	<u>46</u>	<u>\$9,659</u>

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Investment Section

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

Governor
Tim Pawlenty

State Auditor
Pat Anderson Awada

Secretary of State
Mary Kiffmeyer

Attorney General
Mike Hatch

Executive Director:

Howard J. Bicker

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Investment Report State Board of Investment

Investment Authority

The assets of the Minnesota State Retirement System are invested under the direction and authority of the State Board of Investment in accordance with Minnesota Statutes, Chapters 11A and 356A. The SBI includes Minnesota's governor, auditor, treasurer, secretary of state and attorney general. The Legislature has established a 17-member Investment Advisory Council to advise the SBI and its staff on investment-related matters. MSRS' executive director is a member of the Council.

Investment Policy

Investment policy stipulates that the SBI “will operate within standard investment practices of the prudent person. The SBI will exercise the judgment and care — under prevailing circumstances — which persons of prudence, discretion and intelligence exercise in the management of their own affairs. This work is not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived from this activity.” (Minnesota Statutes, Chapter 11A.04) The SBI is authorized to own government obligations, corporate obligations, various short-term obligations, corporate stocks, venture capital interests, mutual funds, resource investments and real estate interests subject to specific boundaries. Particularly, pension-fund assets are to be invested for the exclusive benefit of the fund members.

Investment Objectives

Pension-fund assets are managed and accounted for separately in the SBI's Basic Funds and the Post Retirement Investment Fund. The SBI reviews the performance of all the assets in each fund and as two funds combined.

MSRS' pension contributions from employees and employers, are invested in the SBI's Basic Funds. Likewise, active members from seven other statewide retirement funds put their pension contributions into the SBI's Basic Funds. MSRS does not own any underlying assets, but instead owns a share of the asset class pools of the Basic Funds (stocks, bonds, etc.). Because these assets normally accumulate in the Basic Funds for 30 to 40 years, the SBI's objective is to take advantage of the long investment time horizon offered by equities and alternative assets. The Board does this to meet its actuarial return target of 8.5 percent per year and to ensure that sufficient funds are available to finance promised benefits at the time of retirement.

When a member retires, MSRS transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (MPRIF). The assets of the MPRIF — which include the eight plans that participate in the Basic Fund and the Legislative and Survivors' Retirement Fund — finance monthly annuity payments paid to retirees. Moneys in the MPRIF are generally invested a bit more conservatively, but still heavily in equities, to take advantage of the 15-year to 20-year time horizon associated with the length of time a typical retiree can be expected to draw benefits. The actuarial return target for the MPRIF is 6 percent.

Combined Funds

The combined funds, while not existing under statute, represent the assets of the active and retired public employees who participate in the defined benefit plans of MSRS, the Public Employees Retirement System, and the Teachers Retirement Association. The SBI looks at the combined funds for comparison purposes only, since most public pension

plans do not separate the assets of their active employees and retirees. The long-term objectives of the combined funds are to:

- provide returns that are 3 to 5 percentage points greater than inflation over the latest 10-year period;
- outperform a composite market index weighted in a manner that reflects the actual asset mix of the combined funds over the latest 5-year period; and
- provide returns that are ranked in the top half of a universe of public and corporate plans over the latest 5-year period.

As of June 30, 2003, the combined funds returned 5.8 percentage points above the Consumer Price Index over the last ten years and outperformed the Composite Index by 0.2 percentage points over the past ten years.

Investment Presentation

Data reported in the investment section of this comprehensive annual financial report is presented in conformance with the presentation standards of the Association for Investment Management and Research. Investment returns were prepared using a time-weighted rate of return methodology in accordance with those standards.

Respectfully submitted,



Howard Bicker
Executive Director
State Board of Investment

Investment Results

Investment Returns by Sector

Performance of Asset Pools (net of fees)

	Rates of Return (annualized)		
	<u>FY2003</u>	<u>Three-Year</u>	<u>Five-Year</u>
Domestic Stock	0.4%	-11.3%	-2.3%
--Wilshire 5000 Investable	0.8	-11.1	-1.9
Bond	10.7	10.2	7.6
--Lehman Aggregate	10.4	10.1	7.5
International Stock	-6.2	-12.1	-2.8
--Composite Index	-5.4	-13.0	-3.3
Real Estate (Basic Funds only)	7.1	8.5	8.3
Private Equity (Basic Funds only)	-3.5	-6.0	3.5
Resource (Basic Funds only)	5.2	11.4	4.6

Investment Allocation (at June 30, 2003)*

Asset allocation will have a dominant effect on returns. The State Board of Investment has given attention to the selection of the appropriate long-term asset allocation policy for the Basic and the Post-Retirement Investment funds.

Investment Type	Basic Fund		MPRI Fund	
	<u>Actual Asset</u>	<u>Long-Term Policy</u>	<u>Actual Asset</u>	<u>Long-Term Policy</u>
	<u>Mix</u>	<u>Target</u>	<u>Mix</u>	<u>Target</u>
Domestic Equity	47.7%	45.0%	51.9%	50.0%
International Equity	14.4	15.0	14.7	15.0
Bond	23.5	24.0	27.2	27.0
Alternative Assets**	13.9	15.0	4.6	5.0
Cash	0.5	1.0	1.6	3.0
Total	100.0%	100.0%	100.0%	100.0%

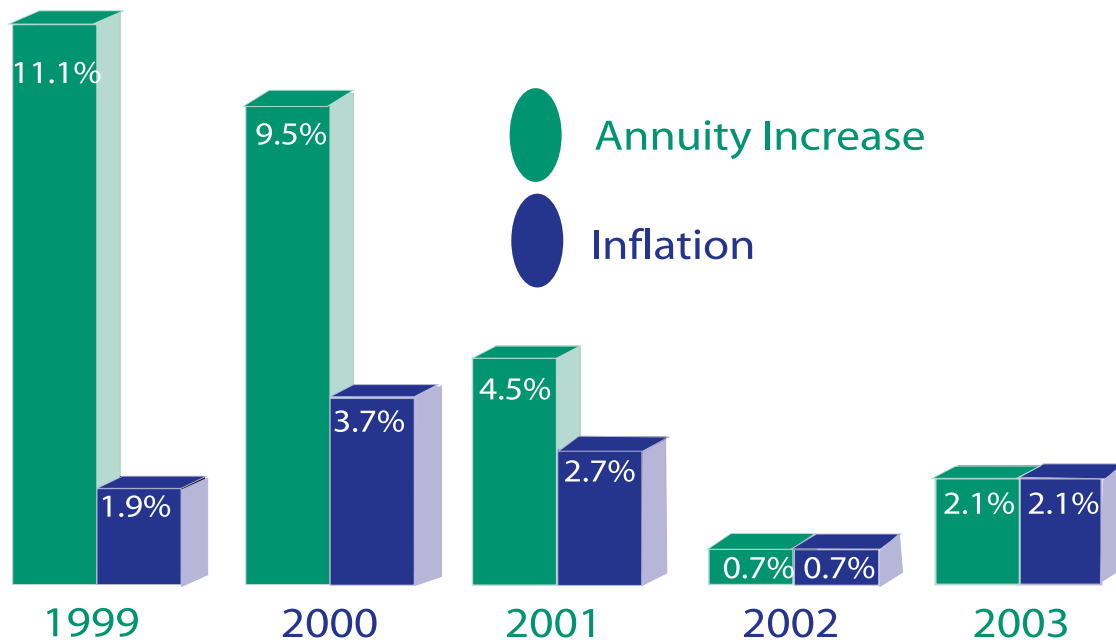
* Source: Minnesota State Board of Investment, fiscal year 2003 annual report.

** Alternative assets are real estate, venture capital and resource funds.

Investment Results

Annuity Increases vs. Inflation

Increases awarded to MSRS retirees under the Post-Retirement Investment Fund have outpaced inflation during the last five years. Increases and inflation are measured as of June 30, 2003. Increases are effective January 1 of the calendar year.



Investment Performance

Funds	Rates of Return (annualized)		
	<u>FY2003</u>	<u>Three-Year</u>	<u>Five-Year</u>
Basic (active accounts)	1.9%	-4.6%	1.3%
Basic Composite Market Index	2.4	-4.9	1.4
Post-Retirement Investment (retiree accounts)	2.8	-4.1	1.4
MPRIF Composite Market Index	3.3	-4.2	1.6
Combined (both) *	2.4	-4.4	1.4
Combined Composite Market Index	2.8	-4.5	1.5

*Percentages are net of all management fees. Amounts include both funds.

Note: All composite indices are composed of the following market indicators and are weighted according to asset allocation.

Domestic stocks	Wilshire 5000
International stocks	EAFE
Domestic bonds	Lehman Aggregate
Alternative assets	Wilshire Real Estate Index, venture capital funds, resource funds,
Unallocated cash	91-day treasury bills

Largest Assets Held (as of June 30, 2003)

Composite Holdings of 10 Largest Equities (by market value)

<u>Company</u>	<u>Percent of Portfolio</u>
Microsoft Corp.	1.87%
Pfizer Inc..	1.80
Citigroup Inc.	1.71
General Electric Co	1.55
Exxon Mobil Corporation	1.23
Wal Mart Stores Inc.	1.14
Cisco Systems Inc.	0.98
Merck & Co.	0.96
Intel Corporation	0.90
Wells Fargo & Co.	0.89

Composite Holdings of 10 Largest Bonds (by market value)

<u>Security</u>	<u>Coupon Rate</u>	<u>Maturity Date</u>	<u>Percent of Portfolio</u>
FNMA	5.00%	12/31/2099	1.28%
FNMA	7.00	12/31/2099	1.25
FNMA	7.00	12/31/2099	1.20
United States Treasury Notes	6.125	08/15/2007	1.07
FNMA	6.00	12/01/2099	1.00
FNMA	6.50	12/31/2029	0.96
GNMA	6.00	12/31/2099	0.80
GNMA	7.00	12/31/2099	0.76
United States Treasury Bonds	3.625	04/15/2028	0.74
United States Treasury Bonds	8.50	02/15/2020	0.74

MSRS assets are commingled in various investment accounts administered by the Minnesota State Board of Investment (SBI). MSRS owns an undivided interest proportionate to the amount provided for investment in each of the pools. The percentages shown above are the portion of each of the total pools comprised by portfolio holdings. Information on SBI investment activity and a listing of specific investments held by the various investment pools is available from the SBI.

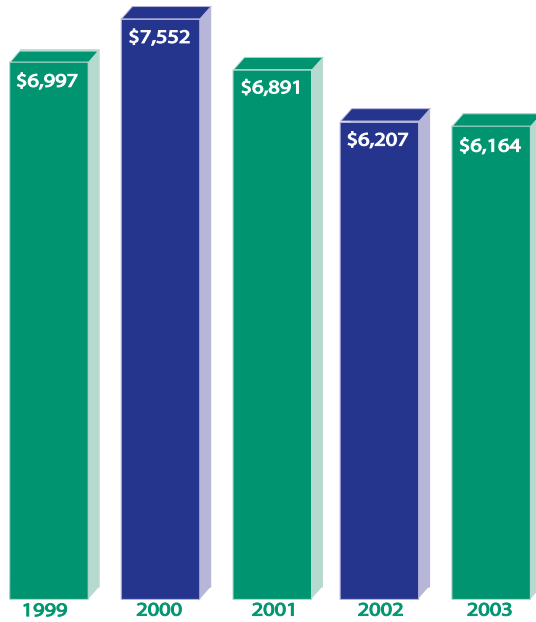
Investment Summary at Fair Value (as of June 30, 2003)

	(In Thousands)		
	Fair Value June 30, 2002	Fair Value June 30, 2003	Percent of Portfolio
State Employees Retirement Fund:			
Post Retirement Fund	\$2,445,326	\$2,396,292	39%
External Domestic Equity Pool	1,190,057	1,248,125	21
Passive Domestic Equity Pool	557,293	536,938	9
Global Equity Pool	607,353	538,691	9
Fixed Income Pool	913,085	877,491	14
Real Estate Fund Pool	133,546	133,274	2
MN Resources Fund Pool	63,807	59,266	1
MN Venture Capital Pool	299,370	318,478	5
Total	\$6,209,837	\$6,108,555	100%
State Patrol Retirement Fund:			
Post Retirement Fund	\$262,466	\$256,051	55%
External Domestic Equity Pool	\$67,266	\$68,698	15
Passive Domestic Equity Pool	30,850	29,553	6
Global Equity Pool	34,330	29,650	6
Fixed Income Pool	51,611	48,298	11
Real Estate Fund Pool	7,549	7,336	2
MN Resources Fund Pool	3,607	3,262	1
MN Venture Capital Pool	16,921	17,529	4
Total	\$474,600	\$460,377	100%
Correctional Employees Retirement Fund:			
Post Retirement Fund	\$140,480	\$150,786	41%
External Domestic Equity Pool	\$71,932	\$73,955	20
Passive Domestic Equity Pool	32,990	31,815	8
Global Equity Pool	36,711	31,919	9
Fixed Income Pool	55,190	51,992	14
Real Estate Fund Pool	8,072	7,897	2
MN Resources Fund Pool	3,857	3,512	1
MN Venture Capital Pool	18,094	18,871	5
Total	\$367,326	\$370,747	100%
Judges Retirement Fund:			
Post Retirement Fund	\$79,692	\$72,426	73%
External Domestic Equity Pool	\$8,154	\$8,795	9
Passive Domestic Equity Pool	3,739	3,783	4
Global Equity Pool	4,161	3,795	4
Fixed Income Pool	6,256	6,183	6
Real Estate Fund Pool	915	939	1
MN Resources Fund Pool	437	418	1
MN Venture Capital Pool	2,051	2,244	2
Total	\$105,405	\$98,593	100%

Fair Value of Net Assets

Fair Value of MSRS' Four Largest Funds (as of June 30, 2003) (In Millions)

State Employees Retirement Fund



Correctional Employees Retirement Fund



State Patrol Retirement Fund



Judges Retirement Fund



A teal-tinted photograph of a sailboat on the ocean. The sailboat is in the lower right quadrant, with its sails up. The water is shimmering with sunlight. In the background, another smaller sailboat is visible on the horizon. The text "Actuarial Section" is overlaid in the center in a dark teal, italicized serif font.

Actuarial Section

Actuary's Certification Letter



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December 5, 2003

Board of Trustees
Minnesota State Retirement System
Suite 300
60 Empire Drive
St. Paul, MN 55103-1855

Members of the Board:

We have completed our annual actuarial valuation of the Minnesota State Retirement System to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the State Employees Retirement Fund (SERF), the State Patrol Retirement Fund (SPRF), the Correctional Employees Retirement Fund (CERF), and the Judges Retirement Fund (JRF) as of July 1, 2003. As instructed, the actuarial valuations of the the Legislators Retirement Fund (LRF) and of the Elective State Officers Retirement Fund (ESORF) have not been prepared.

The fundamental financing objectives of the funds are to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadline for full funding.

The results of the valuation indicate that the SPRF and JRF are either ahead of or on schedule to meet the required dates for full funding. The valuations of the SERF and CERF showed that contributions are deficient by 1.43% and 2.16% of payroll to meet the target of full funding by 2032. The ESORF no longer has any active participants. It should be noted that with respect to the LRF and ESORF, the employer is required to fund the portion of the benefit liabilities which are not funded by the member's accumulated contribution at the time of benefit commencement.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 2003. The trend data schedules were based upon applicable GASB 25 parameters. In the aggregate, the basic financial and membership data provided to us by the system office appears reasonable in comparison to last year. We have relied upon the data as submitted in performing the actuarial valuation and in preparing the trend data schedules. It is our understanding that the data has subsequently been audited with no significant changes made. We are responsible for providing the numbers for each of the supporting schedules in the Actuarial Section of MSRS' comprehensive annual financial report. We are also responsible for preparing both of the Required Supplemental Information schedules found in the Financial Section of this report.

The four valuations were performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state

Board of Trustees
December 5, 2003
Page Two

statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by MSRS Board and approved by the Legislative Commission on Pensions and Retirement. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the MSRS comprehensive annual financial report, set by GASB Statement No. 25.

The following table shows the date for full funding for each of the plans and the funding percentage for the 2003 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

Fund	Funding Date	Funded Percentage
SERF	2032	99%
SPRF	2033	110
CERF	2032	97
LRF	*	*
ESORF	*	*
JRF	2020	76


** An actuarial valuation as of July 1, 2003 was not prepared.*

We certify that to the best of our knowledge and belief, this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

I, Thomas K. Custis, am an actuary for Milliman USA. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Milliman USA


Thomas K. Custis, F.S.A.
Consulting Actuary

TKC/bh

Summary of Actuarial Assumptions and Methods

Actuarial cost method

The entry age normal actuarial cost method, based on earnings and the date the employee entered the plan, is applied to all plan benefits. Under this method, actuarial gains or losses increase or decrease the unfunded actuarial accrued liability.

Assumptions:

Retirement State Employees Plan⁽¹⁰⁾ — Graded rates from age 55 with 25 percent of those eligible for Rule of 90 retiring each year; Correctional Plan⁽⁶⁾ — age 58; State Patrol Plan⁽⁶⁾ — age 58; Judges Plan⁽⁶⁾ — age 68; Elective State Officers⁽⁶⁾ and Legislators Plans⁽⁶⁾ — age 62.

Mortality The 1983 Group Annuity Mortality Tables⁽⁹⁾ are used for all funds. These tables are set back or set forward (expressed in years) to match fund experience as follows:

Fund	Pre-retirement		Post-retirement*	
	Male	Female	Male	Female
State Employees ⁽¹¹⁾	-5	-2	-2	-1
State Patrol	-1	0	+2	+2
Correctional Employees	-1	0	+2	+2
Judges	-4	-2	0	0
Legislators	-4	-2	0	0
Elective State Officers	-4	-2	0	0

Separation Graded rates are based on actual experience.⁽⁸⁾

Expense Prior year expenses are expressed as a percentage of prior year payroll.⁽⁸⁾

Interest 8.5 percent⁽⁹⁾

Salary increases A.)State Employees Plan⁽¹⁰⁾ - 10-year select and ultimate table. During the select period, 0.2 percent x (10-T) where T is completed years of service is added to the ultimate rate. An ultimate table ranges from 6.75 percent at age 20 down to 5.25 percent at age 70. B.)State Patrol and Correctional Employees Plans- Experience adjusted rates from 7.75 percent at age 20 declining to 5.25 percent at age 55 and thereafter. C.)Judges, Legislators and Elective State Officers Plans - 5 percent annually.

*Post-retirement tables are statutorily gender neutral.

Contribution refund Employees who withdraw are assumed to take the larger of a refund or a deferred benefit.⁽⁴⁾

Social Security The Correctional Plan⁽³⁾ is based on the present law and a 6.0 percent retroactive salary scale and only state service earnings history. Future Social Security benefits replace the same proportion of salary as present. Other plans are unaffected.

Asset valuation Market value, less a percentage of the unrecognized asset return, are determined at the close of each of the four preceding fiscal years. The unrecognized asset return is the difference between the actual net return on market value of assets and the asset return expected during the fiscal year based of the assumed interest rate, 8.5 percent.⁽¹⁰⁾

Effective dates assumptions adopted:

(1) June 30, 1972	(6) June 30, 1984	(11) June 30, 2002
(2) June 30, 1973	(7) June 30, 1989	
(3) June 30, 1974	(8) June 30, 1994	
(4) June 30, 1979	(9) June 30, 1997	
(5) June 30, 1980	(10) June 30, 2000	

Required Reserves

(In Thousands)

	as of July 1, 2003				as of July 1, 2002	
	State Employees Fund	State Patrol Fund	Correctional Employees Fund	Judges Fund	Legislators Fund	State Elective Officers Fund*
Active members:						
retirement annuities	\$3,630,377	\$186,216	\$237,804	\$62,881	\$16,832	\$0
disability benefits	131,342	10,316	12,285	2,833	0	0
survivor benefits	74,322	4,521	4,249	2,361	152	0
deferred retirements	187,749	1,279	13,191	0	1,150	0
refunds	(102,436)	(581)	(5,990)	187	(334)	0
Totals	\$3,921,354	\$201,751	\$261,539	\$68,262	\$17,800	\$0
Deferred retirements	758,719	3,128	29,869	1,354	10,704	879
Former members not vested	12,831	32	834	2	75	0
Annuitants in MPRIF	3,115,992	333,092	192,732	95,112	37,816	0
Annuitants not in MPRIF	16	977	0	11,561	11,675	3,196
Unclassified Plan						
Contingent Liability	21,759	0	0	0	0	0
Total required reserves	\$7,830,671	\$538,980	\$484,974	\$176,291	\$78,070	\$4,075

Actual Contribution Rates as Compared to Actuarially Recommended Rates

	As of Date	Actual Contribution Rates			Recommended Rate	Sufficiency (Deficiency)
		Employee	Employer	Total		
State Employees Fund	July 1, 2003	4.00%	4.00%	8.00%	9.43%	(1.43)%
State Patrol Fund	July 1, 2003	8.40	12.60	21.00	17.81	3.19
Correctional Employees Fund	July 1, 2003	5.69	7.98	13.67	15.83	(2.16)
Judges Fund	July 1, 2003	7.92	20.50	28.42	26.73	1.69
Legislators Plan	July 1, 2002	9.00	0.00	9.00	63.12	(54.12)
Elective State Officers Plan*	July 1, 2002	N/A	N/A	N/A	N/A	N/A

*This is a closed plan. There are no active members. The remaining obligations will be paid from state General Fund appropriations.

Schedule of Changes in Unfunded Actuarial Accrued Liabilities (UAAL)

(In Thousands)

	(Year Ended June 30, 2003)			(Year Ended June 30, 2002)		
	State Employees Fund	State Patrol Fund	Correctional Employees Fund	State Judges Fund	Legislators Fund	Elective State Officers Fund
A. UAAL, at the Beginning of the Year	<u>(332,631)</u>	<u>(81,039)</u>	<u>(10,990)</u>	<u>40,542</u>	<u>32,464</u>	<u>3,574</u>
B. Change Due to Interest Requirements and Current Rate of Funding						
1. Normal Cost and Expenses	187,969	11,752	19,922	5,263	1,035	1
2. Contribution	(164,249)	(11,381)	(18,090)	(9,497)	(4,593)	(354)
3. Interest on A, B1, and B2	<u>(27,266)</u>	<u>(6,873)</u>	<u>(856)</u>	<u>3,266</u>	<u>2,608</u>	<u>289</u>
4. Totals (B1+B2+B3)	<u>(3,546)</u>	<u>(6,502)</u>	<u>976</u>	<u>(968)</u>	<u>(950)</u>	<u>(64)</u>
C. Expected UAAL at End of the Year (A+B)	<u>(336,177)</u>	<u>(87,541)</u>	<u>(10,014)</u>	<u>39,574</u>	<u>31,514</u>	<u>3,510</u>
D. Increase (Decrease) Due to Actuarial Losses (Gains) Because of Experience Deviations From the Expected						
1. Salary Increases	(7,148)	10,717	(3,155)	1,007	(1,595)	0
2. Investment Return	345,598	20,370	19,710	2,387	623	17
3. MPRIF Mortality	(8,281)	3,324	664	(1,715)	662	0
4. Mortality of Other Benefit Recipients	(1)	(43)	0	120	(667)	73
5. Other Items	<u>79,388</u>	<u>632</u>	<u>7,053</u>	<u>776</u>	<u>(455)</u>	<u>71</u>
6. Totals	<u>409,556</u>	<u>35,000</u>	<u>24,272</u>	<u>2,575</u>	<u>(1,432)</u>	<u>161</u>
E. UAAL at the End of the Year Before Plan Amendments and Changes in Actuarial Assumptions (C+D6)	<u>73,379</u>	<u>(52,541)</u>	<u>14,258</u>	<u>42,149</u>	<u>30,082</u>	<u>3,671</u>
F. Change in Unfunded Actuarial Accrued Liabilities Due to Changes in Actuarial Methods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
G. Change in Unfunded Actuarial Accrued Liabilities Due to Recognition of Unclassified Plan Contingent Liability	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,487</u>	<u>203</u>
H. UAAL at the End of the Year, (E+F+G)	<u><u>73,379</u></u>	<u><u>(52,541)</u></u>	<u><u>(14,258)</u></u>	<u><u>42,149</u></u>	<u><u>32,569</u></u>	<u><u>3,874</u></u>

Schedule of Active Member Valuation Data

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Annual Pay</u>	<u>Percent Increase In Average Pay</u>
State Employees Retirement Fund:				
06-30-98	46,299	\$1,577,880,000	\$34,080	0.56%
06-30-99	47,168	1,649,469,000	34,970	2.61
06-30-00	47,920	1,733,054,000	36,166	3.42
06-30-01	49,229	1,834,042,000	37,255	3.01
06-30-02	49,099	1,915,350,000	39,010	4.71
06-30-03	48,136	2,009,975,000	41,756	7.04
State Patrol Retirement Fund:				
06-30-98	806	43,456,000	53,916	2.06
06-30-99	825	45,333,000	54,949	1.92
06-30-00	830	48,167,000	58,033	5.61
06-30-01	823	48,935,000	59,459	2.46
06-30-02	810	49,278,000	60,837	2.32
06-30-03	805	54,175,000	67,298	10.62
Correctional Employees Retirement Fund:				
06/30/98	2,817	105,796,000	37,556	-13.13
06/30/99	2,882	106,131,000	36,825	-1.95
06/30/00	3,098	112,587,000	36,342	-1.31
06/30/01	3,182	120,947,000	38,010	4.59
06/30/02	3,249	124,373,000	38,280	0.71
06/30/03	3,262	131,328,000	40,260	5.17
Judges Retirement Fund:				
06/30/98	278	24,965,000	89,802	9.37
06/30/99	282	32,940,000	116,809	30.07
06/30/00	282	26,315,000	93,316	-20.11
06/30/01	292	28,246,000	96,733	3.66
06/30/02	283	31,078,000	109,816	13.52
06/30/03	288	33,771,000	117,260	6.78
Legislators Retirement Fund:				
06/30/97	201	7,767,000	38,642	23.93
06/30/98	199	6,802,000	34,181	-11.54
06/30/99	180	7,490,000	41,611	21.74
06/30/00	173	5,808,000	33,572	-19.32
06/30/01	139	5,858,000	42,144	25.53
06/30/02	134	5,089,000	37,978	-9.89
This fund was not actuarially valued for fiscal year 2003.				
Elective State Officers Retirement Fund:				
06/30/97	6	467,000	77,833	1.68
06/30/98	6	461,000	76,833	-1.28
06/30/99	0	291,000	-	N/A
06/30/00	0	-	-	N/A
06/30/01	0	-	-	N/A
06/30/02	0	-	-	N/A
This fund was not actuarially valued for fiscal year 2003.				

*This is a closed plan. There are no active contributing members.

Note: This schedule was corrected for changes made by Tim Herman, M&R.

Schedule of Retirees and Beneficiaries

(Fiscal year end totals)

<u>Valuation Date</u>	<u>Number Added</u>	<u>Number Removed</u>	<u>Annual Number</u>	<u>Benefits</u>	<u>Percent Increase in Annual Benefits</u>	<u>Average Annual Benefit</u>
State Employees Retirement Fund:						
06-30-98	1,316	683	17,830	182,562,000	21.16	10,239
06-30-99	1,410	752	18,488	207,962,000	13.91	11,248
06-30-00	1,467	654	19,301	237,825,000	14.36	12,322
06-30-01	1,412	735	19,978	270,558,000	13.76	13,543
06-30-02	1,738	911	20,805	296,687,000	9.66	14,260
06-30-03	1,366	717	21,454	311,472,000	4.99	14,518
State Patrol Retirement Fund:						
06-30-98	62	12	620	18,353,000	25.34	29,602
06-30-99	68	16	672	22,226,000	21.10	33,074
06-30-00	55	17	710	25,789,000	16.03	36,323
06-30-01	60	25	745	29,935,000	16.08	40,181
06-30-02	48	31	762	33,031,000	10.34	43,348
06/30/03	44	21	785	34,316,000	3.90	43,715
Correctional Employees Retirement Fund:						
06-30-98	86	14	591	8,226,000	31.26	13,919
06-30-99	78	17	652	10,190,000	23.88	15,629
06-30-00	118	23	747	12,414,000	21.83	16,618
06-30-01	100	39	808	14,911,000	20.11	18,454
06-30-02	0	0	808	17,105,000	14.71	21,170
06/30/03	143	21	1,060	19,256,000	12.57	18,166
Judges Retirement Fund:						
06-30-99	12	11	238	9,996,000	10.06	42,000
06-30-00	14	13	239	11,083,000	10.87	46,372
06-30-01	17	9	247	12,228,000	10.33	49,506
06-30-02	0	0	247	13,202,000	7.97	53,449
06-30-03	11	14	253	13,558,000	2.70	53,589
Legislators Retirement Fund:						
06-30-98	23	8	262	3,276,000	24.14	12,504
06-30-99	10	5	267	3,740,000	14.16	14,007
06-30-00	22	9	280	4,213,000	12.65	15,046
06-30-01	21	8	293	4,857,000	15.29	16,577
06-30-02	0	0	293	5,243,000	7.97	17,894
06-30-03	22	9	310	5,539,000	5.65	17,868
Elective State Officers Retirement Fund:						
06-30-98	2	2	11	171,000	6.88	15,545
06-30-99	3	1	13	213,000	24.56	16,385
06-30-00	0	0	13	303,000	29.70	23,308
06-30-01	0	0	13	330,000	8.91	25,385
06-30-02	0	0	13	353,000	6.97	27,154
06-30-03	1	0	14	370,000	4.82	26,429

*This is a closed plan. There are no active contributing members.

Note: This schedule was corrected for changes made by Tim Herman, M&R.

Solvency Test – Funding Ratio

(In Thousands)

Valuation Date	(1)	(2)	(3)	Portion Covered by Reported Assets			Funding Ratio	
	Active Member Contributions	Retirees and Beneficiaries	Employer Financed Portion	(1)	(2)	(3)		
	Aggregate Accrued Liabilities			Reported Assets				
State Employees Retirement Fund:								
06-30-98	653,884	1,815,870	2,735,211	5,390,526	100	100	106.8	103.6
06-30-99	688,560	2,057,419	2,718,228	5,968,692	100	100	118.6	109.2
06-30-00	722,921	2,462,329	2,920,453	6,744,165	100	100	121.9	110.5
06-30-01	762,784	2,771,952	3,038,457	7,366,673	100	100	126.1	112.1
06-30-02	807,966	3,015,552	3,516,879	7,673,028	100	100	109.5	104.5
06/30/03	855,953	3,116,008	3,858,710	7,757,292	100	100	98.1	99.1
State Patrol Retirement Fund:								
06-30-97	35,356	152,929	144,142	375,650	100	100	130.0	113.0
06-30-98	35,702	186,345	149,322	430,011	100	100	139.3	115.8
06-30-99	35,405	226,199	144,611	472,687	100	100	146.0	116.4
06-30-00	36,373	265,053	156,958	528,573	100	100	144.7	115.3
06-30-01	37,145	303,600	148,738	572,815	100	100	156.0	117.0
06-30-02	38,508	324,743	147,093	591,383	100	100	155.1	115.9
06/30/03	40,619	334,069	164,292	591,521	100	100	132.0	112.9
Correctional Employees Retirement Fund:								
06-30-98	34,827	79,770	147,272	295,291	100	100	122.7	112.8
06-30-99	39,503	99,324	168,581	335,408	100	100	116.7	109.1
06-30-00	43,787	124,401	191,697	386,964	100	100	114.1	107.5
06-30-01	48,133	144,906	205,594	431,134	100	100	115.8	108.2
06-30-02	51,324	172,606	222,496	457,416	100	100	104.9	102.5
06-30-03	55,441	192,732	236,801	470,716	100	100	94.0	97.1
Judges Retirement Fund:								
06-30-98	10,865	79,076	40,786	86,578	100	95.7	0	73.9
06-30-99	12,390	85,400	41,797	97,692	100	99.9	0	70.0
06-30-00	13,740	81,323	58,597	111,113	100	100	27.4	72.3
06-30-01	15,157	89,568	54,911	123,589	100	100	34.4	77.4
06-30-02	16,243	98,109	57,569	131,379	100	100	29.6	76.4
06-30-03	18,313	106,673	51,305	134,142	100	100	17.8	76.1
Legislators Retirement Fund:								
06-30-97	6,378	29,423	24,254	25,678	100	65.6	0	42.8
06-30-98	6,655	33,435	22,838	31,212	100	73.4	0	49.6
06-30-99	6,956	36,231	23,231	33,474	100	73.2	0	50.4
06-30-00	7,042	41,593	20,729	37,265	100	72.7	0	53.7
06-30-01	6,924	36,306	31,842	42,608	100	98.3	0	56.8
06-30-02	7,093	37,816	33,161	45,501	100	0	0	58.3
Actuarial valuation of this fund was not prepared for fiscal year ended 06/30/03								
Elective State Officers Retirement Fund:								
06-30-97	455	1,368	1,391	456	99.8	0	0	14.2
06-30-98	497	1,374	1,498	500	99.4	0	0	14.8
06-30-99	194	2,836	537	198	100.0	1.4	0	5.9
06-30-00	194	2,963	572	199	100.0	0.2	0	5.6
06-30-01	194	3,152	623	201	100.0	0.2	0	5.3
06-30-02	194	3,196	685	201	100.0	0.2	0	4.9
Actuarial valuation of this fund was not prepared for fiscal year ended 06/30/03								

Summary of Unfunded Accrued Liability (UAL) (In Thousands)

Valuation Date	Aggregate Accrued Liabilities	Reported Assets	Unfunded Accrued Liabilities	Member Payroll	UAL as a Percent Payroll
State Employees Retirement Fund:					
06-30-98	5,005,165	5,390,526	(385,361)	1,664,588	23.2
06-30-99	5,464,207	5,968,692	(504,489)	1,757,716	28.7
06-30-00	6,105,703	6,744,165	(638,462)	1,900,124	33.6
06-30-01	6,573,193	7,366,673	(793,480)	1,967,814	40.3
06-30-02	7,340,397	7,673,028	(332,631)	2,040,390	16.3
06-30-03	7,830,671	7,757,292	73,379	2,009,975	3.6
State Patrol Retirement Fund:					
06-30-98	371,369	430,011	(58,642)	45,217	129.7
06-30-99	406,215	472,687	(66,472)	47,034	141.3
06-30-00	458,384	528,573	(70,189)	51,980	135.0
06-30-01	489,483	572,815	(83,332)	51,574	161.6
06-30-02	510,344	591,383	(81,039)	51,473	157.4
06-30-03	538,980	591,521	(52,541)	54,175	-97.0
Correctional Employees Retirement Fund:					
06-30-98	261,869	295,291	(33,422)	106,178	31.5
06-30-99	307,408	335,408	(28,000)	112,202	25.0
06-30-00	359,885	386,964	(27,079)	127,557	21.2
06-30-01	398,633	431,134	(32,501)	127,835	25.4
06-30-02	446,426	457,416	(10,990)	131,232	8.4
06-30-03	484,974	470,716	14,258	131,328	10.9
Judges Retirement Fund:					
06-30-98	130,727	86,578	44,149	25,890	170.5
06-30-99	139,587	97,692	41,895	27,080	154.7
06-30-00	153,660	111,113	42,547	28,186	151.0
06-30-01	159,636	123,589	36,047	28,707	125.6
06-30-02	171,921	131,379	40,542	31,057	130.5
06-30-03	176,291	134,142	42,149	33,771	124.8
Legislators Retirement Fund:					
06-30-97	60,058	25,678	34,377	7,767	442.6
06-30-98	62,928	31,212	31,716	7,289	435.1
06-30-99	66,418	33,474	32,944	6,571	501.4
06-30-00	69,364	37,265	32,099	6,043	531.2
06-30-01	75,072	42,608	32,464	5,646	575.0
06-30-02	78,070	45,501	32,569	5,284	616.4
An actuarial valuation of this fund was not prepared for the fiscal year ended 06-30-03.					
Elective State Officers Fund:*					
06-30-97	3,214	456	2,758	467	590.6
06-30-98	3,369	500	2,869	500	573.8
06-30-99	3,373	198	3,175	0	N/A
06-30-00	3,535	199	3,336	0	N/A
06-30-01	3,775	201	3,574	0	N/A
06-30-02	0	201	0	0	N/A
An actuarial valuation of this fund was not prepared for the fiscal year ended 06-30-03.					

*This is a closed fund. There are no active contributing members.

Note: This schedule was corrected for changes made by Tim Herman, M&R.

Sample Assumed Annual Rates of Termination

per 10,000 Members and Assumed Salary Increases

Age	Pre-retirement				Retirement				Salary Increases
	Death		Withdrawal		Disability		Retirement *		
	Male	Female	Male	Female	Male	Female	Male/ R90	Female/ Other	
State Employees Retirement Fund:									
20	3	2	690	855	1	1	0	0	6.75%
25	4	2	590	780	1	1	0	0	6.75
30	5	3	490	705	1	1	0	0	6.75
35	6	4	390	630	3	3	0	0	6.75
40	9	6	320	555	8	8	0	0	6.75
45	12	8	270	480	13	13	0	0	6.45
50	22	14	220	390	24	24	0	0	5.95
55	39	21	0	0	42	36	2,500	500	5.45
60	61	34	0	0	65	52	2,500	1,000	5.25
65	92	58	0	0	0	0	4,500	4,500	5.25
70	156	97	0	0	0	0	3,000	3,000	5.25
State Patrol Retirement Fund:									
20	4	2	220	220	4	4	0	0	7.75 %
25	4	3	170	170	6	6	0	0	7.00
30	6	3	120	120	8	8	0	0	7.00
35	8	5	70	70	11	11	0	0	7.00
40	11	7	60	60	18	18	0	0	6.50
45	19	10	60	60	29	29	0	0	5.75
50	35	16	0	0	50	50	200	200	5.50
55	57	25	0	0	88	88	6,000	6,000	5.25
60	84	42	0	0	141	141	2,000	2,000	5.25
65	129	71	0	0	0	0	10,000	10,000	5.25
70	248	124	0	0	0	0	0	0	5.25
Correctional Employees Retirement Fund:									
20	4	2	2,400	1,600	4	4	0	0	7.75%
25	4	3	1,470	1,420	6	6	0	0	7.00
30	6	3	910	1,350	8	8	0	0	7.00
35	8	5	600	1,290	11	11	0	0	7.00
40	11	7	440	1,040	18	18	0	0	6.50
45	19	10	340	640	29	29	0	0	5.75
50	35	16	240	470	50	50	200	200	5.50
55	57	25	140	330	141	141	6,000	6,000	5.25
60	84	42	0	0	0	0	2,000	2,000	5.25
65	129	71	0	0	0	0	10,000	10,000	5.25
70	248	124	0	0	0	0	0	0	5.25

*For the State Employees Retirement Fund, the retirement rates are for those eligible for "Rule of 90" and those who are not. All others are rates for males and females.

Sample Assumed Annual Rates of Termination per 10,000 Members and Assumed Salary Increases

Judges Retirement Fund:

<u>Age</u>	<u>Pre-retirement</u>				<u>Retirement</u>				<u>Salary Increases</u>
	<u>Death</u>		<u>Withdrawal</u>		<u>Disability</u>		<u>Retirement*</u>		
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	
20	3	2	0	0	0	0	0	0	5.00%
25	4	2	0	0	0	0	0	0	5.00
30	5	3	0	0	2	0	0	0	5.00
35	6	4	0	0	2	1	0	0	5.00
40	9	6	0	0	2	2	0	0	5.00
45	14	8	0	0	3	5	0	0	5.00
50	25	14	0	0	14	10	0	0	5.00
55	43	21	0	0	34	24	0	0	5.00
60	66	34	0	0	76	62	0	0	5.00
65	101	58	0	0	0	0	2,000	2,000	5.00
70	176	97	0	0	0	0	3,000	3,000	5.00

Legislators Retirement Fund: (termination rates by years of service)**

<u>Year</u>	<u>Separation</u>		<u>Salary Increases</u>
	<u>House</u>	<u>Senate</u>	
1	0%	0%	5.00%
2	30	0	5.00
3	0	0	5.00
4	20	25	5.00
5	0	0	5.00
6	10	0	5.00
7	0	0	5.00
8	5	10	5.00

Elective State Officers Retirement Fund: (termination rates by years of service)***

<u>Year</u>	<u>Separation</u>	<u>Salary Increases</u>
	<u>Rate</u>	
1	0%	5.00%
2	0	5.00
3	0	5.00
4	50	5.00
5	0	5.00
6	0	5.00
7	0	5.00
8	50	5.00

* For the Judges Retirement Fund, the retirement rates for male and female are 10,000 at age 68. By statute all judges must retire by the age of 70.

** For the Legislators Retirement Fund, the retirement rate is 100 percent at age 62.

*** For the Elective Officers Retirement Fund, the retirement rate is 100 percent at age 62.

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Statistical Section

Schedule of Revenues by Source

(In Thousands)

Year Ended June 30	Employee Contributions	Employer Contributions	Investment Income	Other	Total	Actual Covered Payroll	Percentage Employer Contributions
State Employees Retirement Fund:							
1998	62,901	62,315	1,110,022	3,500	1,238,738	1,557,880	4.00
1999	66,823	65,979	716,178	5,407	854,387	1,649,469	4.00
2000	70,378	69,322	673,314	5,260	818,274	1,733,054	4.00
2001	74,364	73,362	(529,082)	7,408	(373,948)	1,834,042	4.00
2002	79,487	76,614	(284,459)	6,611	(121,747)	1,862,752	4.00
2003	83,850	80,399	116,353	9,766	290,368	2,009,975	4.00
State Patrol Retirement Fund:							
1998	3,634	5,475	90,117	0	99,226	43,456	12.60
1999	3,850	5,712	60,922	17	70,501	45,333	12.60
2000	4,044	6,069	53,160	10	63,283	48,167	12.60
2001	4,146	6,166	(40,928)	1	(30,615)	48,935	12.60
2002	4,215	6,209	(12,905)	0	(2,481)	42,889	12.60
2003	4,555	6,826	9,142	0	20,523	54,175	12.60
Correctional Employees Retirement Fund:							
1998	5,954	8,146	58,451	6,375	78,926	105,796	7.80
1999	6,378	8,172	39,182	2,518	56,250	106,131	7.70
2000	6,526	8,984	39,972	6,953	62,435	112,587	7.98
2001	6,996	9,651	(31,082)	1,128	(13,307)	120,947	7.98
2002	7,207	9,925	(17,578)	727	281	119,686	7.98
2003	7,611	10,480	5,390	529	24,010	131,328	7.98
Judges Retirement Fund:							
1998	1,571	5,446	18,410	1,693	27,120	24,965	21.81
1999	2,069	5,301	12,302	1,761	21,433	32,940	16.09
2000	2,107	5,398	10,203	1,910	19,618	26,315	20.51
2001	2,162	5,790	(8,384)	2,013	1,581	28,246	20.50
2002	2,345	6,371	(517)	2,008	10,207	28,648	20.50
2003	2,574	6,923	2,588	10	12,095	33,771	20.50
Legislators Retirement Fund:							
1998	612	0	5,635	5,199	11,446	6,802	N/A
1999	674	0	3,245	2,091	6,010	7,490	N/A
2000	523	0	2,954	3,192	6,669	5,808	N/A
2001	527	0	(2,414)	5,041	3,154	5,858	N/A
2002	458	0	664	4,135	5,257	5,032	N/A
2003	433	0	528	5,396	6,357	3,610	N/A
Elective State Officers Retirement Fund*:							
1998	42	0	0	175	217	461	N/A
1999	26	0	0	40	66	291	N/A
2000*	0	0	0	306	306	N/A*	N/A
2001*	0	0	0	333	333	N/A*	N/A
2002*	0	0	0	355	355	N/A*	N/A
2003	0	0	0	371	371	N/A*	N/A

*The Elective State Officers Plan has no active members.

Schedule of Expenses by Type

(In Thousands)

<u>Year Ended June 30</u>	<u>Benefits</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Other</u>	<u>Total</u>
State Employees Retirement Fund:					
1998	182,562	2,365	11,659	7,932	204,518
1999	207,962	2,555	11,110	3,797	225,424
2000	237,825	3,701	11,227	10,269	263,022
2001	270,558	3,738	9,750	3,197	287,243
2002	296,687	3,942	8,068	2,811	311,508
2003	311,472	4,191	8,195	2,172	326,030
State Patrol Retirement Fund:					
1998	18,354	66	23	334	18,777
1999	22,226	74	16	310	22,626
2000	25,789	94	90	252	26,225
2001	29,935	90	1	249	30,275
2002	33,031	102	60	171	33,364
2003	34,316	94	12	134	34,556
Correctional Employees Retirement Fund:					
1998	8,226	154	378	282	9,040
1999	10,190	163	425	225	11,003
2000	12,414	243	753	340	13,750
2001	14,911	240	660	261	16,072
2002	17,105	310	634	277	18,326
2003	19,256	286	607	327	20,476
Judges Retirement Fund:					
1998	9,082	34	0	51	9,167
1999	9,996	38	375	28	10,437
2000	11,083	42	122	217	11,464
2001	12,228	41	17	54	12,340
2002	13,202	57	0	89	13,348
2003	13,558	37	0	38	13,633
Legislators Retirement Fund:					
1998	3,276	29	108	41	3,454
1999	3,740	32	49	387	4,208
2000	4,213	34	108	99	4,454
2001	4,857	29	72	32	4,990
2002	5,243	29	39	28	5,339
2003	5,539	27	94	40	5,700
Elective State Officers Retirement Fund:					
1998	171	3	0	0	174
1999	213	6	86	63	368
2000	303	2	0	0	305
2001*	330	1	6	0	331
2002*	353	1	0	0	354
2003*	370	1	0	0	371

Schedule of Expenses by Type (In Thousands)

<u>Fiscal Year</u>	<u>Retirement</u>	<u>Survivor</u>	<u>Disability</u>	<u>Refund</u>	<u>Totals</u>
State Employees Retirement Fund:					
1998	160,305	15,023	7,234	11,659	194,221
1999	181,712	17,931	8,319	11,110	219,072
2000	206,536	21,398	9,891	11,227	249,052
2001	233,734	25,467	11,357	9,750	280,308
2002	254,601	29,021	13,065	8,068	304,755
2003	266,208	31,290	13,974	8,195	319,667
State Patrol Retirement Fund:					
1998	15,568	2,238	548	23	18,377
1999	18,988	2,597	641	16	22,242
2000	21,993	3,089	707	90	25,879
2001	25,439	3,617	831	1	29,888
2002	28,125	3,927	979	60	33,091
2003	29,138	4,093	1,085	12	34,328
Correctional Retirement Fund:					
1998	7,195	291	739	378	8,603
1999	8,913	348	928	425	10,614
2000	10,658	502	1,255	753	13,168
2001	12,623	598	1,690	660	15,571
2002	14,465	709	1,931	634	17,739
2003	16,098	824	2,334	607	19,863
Judges Retirement Fund:					
1998	6,712	2,083	287	0	9,082
1999	7,374	2,306	316	375	10,371
2000	8,140	2,644	47	122	10,953
2001	8,942	2,848	286	17	12,093
2002	9,609	3,211	382	0	13,202
2003	9,917	3,224	417	0	13,558
Legislators Retirement Fund:					
1998	2,760	515	0	108	3,383
1999	3,155	585	0	49	3,789
2000	3,574	639	0	108	4,321
2001	4,126	591	0	72	4,789
2002	4,444	799	0	39	5,282
2003	4,737	802	0	94	5,633
Elected State Officers Retirement Fund:					
1998	71	99	0	0	170
1999	125	89	0	86	300
2000	206	97	0	0	303
2001	223	107	0	6	336
2002	239	114	0	0	353
2003	252	118	0	0	370

Active Employees Average Age Tables

(These statistics are not available for the Legislators Plan or Elected State Officers Plan)

Year Ended	Averages for New Members			Averages for All Members								
	Entry Age			Entry Age			Attained Age			Service Credit		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
State Employees Retirement Fund:												
06-30-98	34.6	33.8	34.2	31.0	30.8	30.9	45.0	42.9	43.9	13.1	10.6	11.8
06-30-99	34.7	33.7	34.1	31.2	30.9	31.0	45.1	43.4	42.2	12.9	10.6	11.7
06-30-00	34.5	32.7	33.4	31.5	31.1	31.3	45.3	43.1	44.1	12.8	10.5	11.6
06-30-01	34.7	33.7	34.1	31.8	31.4	31.6	45.4	43.4	44.3	12.7	10.4	11.5
06-30-02	34.2	33.7	34.2	31.9	31.5	31.8	45.8	43.9	44.8	12.9	10.7	11.7
06-30-03	34.4	33.6	33.9	32.1	31.8	31.9	46.3	44.5	45.3	13.3	11.2	12.2
State Patrol Retirement Fund:												
06-30-98	30.8	31.7	30.9	27.5	27.5	27.5	42.6	36.9	42.1	15.0	9.3	14.6
06-30-99	29.9	31.1	30.0	27.7	27.7	27.2	41.3	36.9	40.9	13.5	9.1	13.1
06-30-00	29.3	29.9	29.3	27.9	27.6	27.8	41.0	37.7	40.7	13.0	9.8	12.8
06-30-01	33.1	33.2	33.1	28.2	28.2	28.2	41.0	37.9	40.7	12.7	9.5	12.5
06-30-02	29.8	31.5	30.2	28.3	28.5	28.3	41.2	38.0	40.9	12.9	9.4	12.5
06-30-03	26.5	30.8	27.3	28.2	28.5	28.3	41.5	38.4	41.2	13.1	9.7	12.8
Correctional Employees Retirement Fund:												
06-30-98	36.2	40.1	38.3	30.9	34.6	32.1	40.2	39.8	40.0	8.8	4.7	7.5
06-30-99	33.4	33.6	33.5	30.7	33.9	31.8	40.9	39.9	40.6	9.1	5.4	7.9
06-30-00	33.6	36.1	34.9	31.0	34.2	32.1	40.5	39.7	40.2	9.1	5.1	7.7
06-30-01	33.1	34.9	33.9	31.0	34.4	32.2	40.7	40.2	40.5	9.2	5.5	7.9
06-30-02	34.2	35.7	34.9	31.2	34.5	32.3	40.8	40.3	40.6	9.2	5.5	7.9
06-30-03	34.0	37.7	35.4	31.4	34.7	32.5	41.0	41.1	41.0	9.2	6.0	8.1
Judges Retirement Fund:												
06-30-98	48.1	41.4	47.0	42.9	42.0	42.7	54.5	50.8	53.6	11.1	8.5	10.5
06-30-99	47.3	43.5	46.2	43.2	41.7	42.9	54.8	50.3	53.8	11.0	8.4	10.4
06-30-00	46.8	41.7	46.1	43.3	41.6	41.4	53.7	53.7	53.7	12.4	9.6	11.5
06-30-01	49.8	44.0	48.2	43.8	41.8	43.4	55.5	50.8	54.4	11.1	8.9	10.6
06-30-02	49.8	43.5	47.3	44.5	42.0	43.9	55.1	50.6	54.0	10.1	8.6	9.7
06-30-03	50.0	49.5	49.9	44.7	42.6	44.2	55.7	51.5	54.6	10.5	8.8	10.1

Employees Eligible to an Immediate Annuity

(As of June 30, 2003)

	Total
State Employees Retirement Fund:	
- full benefit	508
- reduced benefit due to early retirement	6,485
- proportional benefit (age equal to or more than 65 and service years fewer than 10)	135
- Rule of 90	1,325
- vested employees not eligible to immediate benefit	28,660
- employees not vested	<u>11,015</u>
Totals	48,128
State Patrol Retirement Fund:	
- full benefit	26
- reduced benefit	105
- vested employees not eligible to immediate benefit	589
- employees not vested	<u>85</u>
Totals	805
Correctional Employees' Retirement Fund:	
- full benefit	107
- reduced benefit	415
- vested employees not eligible to immediate benefit	1,838
- employees not vested	<u>902</u>
Totals	3,262
Judges' Retirement Fund:	
- full benefit	6
- reduced benefit	9
- vested judges not eligible to immediate benefit	127
- judges not vested	<u>147</u>
Totals	289
Legislators' Retirement Fund:	
- full benefit	21
- reduced benefit	29
- vested members not eligible for an immediate benefit	40
- members not vested	<u>1</u>
Totals	91
Elective State Officers' Retirement Fund:	
- no remaining active members as of June 30, 2001	0

Schedule of Refund Statistics

(These statistics are not available for the Legislators Plan or Elected State Officers Plan)

Year Ended	Number of Refunds			Average Age		Average Years Forfeited		Number Forfeiting Vested Rights
	Male	Female	Total	Male	Female	Male	Female	
State Employees Retirement Fund*								
06-30-98	998	1,732	2,730	36.4	36.2	3.6	3.3	895
06-30-99	947	1,509	2,456	36.2	37.0	2.2	2.5	623
06-30-00	962	1,461	2,423	37.7	36.4	2.3	2.4	568
06-30-01	915	1,524	2,439	37.0	36.8	2.1	2.1	474
06-30-02	793	1,298	2,091	38.2	36.4	2.0	2.0	390
06-30-03	637	978	1,615	37.7	36.6	2.4	2.4	368
State Patrol Retirement Fund:								
06-30-98	1	0	1	30.0	-	5.9	-	1
06-30-99	0	0	0	-	-	-	-	0
06-30-00	1	1	2	33.5	30.5	8.4	0.1	1
06-30-01	1	0	1	25.9	-	0.4	-	0
06-30-02	3	0	3	34.0	-	3.4	-	1
06-30-03	1	0	1	36.3	-	0.3	-	0
Correctional Employees Retirement Fund:								
06-30-98	52	33	85	34.6	31.0	3.4	1.8	27
06-30-99	45	49	94	34.1	36.1	2.6	1.6	24
06-30-00	55	49	104	35.6	36.6	2.9	1.7	31
06-30-01	73	63	136	35.7	35.4	2.8	1.1	29
06-30-02	70	56	126	35.5	37.4	2.3	2.0	27
06-30-03	51	57	108	34.6	35.5	1.8	1.4	20
Judges Retirement Fund:								
06-30-98	1	0	1	62.6	-	2.7	0	0
06-30-99	0	0	0	-	-	-	-	0
06-30-00	0	0	0	-	-	-	-	0
06-30-01	1	0	1	64.7	-	6.0	-	1
06-30-02	0	0	0	-	-	-	-	0
06-30-03	0	0	0	-	-	-	-	0

*Does not include Unclassified Plan.

Schedule of Retired Members by Type of Benefit (As of June 30, 2003)

State Employees Retirement Fund

Monthly Benefit Amount	Number of Retirees	Retirement Type					Option Selected			
		1	2	3	4	5	Life	I	II	III
\$0-499	5,644	4,606	323	627	0	88	3,564	1,785	210	85
500-999	5,376	4,111	462	744	2	57	3,261	1,869	203	43
1,000-1,499	3,844	3,033	321	455	1	34	2,123	1,599	97	25
1,500-1,999	2,584	2,216	112	244	2	10	1,281	1,240	46	17
2,000-2,499	1,664	1,460	36	152	0	16	739	893	21	11
2,500-2,999	1,013	910	13	84	1	5	409	587	11	6
3,000-3,499	630	572	3	51	0	4	235	385	5	5
3,500-3,999	349	316	1	26	2	4	137	203	4	5
4,000-4,499	170	160	1	9	0	0	61	108	1	0
4,500-4,999	95	89	0	6	0	0	34	60	0	1
5,000+	92	84	0	4	1	3	25	67	0	0
Totals	21,461	17,557	1,272	2,402	9	221	11,869	8,796	598	198

Type:

1	General Plan annuitants
2	General Plan disabilities
3	General Plan survivors
4	Military Affairs Plan
5	Unclassified Plan

Option:

Life	Single Life annuity
I	Joint and Survivor
II	Death while eligible
III	Period Certain

State Patrol Retirement Fund

Monthly Benefit Amount	Number of Retirees	Retirement Type			Option Selected		
		1	2	3	Life	I	II
\$0-499	22	6	0	16	5	2	15
500-999	23	10	2	11	8	6	9
1,000-1,499	31	9	2	20	12	14	5
1,500-1,999	54	16	2	36	12	36	6
2,000-2,499	48	15	4	29	12	32	4
2,500-2,999	66	44	6	16	22	41	3
3,000-3,499	69	49	6	14	25	41	3
3,500-3,999	116	107	3	6	29	86	1
4,000-4,499	109	100	2	7	38	68	3
4,500-4,999	115	107	3	5	64	48	3
5,000+	133	129	1	3	83	50	0
Totals	786	592	31	163	310	424	52

Type:

1	Retired members
2	Disabilitants
3	Survivors

Option:

Life	Single Life annuity
I	Joint and Survivor
II	Death while eligible

Schedule of Retired Members by Type of Benefit (As of June 30, 2003)

Monthly Benefit Amount	Number of Retirees	Retirement Type			Life	Option Selected		
		1	2	3		I	II	III
Correctional Employees' Retirement Fund								
0-499	129	99	4	26	83	28	18	0
500-999	153	122	15	16	97	47	8	1
1000-1499	207	144	46	17	139	63	5	0
1500-1999	170	134	32	4	115	51	3	1
2000-2499	104	87	15	2	74	29	1	0
2500-2999	78	73	2	3	57	20	1	0
3000-3499	50	48	1	1	33	17	0	0
3500-3999	30	30	0	0	18	12	0	0
4000-4499	10	10	0	0	8	2	0	0
4500-4999	4	4	0	0	4	0	0	0
5000+	3	3	0	0	2	1	0	0
Totals	938	754	115	69	630	270	36	2

Type:

- 1 Retired members
2 Disabilitants
3 Survivors

Option:

- Life Single Life annuity
I Joint and Survivor
II Period Certain
III Death while eligible

Monthly Benefit Amount	Number of Retirees	Retirement Type			Life	Option Selected		
		1	2	3		I	II	III
Judges Retirement Fund								
0-499	0	0	0	0	0	0	0	0
500-999	6	1	0	5	4	0	2	0
1000-1499	12	6	0	6	6	4	1	1
1500-1999	9	2	0	7	4	4	1	0
2000-2499	20	7	0	13	9	10	0	1
2500-2999	16	9	0	7	6	9	1	0
3000-3499	29	11	0	18	14	9	6	0
3500-3999	25	15	0	10	9	14	2	0
4000-4499	18	12	0	6	3	12	2	1
4500-4999	20	13	1	6	8	10	2	0
5000+	101	88	4	9	45	50	2	4
Totals	256	164	5	87	108	122	19	7

Type:

- 1 Retired members
2 Disabilitants
3 Survivors

Option:

- Life Single Life annuity
I Joint and Survivor
II Life plus 50 percent survivors
III Period Certain

Schedule of Retired Members by Type of Benefit (As of June 30, 2003)

Monthly Benefit Amount	Retirement Type			
	Elective State Officers		Legislators	
	Member	Survivor	Member	Survivor
Legislators and Elective State Officers Retirement Funds				
0-499	2	0	15	23
500-999	1	2	65	18
1000-1499	1	0	60	14
1500-1999	0	1	33	4
2000-2499	1	0	25	1
2500-2999	0	0	17	1
3000-3499	0	1	14	1
3500-3999	1	1	8	2
4000-4499	1	0	5	0
4500-4999	0	0	2	1
5000+	2	0	2	0
Totals	9	5	245	65

Schedule of New Retirees and Initial Benefit Paid

(For the Six Fiscal Years Ending June 30, 2003)

State Employees Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/97 to 6/30/98:								
Average Monthly Benefit	\$91	\$256	\$470	\$693	\$951	\$1,147	\$1,828	\$895
Number of Current Retirees	161	119	138	151	171	121	273	1,134
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$92	\$305	\$462	\$706	\$946	\$1,291	\$1,788	\$920
Number of Current Retirees	138	130	139	164	177	137	274	1,159
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$95	\$296	\$529	\$747	\$991	\$1,336	\$1,976	\$1,017
Number of Current Retirees	173	127	166	146	201	148	334	1305
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$114	\$348	\$537	\$758	\$1,001	\$1,284	\$2,016	\$1,047
Number of Current Retirees	182	112	148	156	177	141	355	1271
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$138	\$331	\$571	\$771	\$1,006	\$1,401	\$1,979	\$1,050
Number of Current Retirees	175	138	157	152	129	138	359	1248
Period 7/1/96 to 6/30/02:								
Average Monthly Benefit	\$105	\$303	\$500	\$715	\$957	\$1,274	\$1,896	\$956
Number of Current Retirees	949	731	903	913	1,009	795	1,760	7,072
Period 7/1/96 to 6/30/03:								
Average Monthly Benefit	\$122	\$316	\$527	\$752	\$998	\$1,334	\$1,971	\$1,012
Number of Current Retirees	1,046	738	898	899	970	832	1,927	7,360

State Patrol Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/97 to 6/30/98:								
Average Monthly Benefit	\$0	\$631	\$689	\$2,379	\$2,477	\$3,193	\$3,846	\$3,215
Number of Current Retirees	0	2	1	2	2	23	18	48
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$0	\$0	\$0	\$1,960	\$2,745	\$3,526	\$3,779	\$3,472
Number of Current Retirees	0	0	0	6	6	23	25	57
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$249	\$0	\$1,431	\$2,240	\$2,891	\$3,864	\$4,085	\$3,410
Number of Current Retirees	2	0	2	15	11	14	16	46
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$517	\$776	\$878	\$2,462	\$2,934	\$3,979	\$4,168	\$3,466
Number of Current Retirees	2	2	1	1	7	13	17	43
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$641	\$0	\$1,629	\$2,256	\$3,166	\$3,887	\$4,504	\$3,526
Number of Current Retirees	1	0	3	4	4	12	11	35
Period 7/1/96 to 6/30/02:								
Average Monthly Benefit	\$435	\$703	\$1,331	\$2,187	\$2,857	\$3,539	\$3,963	\$3,375
Number of Current Retirees	5	4	7	29	31	102	92	248
Period 7/1/97 to 6/30/03:								
Average Monthly Benefit	\$492	\$773	\$1,331	\$2,255	\$2,965	\$3,613	\$4,083	\$3,414
Number of Current Retirees	6	7	7	32	35	96	95	261

Schedule of New Retirees and Initial Benefit Paid

(For the Six Fiscal Years Ending June 30, 2003)

Correctional Employees Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/97 to 6/30/98:								
Average Monthly Benefit	\$446	\$608	\$1,046	\$1,310	\$1,920	\$3,126	\$2,213	\$1,387
Number of Current Retirees	10	11	8	23	23	4	4	83
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$433	\$518	\$973	\$1,355	\$1,993	\$2,353	\$2,826	\$1,586
Number of Current Retirees	5	7	6	18	20	12	3	71
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$265	\$621	\$1,112	\$1,312	\$1,941	\$2,603	\$2,466	\$1,344
Number of Current Retirees	17	15	18	19	26	12	3	110
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$253	\$640	\$1,114	\$1,289	\$1,801	\$2,912	\$3,757	\$1,516
Number of Current Retirees	11	15	7	18	19	14	4	88
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$372	\$650	\$1,135	\$1,341	\$1,996	\$2,487	\$2,680	\$1,443
Number of Current Retirees	15	20	21	28	32	19	3	138
Period 7/1/02 to 6/30/03:								
Average Monthly Benefit	\$335	\$687	\$1,203	\$1,419	\$1,894	\$2,943	\$3,609	\$1,471
Number of Current Retirees	20	20	18	24	24	19	3	128
Period 7/1/97 to 6/30/03:								
Average Monthly Benefit	\$336	\$636	\$1,122	\$1,340	\$1,931	\$2,699	\$2,931	\$1,451
Number of Current Retirees	78	88	78	130	144	80	20	618

Judges Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/97 to 6/30/98:								
Average Monthly Benefit	\$1,696	\$1,244	\$2,123	\$3,201	\$4,121	\$4,677	\$4,311	\$3,258
Number of Current Retirees	1	1	3	1	2	3	1	12
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$700	\$0	\$2,771	\$3,382	\$4,341	\$4,724	\$4,403	\$3,605
Number of Current Retirees	1	0	1	2	2	1	2	9
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$0	\$1,362	\$1,719	\$2,976	\$3,670	\$4,556	\$0	\$3,338
Number of Current Retirees	0	1	1	2	2	3	0	9
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$0	\$0	\$2,240	\$3,372	\$4,084	\$0	\$0	\$3,387
Number of Current Retirees	0	0	3	3	5	0	0	11
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$642	\$0	\$1,629	\$2,256	\$3,166	\$3,887	\$4,504	\$3,526
Number of Current Retirees	1	0	3	4	4	12	11	35
Period 7/1/02 to 6/30/03:								
Average Monthly Benefit	\$0	\$1,647	\$3,207	\$0	\$4,960	\$0	\$0	\$3,986
Number of Current Retirees	0	1	2	0	4	0	0	7
Period 7/1/97 to 6/30/03:								
Average Monthly Benefit	\$1,013	\$1,418	\$2,222	\$2,922	\$4,063	\$4,162	\$4,476	\$3,496
Number of Current Retirees	3	3	13	12	19	19	14	83

Schedule of New Retirees and Initial Benefit Paid

(For the Six Fiscal Years Ending June 30, 2003)

Legislators Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/97 to 6/30/98:								
Average Monthly Benefit	\$574	\$938	\$1,716	\$1,702	\$2,475	\$0	\$0	\$1,354
Number of Current Retirees	3	4	2	3	2	0	0	14
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$455	\$1,241	\$1,066	\$0	\$1,607	\$0	\$0	\$1,029
Number of Current Retirees	2	2	4	0	1	0	0	9
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$325	\$761	\$981	\$1,726	\$1,803	\$0	\$0	\$964
Number of Current Retirees	2	6	8	2	1	0	0	19
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$0	\$895	\$880	\$1,321	\$3,238	\$2,779	\$0	\$1,426
Number of Current Retirees	0	6	6	3	3	1	0	19
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$336	\$0	\$1,572	\$0	\$0	\$2,081	\$0	\$1,172
Number of Current Retirees	0	6	6	3	3	1	0	19
Period 7/1/02 to 6/30/03:								
Average Monthly Benefit	\$0	\$623	\$1,168	\$0	\$1,416	\$2,418	\$2,887	\$1,571
Number of Current Retirees	0	4	8	0	2	4	3	21
Period 7/1/97 to 6/30/03:								
Average Monthly Benefit	\$429	\$848	\$1,139	\$1,565	\$2,323	\$2,422	\$2,887	\$1,289
Number of Current Retirees	10	22	32	8	9	6	3	90

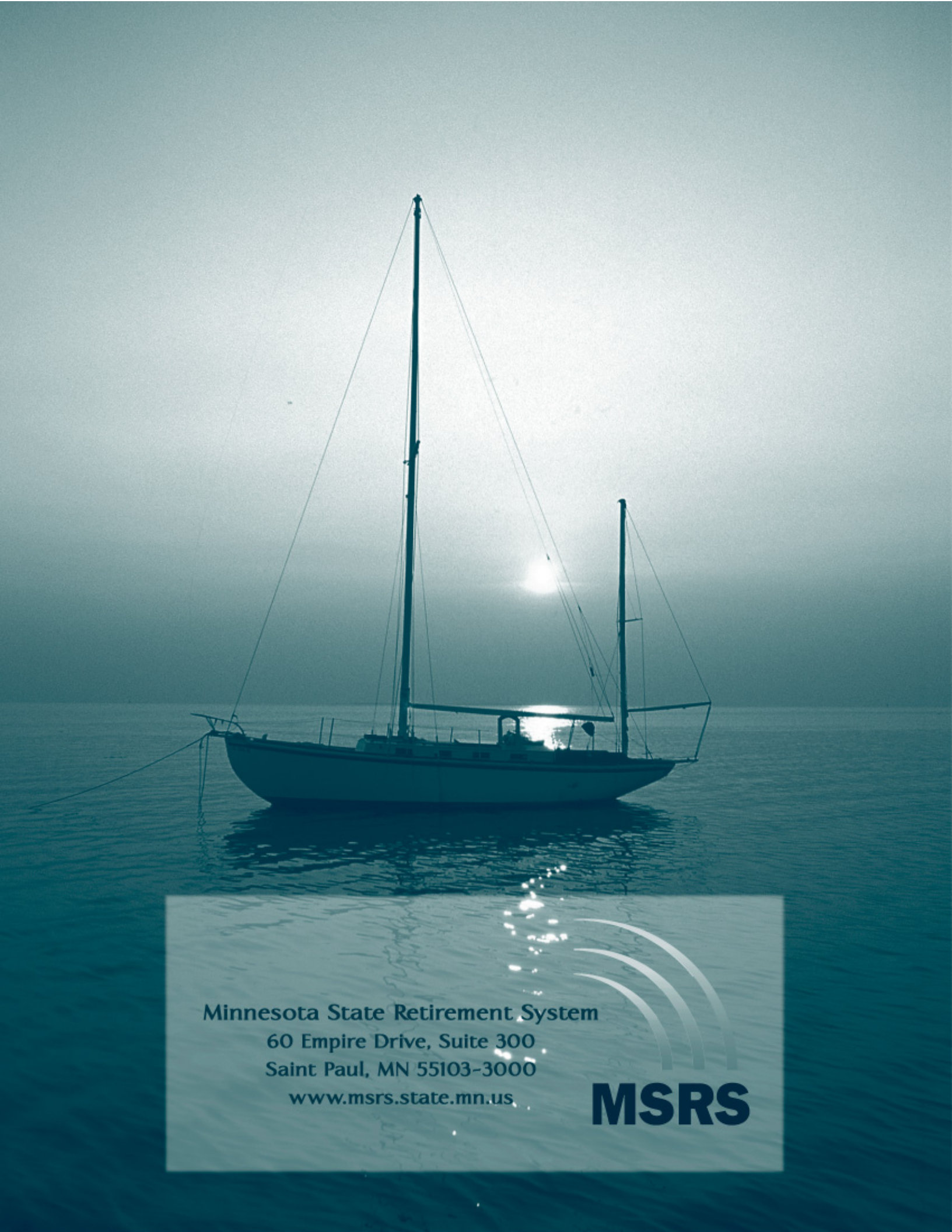
Elected State Officers Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/97 to 6/30/98:								
Average Monthly Benefit	\$934	\$0	\$0	\$0	\$0	\$0	\$0	\$934
Number of Current Retirees	1	0	0	0	0	0	0	1
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$0	\$2,036	\$0	\$0	\$4,315	\$0	\$0	\$3,556
Number of Current Retirees	0	1	0	0	1	0	0	2
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
Period 7/1/02 to 6/30/03:								
Average Monthly Benefit	\$0	\$0	\$0	\$3,757	\$0	\$0	\$0	\$3,759
Number of Current Retirees	0	0	0	1	0	0	0	1
Period 7/1/97 to 6/30/03:								
Average Monthly Benefit	\$934	\$2,036	\$0	\$3,757	\$4,315	\$0	\$0	\$2,952
Number of Current Retirees	1	1	0	1	1	0	0	4

Participating Employers

(as of June 30, 2003)

Agriculture Utilization Research Institute
 Aitkin Public Utilities
 Albert Lea, City of
 American Federation of State, County
 and Municipal Employees (AFSCME)
 Anoka Minnesota Extended Treatment Options
 (METO)
 Annandale Independent School District (ISD) #876
 Arrowhead Regional Computing
 Austin, City of
 Austin ISD #492
 Bagley ISD #162
 Battle Lake ISD #542
 Becker County
 Belgrade/Brooten ISD #2364
 Blaine, City of
 Bloomington, City of
 Bloomington ISD #271
 Blue Earth-Winnebago ISD #2860
 Breckenridge ISD #846
 Breezy Point, City of
 Breitung Township
 Browerville ISD #787
 Brown County
 Brown County Soil & Water Conservation District
 (SWCD)
 Burnsville ISD #191
 Cannon Falls, City of
 Carlton County
 Carver County
 Centennial ISD #12
 Chanhasen, City of
 Chaska ISD #112
 Chatfield ISD #227
 Chippewa County Hospital
 Clay County
 Cloquet ISD #94
 Comfrey ISD #81
 Cook County ISD #166
 Corcoran, City of
 Crop Improvement Association
 Dakota County
 Detroit Lakes, City of
 Detroit Lakes ISD #22
 Douglas County
 Duluth ISD #709
 East Bethel, City of
 East Central ISD 2580
 East Central Regional Library
 East Grand Forks, City of
 East Grand Forks ISD #595
 Eden Prairie, City of
 Edina, City of
 Ely, City of
 Esko ISD #99
 Eveleth, City of
 Fair Oaks Lodge
 Fairview Hospital
 Fergus Falls, City of
 Foster Wheeler Inc., Twin Cities
 Gillette Children's Hospital
 Glencoe/Silver Lake ISD #2859
 Goodhue County
 Grant County
 Hawley ISD #150
 Hennepin County
 Henricks ISD #402
 Hermantown ISD #700
 Hoyt Lakes, City of
 Ivanhoe Isd-403
 Jackson, City of
 Jackson County
 Jackson County Central ISD #2895
 Kenyon-Wanamingo ISD #2172
 Koochiching County
 La Crescent-Hoka ISD #300
 Lake Of The Woods ISD #390
 Laporte ISD #306
 Legislative Coordinating Commission
 Lewiston ISD #857
 Litchfield ISD #465
 Logis, City of
 Luverne, City of
 Luverne ISD #2184
 Maple Grove, City of
 Maple Lake ISD #881
 Maple River Schools ISD #2135
 Marietta, City of
 Mendota Heights, City of
 Metro Airport Commission
 Metropolitan Council
 -Environmental Services
 -Transit Operations-Union Office
 -Transit Operations-Drivers and Mechanics
 Metropolitan Sports Facility Commission
 Middle Management Association
 Minneapolis, City of
 Minneapolis Community Develop
 Minneapolis ISD #1
 Minneapolis Teachers Retirement
 Minnesota Association of Professional Employees
 Minnesota Government Engineers Council (MGEC)
 Minnesota Historical Society
 Minnesota Horticultural Society
 Minnesota House Employees
 Minnesota House of Representatives
 Minnesota Law Enforcement Association
 Minnesota Nurses Association
 Minnesota Safety Council
 Minnesota State Colleges & Universities (MnSCU)
 Minnesta Senate
 Minnesota Senate Employees
 Minnesota State Fair
 Minnesota Technology Inc.
 Minnesota Valley Educational District #6027
 Monticello, City of
 Moorhead, City of
 Moorhead Public Housing Agency
 Morris, City of
 Mound, City of
 Mower County
 Murray County Central ISD
 New Hope, City of
 New Prague ISD #721
 New Ulm, City of
 Newport, City of
 Northeast Metro Intermediate ISD #916
 Oakdale, City of
 Ogilvie ISD #333
 Olivia, City of
 Olmsted County
 Onamia ISD #480
 Orono, City of
 Orono ISD #278
 Osseo School District #279
 Ottertail County
 Pelican Rapid ISD #548
 Pierz ISD #484
 Pine County SWCD
 Pine Island ISD #255
 Plymouth ISD #287
 Prior Lake Savage ISD #719
 Proctor, City of
 Proctor ISD #704
 Ramsey County
 Red Lake Falls ISD #630
 Red Rock Rural Water System
 Redrock Central ISD #2884
 Redwood Area Schools ISD #2897
 Renville County
 Renville County SWCD
 Richfield, City of
 Robbinsdale, City of
 Rock County
 Rosemount ISD #196
 Roseville ISD #623
 Rush City ISD #139
 Rushford, City of
 Sandstone, City of
 Sauk Center School Dist #743
 Sauk Center/Water, Light & Power
 Sauk Rapids, City of
 Scott County
 Sebeka ISD #820
 Sherburne County
 South Central Service Cooperative
 South St Paul, City of
 St. Charles ISD #858
 St. Cloud, City of
 St. Cloud Area Plan Organization
 St. Cloud ISD #742
 St. Louis, City of
 St. Louis County HRA
 St. Louis Park, City of
 St. Paul Park, City of
 St. Louis County
 State Of Minnesota
 State Residential Schools Educational Association
 (SRSEA)
 Thief River Falls, City of
 Todd County Soil & Water Conservation
 Tracy, City of
 University of Minnesota
 Virginia, City of
 Wabasha-Kellogg ISD #811
 Wadena County Social Services
 Washington County
 Watertown-Mayer ISD #111
 Watonwan County SWCD
 Wayzata, City of
 Westbrook-Walnut Grove ISD #2898
 Win-E-Mac ISD #2609
 Worthington, City of
 Yellow Medicine East ISD #2190
 Zumbrota-Mazeppa ISD #2805



Minnesota State Retirement System

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