



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2004



MSRS
MNDCP | HCSP

Minnesota State Retirement System
Pension Trust Funds of the State of Minnesota





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, 2004

Prepared by MSRS Finance and Systems Divisions

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Introductory

SECTION 1



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, 2003

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 black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Board Chairperson's Report

April 14, 2005

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

Dear Board Members, Benefit Recipients and Employers:

After more than three years of difficult markets, I am pleased to report that we realized a 16.5 percent rate of return for the fiscal year ended June 30, 2004. This positive return will help stabilize the funding declines we have experienced the last three years.

While our three largest retirement plans continue to be well funded, we are seeking contribution increases to pay for expected increased costs of future benefits to reflect that people are living longer, and more likely to leave their contributions in the fund to collect monthly benefits. The Board's first commitment is to ensure that the retirement plans MSRS administers continue to be among the most financially sound in the country and increased contributions to prevent future unfunded liabilities.

MSRS assets grew from \$8 billion on June 30, 2003, to \$9.3 billion as of June 30, 2004. Liabilities increased from \$590 million to \$928 million over the same time period.

Eligible retirees received a 2.5 percent increase on January 1, 2005, which is slightly less than the inflation rate of 3.2 percent. The market declines prior to this year make it unlikely that we will pay an increase based on investment returns for the next 10 to 15 years.

Assets in the Minnesota State Deferred Compensation Plan (MNDCP) grew from \$2.2 billion to \$2.5 billion during fiscal year 2004, making the plan the fifth largest state-run plan in the nation. The Health Care Savings Plan (HCSP) realized phenomenal growth, both in assets, from \$25.6 million to \$57.6 million, and in membership.

Our goal is to continually improve the level of service we provide to participants. One aspect of this goal is to develop the ability to counsel participants on their MSRS benefits, HCSP, and MNDCP all in one location. This one-stop shopping is provided in our main office in St. Paul and also at our offices located in Duluth, St. Cloud, Mankato, and Detroit Lakes.

While the economy has been strong for the last two years, rising interest rates and higher oil prices could dampen the upswing. However, the prospect of MSRS remaining a leader in the public pension field for years to come is extremely bright.

Sincerely,



Mary Benner, Chair
MSRS Board of Directors

Letter of Transmittal

April 14, 2005

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, 2004. 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:

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

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, 2004.

The Comprehensive Annual Financial Report is divided into five 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 2004, 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

Fiscal Year 2004 was the start of some of the most significant changes in the 75-year history of MSRS. Driving the changes were the Board's initiative to provide one-stop shopping for counseling regarding MSRS benefits, the Minnesota State Deferred Compensation Plan (MNDCP) and the Health Care Savings Plan (HCSP).

We implemented a new call center with a staff of ten trained professionals to answer questions about MNDCP, HCSP and MSRS benefits. This change included a new internet protocol (IP) phone system.

We also began integration of the MNDCP counseling with the other services offered by MSRS. This will allow us to keep costs down and improve service to our participants. On July 1, 2004, we lowered MNDCP fees from .28 percent to .25 percent.

We also completed implementation of our new data base which will allow us to provide more personal information on the web site and to respond more quickly to program change requests.

As we look forward, we plan to integrate information on our annual statement and on our web site. We also will provide a way to incorporate information about Social Security benefits, health insurance, and taxes.

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, 2004.

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 primarily from three sources: 1) employee contributions; 2) employer contributions; and 3) investment returns. Income for fiscal year 2004 totaled \$1.4 billion. This fiscal year's return on investment was \$1.165 billion, an increase of \$1.025 billion over last fiscal year. Employee and employer contributions totaled \$248 million; appropriations and other sources provided an additional \$9.6 million.

	(In Thousands)		
	FY 2004	FY 2003	Increase (Decrease)
Employee Contributions	138,861	130,557	8,304
Employer Contributions	108,740	110,793	(2,053)
Investment Income	1,165,191	140,689	1,024,502
Other	9,618	16,954	(7,336)
Total	<u>1,422,410</u>	<u>398,993</u>	<u>1,023,417</u>

MINNESOTA STATE RETIREMENT SYSTEM

Expenses (Deductions)

Expenses in fiscal year 2004 came to \$448 million, a \$28 million increase over last year's expenses. Expenses combined with investment gains and other revenues resulted in a net increase of \$975 million.

	(In Thousands)		
	FY 2004	FY 2003	Increase (Decrease)
Annuity and Health Care Benefits	414,273	388,567	25,706
Refunds	17,722	14,111	3,611
Administrative Expenses	6,057	5,316	741
Other	9,611	12,337	(2,726)
Total	447,663	420,331	27,332

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

Funding Status

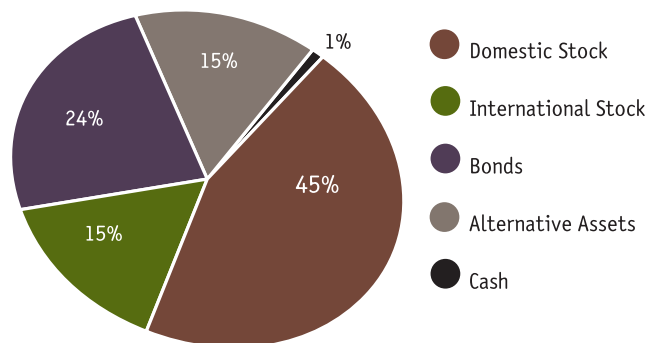
On an actuarial basis, the figures below show the assets, liabilities and funding ratios of each fund as of the latest actuarial valuation, June 30, 2004.

	(In Thousands)		
Fund	Liabilities	Assets	Actuarial Basis Funding Ratio
State Employees	\$7,878,362,792	\$7,884,984,028	100.08%
State Patrol	\$545,243,508	\$594,785,274	109.09%
Correctional	\$524,215,028	\$486,617,032	92.83%
Judges	\$190,338,344	\$138,948,244	73.00%
Legislators	\$83,197,221	\$46,155,159	55.48%
Elective State Officers	\$7,001,787	\$203,566	2.91%
	9,228,358,680	9,151,693,303	99.17

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, and state auditor. 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

Assets held in trust for active employees are maintained in the Basic Retirement Fund.

The rate of return in the Basic Retirement Fund was 16.6% in the fiscal year ending June 30, 2004.

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.

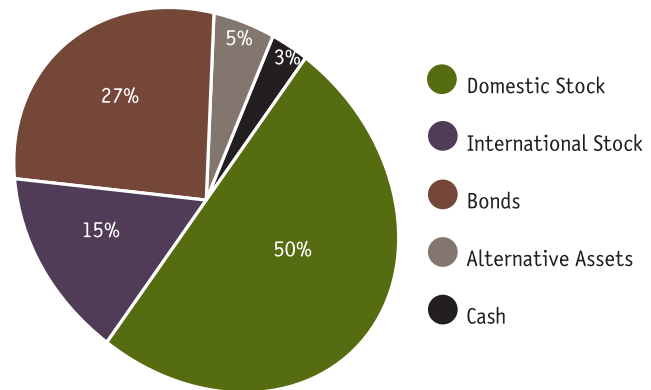
The Basic Retirement Fund's asset allocation target is displayed above.

Post Retirement Investment Fund

The rate of return for the Post-Retirement Fund was 16.3% in fiscal year 2004. A 2.5% increase was paid to eligible retirees on January 1, 2005.

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

There were only small changes in Global Insight's, the state's economic forecasting consultant, baseline forecast for the U.S. economy. Real GDP growth rates for calendar 2005 through calendar 2007 remain just above 3 percent, the same as in November. There was no major change in the inflation outlook. The CPI is expected to increase at a 1.5 percent rate in FY2006 and a 1.8 percent rate in FY2007. However, the rising price of oil and rising interest rates could dampen economic growth.

Last fiscal year, we reported an investment gain of \$141 million. This year we had an investment gain of \$1.165 billion. If the experts' forecasts hold true, we hope to see a gain again in 2005.

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 2004

MSRS is managed by an 11-member board of directors. The board sets the budget, determines the projects, and provides the overall direction of the agency. 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 2004 actuarial valuations were completed by Segal and Company, and reviewed by William M. Mercer Inc.

Acknowledgments

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.

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.

David Bergstrom
Executive Director

Arvin Herman
Assistant Director

Administrative Organization – June 30, 2004

MSRS Board of Directors

Mary Benner, Chair

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Mathew Hodapp, Vice Chair

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John Richter

PO BOX 217
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(320) 983-3638
Retiree Representative

Roy Watson

P O Box 72
Rochester, MN 55903
(507) 282-7080
Appointed by Governor

Administrative Staff

Executive Director:

David Bergstrom

Assistant Directors:

Arvin Herman, Ronald Schweitzer

Professional Consultants

Consulting Actuary:

The Segal Company

Consulting Actuary:

Mercer Human Resource Consulting

Legal Counsel:

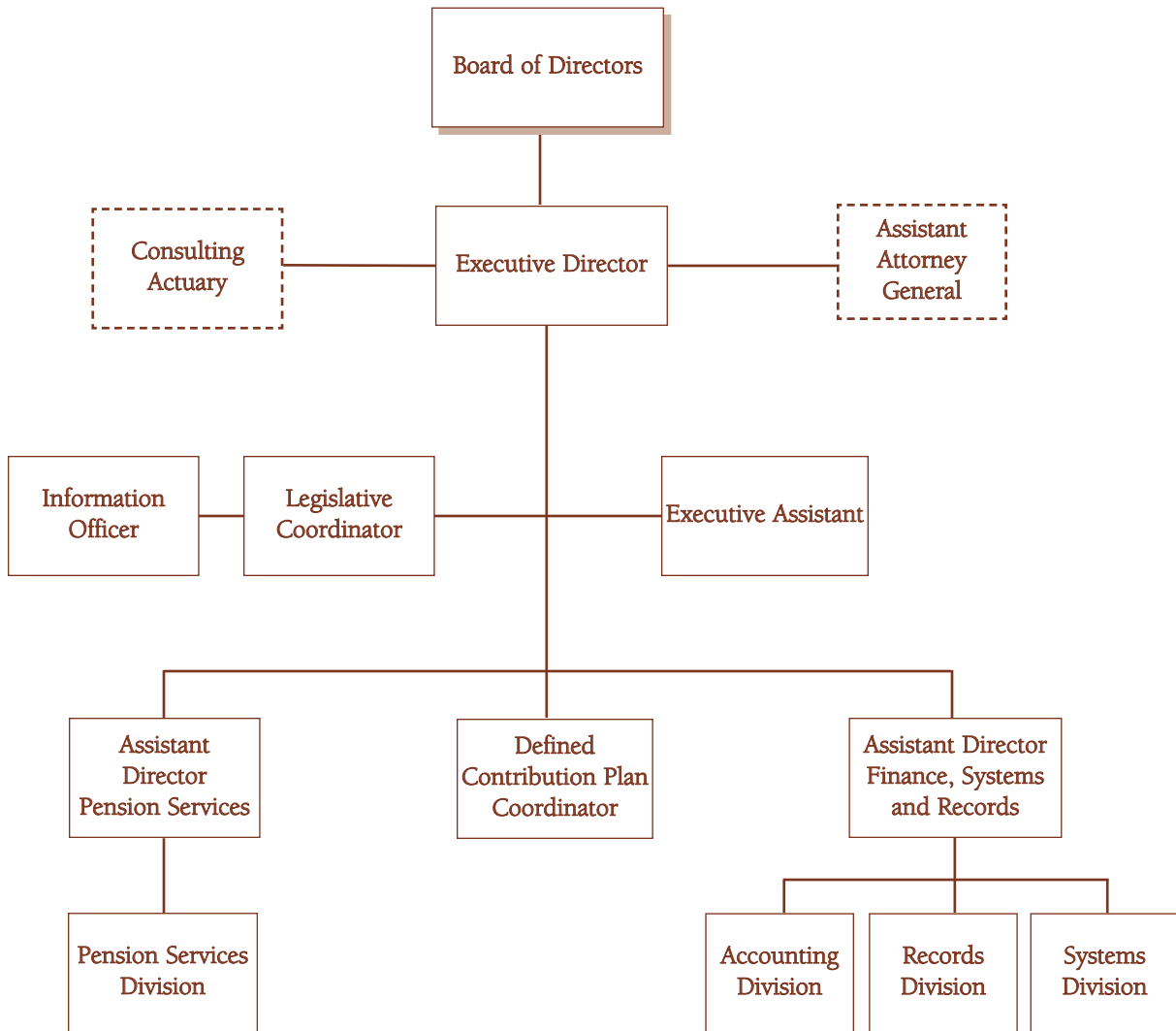
Assistant Attorney General Jon Murphy

Assistant Attorney General Rory Foley

Medical Advisor:

Minnesota Department of Health

Organization Chart - June 30, 2004



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 Board of Directors hires the Executive Director who is responsible for administering 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 requirements
Eligibility for unreduced retirement benefits
 - age 65 for employees hired before July 1, 1989; or between 65 to 66 for employees hired on or after July 1, 1989 with one year of service.
 - age 62 for employees hired before July 1, 1989 with 30 years of service.
 - Rule of 90 for those employees hired before July 1, 1989.Eligibility for reduced retirement benefits
 - age 55 with three years of service, reduced from full retirement age.
 - any age with 30 years of service, reduced from age 62 (pre 7/1/89 only).
 - The plan also offers total and permanent disability benefits for employees 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 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, meaning if your survivor dies first, your benefit would bounce back to the higher single-life amount.
 - 75 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 Pilots - 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 60 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 current constitutional officers were elected since Jan. 1, 1999, 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 2





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. Dave 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, 2004, 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, 2004, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2004, on our consideration of MSRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, are not a required part of MSRS's basic financial statements, but are supplementary information required by accounting principles generally accepted in the

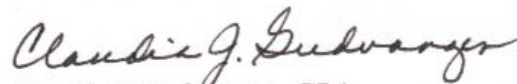
Members of the Board of Trustees
Minnesota State Retirement System
and
Mr. Dave Bergstrom, Executive Director
Page 2

United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MSRS's basic financial statements. The Supporting Schedules in the Financial Section and 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. The Supporting Schedules in the Financial Section have 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 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



James R. Nobles
Legislative Auditor



Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

November 19, 2004

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, 2004. 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 well funded on the actuarial basis used to determine contribution rates (STRF). The funding percentages are the State Employees Retirement Fund (SERF) at 100.08%, the State Patrol Retirement Fund at 109.09%, and the Correctional Employees Retirement Fund (CERF) at 92.83%. Total investment gains were \$1.165 billion, compared to \$141 million the previous year. Total monthly benefit recipients increased by over 1,500 and total monthly benefits paid increased by over \$25 million. Excluding the increase to the Health Care Savings Fund, total contributions decreased by more than \$4 million or 2%. Administrative expenses increased by only \$741,000 or 13.9%.

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, 2004. 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, 2004 compared to June 30, 2003 were as follows:

	(in millions)			
	F.Y. 2004	F.Y. 2003	Change	% Change
Total Assets	9,308	7,995	1,313	16.42%
Total Liabilities	928	590	338	57.29%
Net Assets	8,380	7,405	975	13.17%

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, 2003. Total Additions by Major Source and Total Deductions by Type for the fiscal year ended June 30, 2004 compared to fiscal year 2003 were as follows:

	(in millions)			
	F.Y. 2004	F.Y. 2003	Change	% Change
Total Additions (by Major Source):				
Member Contributions	139	130	9	6.92%
Employer Contributions	109	111	(2)	1.80%
Investment Income (Net)	1,165	141	1,024	726.24%
Other (includes transfers)	9	17	(8)	47.06%
Total Additions	1,422	399	1,032	256.39%
Total Deductions (by Type):				
Benefits	414	389	25	6.43%
Refunds	18	14	4	28.57%
Administrative Expenses	6	5	1	20.00%
Other (includes transfers)	9	12	(3)	25.00%
Total Deductions	447	420	27	6.43%
Net Increase (Decrease)	975	(21)	996	4,742%

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, 06/30/2004	\$7,740	\$567	\$486	\$133
Total Assets, 06/30/2003	\$6,660	\$503	\$408	\$114
Change	\$1,080	\$64	\$69	\$18
% Change	16.22%	12.72%	16.91%	13.53%
Total Liabilities, 06/30/2004	\$773	\$56	\$56	\$15
Total Liabilities, 06/30/2003	\$496	\$41	\$31	\$8
Change	\$277	\$15	\$25	\$7
% Change	55.85%	36.58%	80.65%	87.50%
Net Assets, 06/30/2004	\$6,967	\$511	\$430	\$119
Net Assets, 06/30/2003	\$6,164	\$462	\$377	\$106
Change	\$803	\$49	\$53	\$13
% Change	13.03%	10.61%	14.06%	12.26%

The overall financial position of these funds improved slightly from the previous year. Except for the Judges Retirement Fund (JRF), they all approach or exceed 100% funding on an actuarial basis. The Judges Retirement Fund is reasonably well funded at over 73%.

	SERF	SPRF	CERF	JRF
Total Additions, year ended 06/30/2004	\$1,148	\$8,421	\$76	\$27
Total Additions, year ended 06/30/2003	\$290	\$21	\$24	\$12
Change	\$858	\$63	\$52	\$15
% Change	295.86%	300.00%	216.67%	125.00%
Total Deductions, year ended 06/30/2004	\$346	\$36	\$23	\$14
Total Deductions, year ended 06/30/2003	\$326	\$35	\$20	\$14
Change	\$20	\$1	\$3	\$0
% Change	6.13%	2.86%	15.00%	0.00%
Net Addition (Deduction) year ended 06/30/2004	802	48	53	13
Net Addition (Deduction) year ended 06/30/2003	(36)	(14)	4	(2)
Change	838	62	49	15
% Change	2,327.78%	442.86%	1,225.0%	750.0%

Although most of the funds showed a small increase 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. Because individual members select their own investment options for both of these funds, comparisons of fund investment earnings are not meaningful.

Summary

As the result of improved market conditions, MSRS experienced significant changes in net assets during the past fiscal year. All of the funds remain financially sound and with continued market improvements will become even more so. 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 55108-3000 or to www.msrs.state.mn.us.

Statement of Plan Net Assets (as of June 30, 2004)

	Defined Benefit Funds			
	State Employees	State Patrol	Correctional Employees	Judges
Assets:				
Cash & Short-Term Investments:				
Cash	\$341	\$35	\$26	\$26
Short-Term Investment Pools	169,223	16,132	11,356	10,054
	<u>\$169,564</u>	<u>\$16,167</u>	<u>\$11,382</u>	<u>\$10,080</u>
Receivables:				
Accounts Receivable	7,130	454	769	114
Accrued Interest	158	8	8	1
Due from Other Plans	5,005	0	0	2
Due from MPRI Fund	53,710	2,339	0	0
	<u>\$66,003</u>	<u>\$2,801</u>	<u>\$777</u>	<u>\$117</u>
Investment Pools (at fair value):				
Equity in Post Retirement Fund	\$2,691,800	\$280,968	\$187,395	\$80,217
Fixed Investment Pool	878,164	45,353	52,116	6,484
External Domestic Equity Fund	1,353,367	70,161	80,272	9,987
Passive Domestic Equity Pool	647,488	33,999	38,331	4,769
Alternative Investment Pool	525,653	28,604	30,948	3,850
Global Equity Pool	636,416	32,994	37,747	4,696
Supplemental Investment Fund	0	0	0	0
	<u>\$6,732,888</u>	<u>\$492,079</u>	<u>\$426,809</u>	<u>\$110,003</u>
Securities Lending Collateral	765,372	56,324	47,253	13,109
Fixed Assets	6,207	0	0	0
Nondedicated Member Deposits	0	0	0	0
	<u>\$7,740,034</u>	<u>\$567,371</u>	<u>\$486,221</u>	<u>\$133,309</u>
Total Assets				
Liabilities:				
Accounts Payable	\$1,875	\$79	\$87	\$11
Accrued Compensated Absences	526	0	0	0
Securities Lending Collateral	765,372	56,324	47,253	13,109
Deferred Revenue	0	0	0	10
Due to MPRI fund	0	0	8,752	1,573
Due to other plans	74	92	270	28
Due to General Fund	0	0	0	0
Bonds Payable	5,585	0	0	0
	<u>\$773,432</u>	<u>\$56,495</u>	<u>\$56,362</u>	<u>\$14,731</u>
Total Liabilities				
Net Assets Held in Trust for Pension Benefits				
	<u>\$6,966,602</u>	<u>\$510,876</u>	<u>\$429,859</u>	<u>\$118,578</u>

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

(In Thousands)

Defined Contribution Funds				
Legislators	Elected State Officers	Unclassified Employees	Health Care Savings Plan	Totals
\$0	\$0	\$44	\$305	\$777
0	0	5,233	2,014	214,012
\$0	\$0	\$5,277	\$2,319	\$214,789
0	0	298	3,848	12,613
0	0	0	0	175
0	0	74	0	5,081
0	0	0	0	56,049
\$0	\$0	\$372	\$3,848	\$73,918
\$32,667	\$0	\$0	\$0	\$3,273,047
0	0	0	0	982,117
0	0	0	0	1,513,787
0	0	0	0	724,587
0	0	0	0	589,055
0	0	0	0	711,853
0	0	257,197	49,800	306,997
\$32,667	\$0	\$257,197	\$49,800	\$8,101,443
3,704	0	15,865	1,615	903,242
0	0	0	0	6,207
8,082	204	0	0	8,286
\$44,453	\$204	\$278,711	\$57,582	\$9,307,885
\$0	\$0	\$0	\$0	\$2,025
0	0	0	0	526
3,704	0	15,865	1,615	903,242
0	0	0	0	10
1,232	0	0	0	11,557
23	1	3,151	1,442	5,081
3	0	0	0	3
0	0	0	0	5,585
\$4,962	\$1	\$19,016	\$3,057	\$928,056
\$39,491	\$203	\$259,695	\$54,525	\$8,379,829

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

Statement of Changes in Plan Net Assets (As of June 30, 2004)

(In Thousands)

	Defined Benefit Funds			
	State Employees	State Patrol	Correctional Employees	Judges
Additions:				
Contributions:				
Member contributions	\$82,103	\$4,493	\$7,748	\$2,643
Employer contributions	78,622	6,504	10,627	7,110
General Fund Contributions	0	0	0	0
Total Contributions	\$160,725	\$10,997	\$18,375	\$9,753
Investment income:				
Investment Income	\$986,361	\$73,643	\$57,568	\$17,029
Less Investment Expense:	8,975	667	552	145
Net Investment Income	\$977,386	\$72,976	\$57,016	\$16,884
Income from securities lending activities:				
Security Lending Income	\$8,113	\$596	\$501	\$137
Security Lending Expenses:				
Borrower Rebates	\$5,176	\$381	\$320	\$88
Management Fees	684	50	42	11
Total Security Lending Expenses	\$5,860	\$431	\$362	\$99
Net Income From Security Lending Activities	\$2,253	\$165	\$139	\$38
Total Net Investment Income	\$979,639	\$73,141	\$57,155	\$16,922
Other additions:				
Transfers From Other Plans	\$7,398	\$0	\$79	\$2
Other income	478	59	1	10
Total Other Additions	\$7,876	\$59	\$80	\$12
Total Additions	\$1,148,240	\$84,197	\$75,610	\$26,687
Deductions:				
Annuity benefits	\$328,546	\$35,501	\$21,299	\$13,520
Health Care Benefits	0	0	0	0
Refunds	10,777	17	722	0
Interest to MPRI Fund	1,095	129	253	35
Transfers to Other Plans	601	0	0	0
Administrative expenses	4,673	95	275	31
Total Deductions	\$345,692	\$35,742	\$22,549	\$13,586
Net increase	\$802,548	\$48,455	\$53,061	\$13,101
Net Assets, July 1, 2003	\$6,164,054	\$462,421	\$376,798	\$105,477
Net Assets, June 30, 2004	\$6,966,602	\$510,876	\$429,859	\$118,578

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

		Defined Contribution Funds			
Legislators	Elective State Officers	Unclassified Employees	Health Care Savings Plan	Totals	
\$343	\$0	\$4,258	\$37,273	\$138,861	
0	0	5,877	0	108,740	
425	383	0	0	808	
<u>\$768</u>	<u>\$383</u>	<u>\$10,135</u>	<u>\$37,273</u>	<u>\$248,409</u>	
\$5,610	\$0	\$31,298	\$1,398	\$1,172,907	
43	0	0	0	10,382	
<u>\$5,567</u>	<u>\$0</u>	<u>\$31,298</u>	<u>\$1,398</u>	<u>\$1,162,525</u>	
\$39	\$0	\$192	\$22	\$9,600	
\$25	\$0	\$123	\$14	\$6,127	
3	0	15	2	807	
<u>\$28</u>	<u>\$0</u>	<u>\$138</u>	<u>\$16</u>	<u>\$6,934</u>	
\$11	\$0	\$54	\$6	\$2,666	
<u>\$5,578</u>	<u>\$0</u>	<u>\$31,352</u>	<u>\$1,404</u>	<u>\$1,165,191</u>	
\$0	\$0	\$522	\$0	\$8,001	
1	0	30	230	809	
<u>\$1</u>	<u>\$0</u>	<u>\$552</u>	<u>\$230</u>	<u>\$8,810</u>	
<u>\$6,347</u>	<u>\$383</u>	<u>\$42,039</u>	<u>\$38,907</u>	<u>\$1,422,410</u>	
\$5,766	\$381	\$0	\$0	\$405,013	
0	0	0	9,260	9,260	
0	0	6,206	0	17,722	
0	0	98	0	1,610	
0	0	7,400	0	8,001	
23	1	196	763	6,057	
<u>\$5,789</u>	<u>\$382</u>	<u>\$13,900</u>	<u>\$10,023</u>	<u>\$447,663</u>	
\$558	\$1	\$28,139	\$28,884	\$974,747	
<u>\$38,933</u>	<u>\$202</u>	<u>\$231,556</u>	<u>\$25,641</u>	<u>\$7,405,082</u>	
<u>\$39,491</u>	<u>\$203</u>	<u>\$259,695</u>	<u>\$54,525</u>	<u>\$8,379,829</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, 2004, the number of employers contributing to the various funds was:

-State of Minnesota & Branches	11
-University of Minnesota	1
-Metropolitan agencies	6
-Counties	28
-Cities	63
-School Districts	77
-Unions	3
-Other	<u>15</u>
	204

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, 2004 were:

	<u>Cost</u>	(in 000s) <u>Accumulated Depreciation/ Amortization</u>	<u>Undepreciated/ Unamortized Balance</u>
Office equipment & Fixtures	\$885	\$359	\$526
Land	87	N/A	87
Building	5,971	447	5,524
Building Equipment	4	1	3
Deferred Bond Issuance Charges	75	8	67
Totals	<u>7,022</u>	<u>815</u>	<u>6,207</u>

D. Capital Assets (continued)

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, \$526,308, for future payment of these balances at June 30, 2004 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 and are not dedicated to payment of future benefits. 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, 2004, were:

	(in 000s)
- Legislators Retirement Fund	\$8,082
- Elective State Officers Fund	204
	<u>\$8,286</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 benefit 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, 2004 were:

	(in 000s)
State Employees Retirement Fund	\$888,028
State Patrol Retirement Fund	42,185
Correctional Employees Retirement Fund	59,052
Judges Retirement Fund	20,252
Legislators Retirement Fund	6,749
Elective State Officers Retirement Fund	80
Unclassified Employees Retirement Fund	259,262
Health Care Savings Fund	55,626
	<u>\$1,331,234</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, this includes only the remaining balances of fees collected to pay administrative expenses and short-term interest earnings on contribution balances awaiting transfer to investment funds.

MINNESOTA STATE RETIREMENT SYSTEM

These balances at June 30, 2004, were:

	(in 000s)
State Employees Retirement Fund	\$2,899,163
State Patrol Retirement Fund	134,325
Correctional Employees Retirement Fund	152,821
Judges Retirement Fund	16,987
Legislators Retirement Fund	(3,119)
Elective State Officers Retirement Fund	123
Unclassified Employees Retirement Fund	433
Health Care Savings Fund	(1,101)
	<u>\$3,199,632</u>

-Minnesota Post-Retirement Investment Fund (MPRIF) reserve

The MPRIF 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, 2004 were:

	(in 000s)
State Employees Retirement Fund	\$3,179,411
State Patrol Retirement Fund	334,366
Correctional Employees Retirement Fund	217,986
Judges Retirement Fund	81,339
Legislators Retirement Fund	35,861
	<u>\$3,848,963</u>

H. Actuarial Assumptions

Actuarial valuations and experience studies are performed annually at fiscal year end for all defined benefit funds. For this report, fiscal year end was June 30, 2004. 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 3.266%, 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, 2004, 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, 2004, were:

	(In 000s)	
	<u>Cost</u>	<u>Fair Value</u>
Post-Retirement Fund	4,035,897	3,273,047
Fixed Income	1,012,416	982,117
External Domestic Equity	1,602,660	1,513,787
Passive Domestic Equity	679,755	724,587
Alternative Investments	578,645	589,055
Global Equity	682,837	711,853
Supplemental Investment Fund	165,664	306,997
Total	<u><u>\$8,757,874</u></u>	<u><u>\$8,101,443</u></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 sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to or 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 pool. As of June 30, 2004, such pool had an average duration of 52 days and an average weighted maturity of 344 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, 2004, 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, 2004 were \$4,668,704,112.81 and \$4,552,158,475.11, 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

The purpose of interfund receivables and payables is to accrue interfund obligations that are outstanding as of the fiscal year end date, June 30, 2004. These balances are the result of our reallocation of administrative expenses which is done annually and various eligibility changes. The only such balance that may not be completely liquidated during the ensuing fiscal year is the Health Care Savings Fund payable.

(in 000s)

Defined Benefit Retirement Funds	Interfund Receivables	Interfund Payables
State Employees	\$5,005	\$74
State Patrol		92
Correctional Employees		270
Judges	2	28
Legislators		23
Elective State Officers		1
Defined Contribution Retirement Funds		
Unclassified Employees	74	3,151
Health Care Savings		1,442
Totals	\$5,081	\$5,081

Interfund transfers are primarily the result of elective membership eligibility changes that have occurred during the fiscal year. These interfund transfers during fiscal year 2004 were as follows:

	(in 000s)	
	<u>Transfers In</u>	<u>Transfers Out</u>
Defined Benefit Retirement Funds		
State Employees	7,398	601
Correctional Employees	79	
Judges	2	
Defined Contribution Retirement Funds		
Unclassified	522	7,400
	<hr/>	<hr/>
Totals	<u>8,001</u>	<u>8,001</u>

5. 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, 2004 were:

	<u>Actuarial Basis</u>	<u>Fair Value Basis</u>
State Employees	\$(6,621)	\$911,761
State Patrol	(49,542)	34,367
Correctional Employees	37,598	94,355
Judges	51,390	71,761
Legislators	37,042	43,706
Elective State Officers	3,798	3,798

6. Optional Retirement Annuities

In the defined benefit funds, two Joint-and-Survivor annuity options 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.

7. 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 Marshals Plan, all single employer plans. Only certain employees of the Departments of Military Affairs, Transportation and the State Fire Marshals 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, 2004, follow:

Members receiving benefits:	
-retirees	20,069
-beneficiaries	2,585
Terminated members:	
-vested, not receiving benefits	13,784
-nonvested	8,436
Active members:	
-vested	37,093
-nonvested	9,806
Total	91,773
Annual payroll (June 30, 2004):	\$1,965,546,000
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, 2004, follow:

Members receiving benefits:	
-retirees	641
-beneficiaries	163
Terminated members:	
-vested, not receiving benefits	27
-nonvested	12
Active members:	
-vested	732
-nonvested	102
Total	1,677
Annual payroll (June 30, 2004):	\$ 51,619,000

Minnesota Statutes, Section 352B.02 requires that eligible employees contribute 8.4 percent of their total compensation. The employer contributes 12.6 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, 2004, follow:

Members receiving benefits:	
-retirees	1,097
-beneficiaries	91
Terminated members:	
-vested, not receiving benefits	678
-nonvested	339
Active members:	
-vested	2,390
-nonvested	936
Total	5,531
Annual payroll (June 30, 2004):	\$ 133,172,000

Minnesota Statutes, Section 352.92 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, 2004, follow:

Members receiving benefits:	
-retirees	168
-beneficiaries	86
Terminated members:	
-vested, not receiving benefits	18
-nonvested	0
Active Members:	
-vested	175
-nonvested	119
Total	566
Annual payroll (June 30, 2004):	\$34,683,000

MINNESOTA STATE RETIREMENT SYSTEM

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, 1997 or after are members of the Unclassified Plan; those who took office prior to January 1, 1997 were given the option of selecting membership in whichever plan they preferred. Membership statistics, as of June 30, 2004, follow:

	<u>Legislators</u>	<u>Elective State Officers</u>
Members receiving benefits:		
-retirees	251	9
-beneficiaries	64	4
Terminated members:		
-vested, not receiving benefits	114	3
-nonvested	4	
Active members:		
-vested	86	0
-nonvested	1	0
Totals	520	16
Annual payroll (June 30, 2004):	\$ 3,815,000	NA*

*The remaining members have either retired or elected coverage under the Unclassified Plan, so 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 55 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.

8. Individual Descriptions of Defined Contribution Funds

A. Unclassified Employees Retirement Fund

The Unclassified Employees Retirement Fund is a single employer defined contribution plan. Membership in the Unclassified Employees Retirement Plan is limited to certain, specified employees of the state of Minnesota and various statutorily, designated entities. Membership statistics as of June 30, 2004 were:

-Active members	1,764
-Inactive members	1,948
Total	3,712
-Annual payroll (June 30, 2004)	\$ 94,775,000
-Participating employers	12
- Contribution rates	
Employee	4%
Employer	6%

Minnesota Statutes, Section 352D.01 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, 2004 in the amount of \$ 5,558,955.

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, 2004 follow.

-Active members	12,513
-Inactive members	1,144
Total	13,657
-Annual payroll (June 30, 2004)	NA
-Participating employers	176

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

9. 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.

MINNESOTA STATE RETIREMENT SYSTEM

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, \$54,538,445. Bonds Payable on the Statement of Plan Net Assets includes interest accrued for the month of June in the amount of \$26,705.96.

Debt Repayment Schedule by Fiscal Year

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal & Interest</u>
2005	101,000	321,986.74	\$422,986.74
2006	106,050	316,557.98	\$422,607.98
2007	111,100	310,857.80	\$421,957.80
2008	116,150	304,886.18	\$421,036.18
2009	121,200	298,643.12	\$419,843.12
2010	126,250	292,128.62	\$418,378.62
2011	136,350	285,342.68	\$421,692.68
2012	141,400	277,979.78	\$419,379.78
2013	151,500	270,273.48	\$421,773.48
2014	156,550	261,940.98	\$418,490.98
2015	166,650	253,252.46	\$419,902.46
2016	176,750	243,920.06	\$420,670.06
2017	186,850	233,933.68	\$420,783.68
2018	196,950	223,283.22	\$420,233.22
2019	212,100	211,958.60	\$424,058.60
2020	222,200	199,762.86	\$421,962.86
2021	237,350	186,875.26	\$424,225.26
2022	252,500	172,930.94	\$425,430.94
2023	267,650	158,096.56	\$425,746.56
2024	282,800	142,372.12	\$425,172.12
2025	303,000	125,757.62	\$428,757.62
2026	318,150	107,956.38	\$426,106.38
2027	338,350	89,265.06	\$427,615.06
2028	363,600	69,387	\$432,987
2029	383,800	47,571	\$431,371
2030	409,050	24,543	\$433,593
Total	<u>\$5,585,300</u>	<u>\$5,431,463.18</u>	<u>\$11,016,763.18</u>

10. Leases

MSRS moved into its new offices in the Retirement Systems of Minnesota (RSM) 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 Mankato, St. Cloud and Duluth for branch offices and additional space in the RSM building and the HFS Golden Rule building in St. Paul. Future obligations under the terms of those leases are as follows:

Fiscal Year	Mankato	St. Cloud	Duluth	RSM Bldg. (Floor 4)	RSM Bldg. (Floor 2)	HFS Bldg.	Total
2005	\$21,783	\$16,336	14,445	65,408	28,930	7,176	154,078
2006	22,194	16,579	14,808	67,353	29,791		150,725
2007	22,605	16,579	15,180	51,609	22,827		128,800
2008	3,767	8,290	15,560				27,617
2009			9,208				9,208
	<u>\$70,349</u>	<u>\$57,784</u>	<u>\$69,201</u>	<u>\$184,370</u>	<u>\$81,548</u>	<u>\$7,176</u>	<u>\$470,428</u>

11. 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, 2004 are as follows:

Expenses by Fund:

(In 000s)

State Employees Retirement Fund	\$4,673
State Patrol Retirement Fund	95
Correctional Employees Retirement Fund	275
Judges Retirement Fund	31
Legislators Retirement Fund	23
Elected State Officers Retirement Fund	1
Unclassified Employees Retirement Fund	196
Health Care Savings Fund	763
Total Expenses	<u>\$6,057</u>

12. 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.

Required Supplemental Information

Schedule of Funding Progress

Year Ended June 30,	Actuarial Value	Actuarial Accrued	(In Thousands)	Funded	Actual Covered	UAAL as Percent
	Assets (A)	Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Ratio (A)/(B)	Payroll (Previous FY)(C)	of Covered Payroll (B-A)/(C)
State Employees Retirement Fund:						
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
2004	7,884,984	7,878,363	(6,621)	100.08	1,965,546	-0.34
State Patrol Retirement Fund:						
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
2004	594,785	545,244	(49,541)	109.09	51,619	-95.98
Correctional Employees Retirement Fund:						
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
2004	486,617	524,215	37,598	92.83	133,172	28.23
Judges Retirement Fund:						
1999	97,692	139,649	41,957	69.96	32,940	127.37
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
2004	138,948	190,338	51,390	73.00	34,683	148.17
Legislators Retirement Fund:						
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.					
2004	46,155	83,197	37,042	55.48	3,815	970.89
Elective State Officers Retirement Fund*:						
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.					
2004	204	4,002	3,798	5.09	0	N/A

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

Required Supplemental Information

Schedule of Employer Contributions

Year Ended June 30,			(In Thousands)			
	Actuarially Required Contribution Rate (A)	Actual Covered Payroll (B)	Actual Member Contribution (C)	Annual Required Contribution [(A)x(B)]-(C)	Actual Employer Contribution*	Percent Contributed
State Employees Retirement Fund:						
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
2004	9.43	1,965,546	82,102	103,249	78,622	76.15
State Patrol Retirement Fund:						
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
2004	17.81	51,619	4,493	4,700	6,504	138.39
Correctional Employees Retirement Fund:						
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
2004	15.83	133,172	7,748	13,333	10,627	79.71
Judges Retirement Fund:						
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	106.79
2004	26.73	34,683	2,643	6,628	7,110	107.27
Legislators Retirement Fund:						
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.				
2004	63.12	3,815	343	2,065	425	(0.00)
Elective State Officers Retirement Fund:						
1999	51.66	291	26	124	40	32.26
2000	321	0	0	321	306	95.33
2001	340	0	0	340	330	97.06
2002	371	0	0	371	354	95.42
2003		This fund was not actuarially valued in this fiscal year.				
2004	412	0	-	412	383	92.88

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

*Shown in dollars for years after 1999.

Schedule of Administrative Expenses (Year ended June 30, 2004)

(In Thousands)

Staff salaries	\$2,912
Social Security & Medicare	219
Retirement	126
Insurance	443
Other personal services	51
Total	\$3,751
Professional services:	
actuarial	\$117
data processing	247
disability examinations	36
legal counsel	38
other professional services	13
Total	\$451
Communication:	
printing	\$70
telephone	56
postage	165
travel	60
subscriptions, memberships and training	24
Total	\$375
Rentals:	
office space	\$61
Miscellaneous:	
building services	\$304
supplies	299
repairs and maintenance agreements	17
department head and board member expense	15
statewide indirect cost	86
depreciation	281
interest expense	329
state sales taxes	44
local sales taxes	3
other services	41
Total	\$1,419
Total Operating Expenses	\$6,057
Expenses distributed by fund:	
State Employees	\$4,673
State Patrol	95
Correctional Employees	275
Judges	31
Legislators	23
Elective State Officers	1
Unclassified Employees	196
Health Care Savings	763
Total distribution	\$6,057

Schedule of Changes in Plan Net Assets

State Employees Retirement Fund (Year ended June 30, 2004)

(In Thousands)

	<u>Member</u>	<u>Post-Retirement Investment Fund</u>	<u>Benefit</u>	<u>Totals</u>
Additions:				
Contributions:				
member contributions	\$79,190	\$0	\$2,913	\$82,103
employer contributions	0	0	78,622	78,622
Total contributions	\$79,190	\$0	\$81,535	\$160,725
Investment Income:				
investment income	\$0	\$378,074	\$608,287	\$986,361
less investment expense	0	3,721	5,254	8,975
Net Investment Income	\$0	\$374,353	\$603,033	\$977,386
Income from Securities Lending Activities:				
securities lending income	\$0	\$3,408	\$4,705	\$8,113
securities lending expenses:				
--borrower rebates	0	2,191	2,985	5,176
--management fees	0	282	402	684
Total Securities Lending Expenses	\$0	\$2,473	\$3,387	\$5,860
Net Income from Securities Lending Activities	\$0	\$935	\$1,318	\$2,253
Total Net Investment Income	\$0	\$375,288	\$604,351	\$979,639
Other Additions:				
transfers from other plans	\$1,189	\$0	\$6,209	\$7,398
other income	0	0	478	478
Total Other Additions	\$1,189	\$0	\$6,687	\$7,876
Total Additions	\$80,379	\$375,288	\$692,573	\$1,148,240
Deductions:				
annuity benefits	\$0	\$328,546	\$0	\$328,546
refunds	7,539	0	3,238	10,777
interest to MPRI Fund	0	0	1,095	1,095
transfers to other plans	202	0	399	601
administrative expenses	0	0	4,673	4,673
Total Deductions	\$7,741	\$328,546	\$9,405	\$345,692
Other Changes in Reserves:				
retirements	\$(39,840)	\$364,967	\$(325,127)	\$0
mortality gains (losses)	0	(53,710)	53,710	0
assumption change adjustment	(723)	0	723	0
Total Other Changes	\$(40,563)	\$311,257	\$(270,694)	\$0
Net Increase	\$32,075	\$357,999	\$412,474	\$802,548
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$855,953	\$2,821,412	\$2,486,689	\$6,164,054
End of the Year	\$888,028	\$3,179,411	\$2,899,163	\$6,966,602

Schedule of Changes in Plan Net Assets

State Patrol Retirement Fund (Year ended June 30, 2004)

(In Thousands)

	<u>Member</u>	<u>Post-Retirement Investment Fund</u>	<u>Benefit</u>	<u>Totals</u>
Additions:				
Contributions:				
member contributions	4,378	0	115	4,393
Employer contributions	0	0	6,504	6,504
Total Contributions	<u>4,378</u>	<u>0</u>	<u>6,619</u>	<u>10,997</u>
Investment Income:				
Investment Income	0	41,047	32,596	73,643
Less Investment Expense:	0	384	283	667
Net Investment Income	<u>0</u>	<u>40,663</u>	<u>32,313</u>	<u>72,976</u>
Income From Security Lending Activities:				
Security Lending Income	0	352	244	596
Security Lending Expenses:				
--Borrower Rebates	0	226	155	381
--Management Fees	0	29	21	50
Total Security Lending Expenses	<u>0</u>	<u>255</u>	<u>176</u>	<u>431</u>
Net Income From Security Lending Activities	<u>0</u>	<u>97</u>	<u>68</u>	<u>165</u>
Total Net Investment Income	<u>0</u>	<u>40,760</u>	<u>32,381</u>	<u>73,141</u>
Other Additions:				
Transfers From Other Plans	0	0	0	0
Other income	0	0	59	59
Total Other Additions	<u>0</u>	<u>0</u>	<u>59</u>	<u>59</u>
Total Additions	<u>4,378</u>	<u>40,760</u>	<u>39,059</u>	<u>84,197</u>
Deductions:				
Annuity benefits	0	35,447	54	35,501
Refunds	5	0	12	17
Interest to MPRI Fund	0	0	129	129
Administrative expenses	0	0	95	95
Total Deductions	<u>5</u>	<u>35,447</u>	<u>290</u>	<u>35,742</u>
Other Changes in Reserves:				
Retirements	(2,803)	28,688	(25,885)	0
Mortality Gains (Losses)	0	(2,339)	(2,339)	0
Other	(4)	0	4	0
Total Other Changes	<u>(2,807)</u>	<u>26,349</u>	<u>(23,542)</u>	<u>0</u>
Net Increase	<u>1,566</u>	<u>31,662</u>	<u>15,227</u>	<u>48,455</u>
Net Assets Held in Trust for Pension Benefits				
Beginning of the year	<u>40,619</u>	<u>302,704</u>	<u>119,098</u>	<u>462,421</u>
End of the year	<u>42,185</u>	<u>334,366</u>	<u>134,325</u>	<u>510,876</u>

Schedule of Changes in Plan Net Assets

Correctional Retirement Fund (Year ended June 30, 2004)

	(In Thousands)			
	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$7,594	\$0	\$154	\$7,748
employer contributions	0	0	10,627	10,627
Total contributions	\$7,594	\$0	\$10,781	\$18,375
Investment Income:				
investment income	\$0	\$21,802	\$35,766	\$57,568
less investment expense	0	242	310	552
Net Investment Income	\$0	\$21,560	\$35,456	\$57,016
Income from Securities Lending Activities:				
securities lending income	\$0	\$222	\$279	\$501
securities lending expenses:				
--borrower rebates	0	143	177	320
--management fees	0	18	24	42
Total Securities Lending Expenses	\$0	\$161	\$201	\$362
Net Income from Securities Lending Activities	\$0	\$61	\$78	\$139
Total Net Investment Income	\$0	\$21,621	\$35,534	\$57,155
Other Additions:				
transfers from other plans	\$17	\$0	\$62	\$79
Total Other Additions	\$0	\$0	\$1	\$1
Total Additions	\$17	\$0	\$63	\$80
Deductions:				
annuity benefits	\$0	\$21,299	\$0	\$21,299
refunds	594	0	128	722
interest to MPRI Fund	0	0	253	253
administrative expenses	0	0	275	275
Total Deductions	\$594	\$21,299	\$656	\$22,549
Other Changes in Reserves:				
retirements	\$(3,385)	\$31,311	\$(27,926)	\$0
mortality gains (losses)	0	8,752	(8,752)	0
other	(21)	0	21	0
Total Other Changes	\$(3,406)	\$40,063	\$(36,657)	\$0
Net Increase	\$3,611	\$40,385	\$9,065	\$53,061
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$55,441	\$177,601	\$143,756	\$376,798
End of the Year	\$59,052	\$217,986	\$152,821	\$429,859

Schedule of Changes in Plan Net Assets

Judges Retirement Fund (Year ended June 30, 2004)

	(In Thousands)			
	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$2,628	\$0	\$15	\$2,643
employer contributions	0	0	7,110	7,110
Total contributions	\$2,628	\$0	\$7,125	\$9,753
Investment Income:				
investment income	\$0	\$12,540	\$4,489	\$17,029
less investment expense	0	106	39	145
Net Investment Income	\$0	\$12,434	\$4,450	\$16,884
Income from Securities Lending Activities:				
securities lending income	\$0	\$98	\$39	\$137
securities lending expenses:				
--borrower rebates	0	63	25	88
--management fees	0	8	3	11
Total Securities Lending Expenses	\$0	\$71	\$28	\$99
Net Income from Securities Lending Activities	\$0	\$27	\$11	\$38
Total Net Investment Income	\$0	\$12,461	\$4,461	\$16,922
Other Additions:				
transfers from other plans	2	0	0	2
other income	0	0	10	10
Total Other Additions	\$2	\$0	\$10	\$12
Total Additions	\$2,630	\$12,461	\$11,596	\$26,687
Deductions:				
annuity benefits	\$0	\$11,659	\$1,861	\$13,520
refunds	0	0	0	0
interest to MPRI Fund	0	0	35	35
administrative expenses	0	0	31	31
Total Deductions	\$0	\$11,659	\$1,927	\$13,586
Other Changes in Reserves:				
retirements	\$(689)	\$7,355	\$(6,666)	\$0
mortality gains (losses)	0	1,573	(1,573)	0
other	(2)	0	2	0
Total Other Changes	\$(691)	\$8,928	\$(8,237)	\$0
Net Increase	\$1,939	\$9,730	\$1,432	\$13,101
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$18,313	\$71,609	\$15,555	\$105,477
End of the Year	\$20,252	\$81,339	\$16,987	\$118,578

Schedule of Changes in Plan Net Assets

Legislators Retirement Fund (Year ended June 30, 2004)

(In Thousands)

	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$307	\$0	\$36	\$343
General Fund contributions	0	0	425	425
Total contributions	307	0	461	768
Investment Income:				
investment income	0	5,610	0	5,610
less investment expense	0	43	0	43
Net Investment Income	\$0	\$5,567	\$0	\$5,567
Income from Securities Lending Activities:				
securities lending income	\$0	39	0	39
securities lending expenses:				
--borrower rebates	0	25	0	25
--management fees	0	3	0	3
Total Securities Lending Expenses	\$0	\$28	\$0	\$28
Net Income from Securities Lending Activities	\$0	\$11	\$0	\$11
Total Net Investment Income	\$0	\$5,578	\$0	\$5,578
Other Additions:				
other income	\$0	\$0	\$1	\$1
Total Other Additions	\$0	\$0	\$1	\$1
Total Additions	\$307	\$5,578	\$462	\$6,347
Deductions:				
annuity benefits	\$0	\$5,135	\$631	\$5,766
administrative expenses	0	0	23	23
Total Deductions	\$0	\$5,135	\$654	\$5,789
Other Changes in Reserves:				
retirements	\$(138)	\$0	\$138	\$0
mortality gains (losses)	0	1,232	(1,232)	0
other	(5)	0	5	0
Total Other Changes	\$(143)	\$1,232	\$(1,089)	\$0
Net Increase	\$164	\$1,675	\$(1,281)	\$558
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$6,585	\$34,186	\$(1,838)	\$38,933
End of the Year	\$6,749	\$35,861	\$(3,119)	\$39,491

Schedule of Changes in Plan Net Assets

Elected State Officers Retirement Fund (Year ended June 30, 2004)

(In Thousands)

	Member	Post-Retirement Investment Fund	Benefit	Totals
Additions:				
Contributions:				
member contributions	\$0	\$0	\$0	\$0
General Fund contributions	0	0	383	383
Total contributions	\$0	\$0	\$383	\$383
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	\$383	\$383
Deductions:				
annuity benefits	\$0	\$0	\$381	\$381
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	\$382	\$382
Other Changes in Reserves:				
retirements	\$0	\$0	\$0	\$0
mortality gains (losses)	0	0	0	0
Total Other Changes	\$0	\$0	\$0	\$0
Net Increase	\$0	\$0	\$1	\$1
Net Assets Held in Trust for Pension Benefits:				
Beginning of the Year	\$80	\$0	\$122	\$202
End of the Year	\$80	\$0	\$123	\$203

Schedule of Changes in Plan Net Assets

Unclassified Employees Retirement Fund (Year ended June 30, 2004)

	(In Thousands)		
	Member	Benefit	Totals
Additions:			
Contributions:			
member	\$4,258	\$0	\$4,258
employer	5,877	0	5,877
Total	\$10,135	\$0	\$10,135
Investment Income:			
investment income	\$31,256	\$42	\$31,298
less investment expense:	0	0	0
Net Investment Income	\$31,256	\$42	\$31,298
Income from Securities Lending Activities:			
securities lending income	\$192	0	\$192
securities lending expenses:			
--borrower rebates	123	0	123
--management fees	15	0	15
Total Securities Lending Expenses	\$138	0	138
Net Income from Securities Lending Activities	54	0	54
Total Net Investment Income	\$31,310	\$42	\$31,352
Other Additions:			
transfers from other plans	\$522	\$0	\$522
other income	0	30	30
Total Other Additions	522	30	552
Total Additions	41,967	72	42,039
Deductions:			
refunds	6,206	0	6,206
interest to MPRI Fund	0	98	98
transfers to other funds	7,400	0	7,400
administrative expenses	0	196	196
Total Deductions	\$13,606	294	13,900
Net Increase	\$28,361	\$(222)	28,139
Net Assets Held in Trust for Pension Benefits			
Beginning of the Year	\$230,901	\$655	\$231,556
End of the Year	\$259,262	\$433	\$259,695

Schedule of Changes in Plan Net Assets

Health Care Savings Fund (Year ended June 30, 2004)

(In Thousands)

	<u>Member</u>	<u>Benefit</u>	<u>Totals</u>
Additions:			
Contributions:			
member	\$37,273	\$0	\$37,273
employer	0	0	0
	<hr/>	<hr/>	<hr/>
Total	\$37,273	\$0	\$37,273
	<hr/>	<hr/>	<hr/>
Investment Income:			
investment income	\$1,376	\$22	\$1,398
less investment expense:	0	0	0
	<hr/>	<hr/>	<hr/>
Net Investment Income	\$1,376	\$22	\$1,398
	<hr/>	<hr/>	<hr/>
Income from Securities Lending Activities:			
securities lending income	\$22	\$0	\$22
securities lending expenses:			
--borrower rebates	14	0	14
--management fees	2	0	2
	<hr/>	<hr/>	<hr/>
Total Securities Lending Expenses	\$16	\$0	\$16
	<hr/>	<hr/>	<hr/>
Net Income from Securities Lending Activities	\$6	\$0	\$6
	<hr/>	<hr/>	<hr/>
Total Net Investment Income	\$1,382	\$22	\$1,404
	<hr/>	<hr/>	<hr/>
Other Additions:			
transfers from other plans	\$0	\$0	\$0
other income	0	230	230
	<hr/>	<hr/>	<hr/>
Total Other Additions	\$0	\$230	\$230
	<hr/>	<hr/>	<hr/>
Total Additions	\$38,655	\$252	\$38,907
	<hr/>	<hr/>	<hr/>
Deductions:			
health care benefits	\$9,260	\$0	\$9,260
administrative expenses	0	763	763
	<hr/>	<hr/>	<hr/>
Total Deductions	\$9,260	\$763	\$10,023
	<hr/>	<hr/>	<hr/>
Net Increase	\$29,395	\$(511)	\$28,884
	<hr/>	<hr/>	<hr/>
Assets Held in Trust for Pension Benefits			
Beginning of the Year	\$26,231	\$(590)	\$25,641
End of the Year	\$55,626	\$(1,101)	\$54,525
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Summary Schedule of Commissions and Payments to Consultants

(Year Ended June 30, 2004)

Individual or Firm Name	Services Received	Fees Paid
William Mercer Inc.	Consulting Actuary	\$78,232
State of Minnesota:		
Department of Health	Medical advisor	\$30,975
Office of the Attorney General	Legal counsel	\$38,428

Schedule of Investment Expenses

(Year Ended June 30, 2004)

(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	\$7,142	\$530	\$439	\$115	\$34	\$8,260
Outside Money Managers, Bonds	1,395	105	86	23	7	1,616
Minnesota State Board of Investment	325	24	20	5	2	376
Financial Control Systems	51	4	3	1	0	59
Richards & Tierney	55	4	3	1	0	63
Pension Consultants	7	1	0	0	0	8
	<u>\$8,975</u>	<u>\$668</u>	<u>\$551</u>	<u>\$145</u>	<u>\$43</u>	<u>\$10,382</u>

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Investment

SECTION 3



INVESTMENT



Board Members

Governor
Jane Votaw
State Auditor
Jeff Dutcher
State Treasurer
Carol C. Johnson
Secretary of State
Mary Killebrew
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 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, 2004, the combined funds returned 8.1 percentage points above the Consumer Price Index over the last 20 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>FY2004</u>	<u>Three-Year</u>	<u>Five-Year</u>
Domestic Equity	20.3%	-.3%	-1.9%
--Wilshire 5000 Investable	20.6	.2	-1.7
Bond	1.5%	6.7	7.3
--Lehman Aggregate	.3	6.4	6.9
International Equity	30.9%	4.5%	.8%
--Composite Index	32.1	4.5	.2
Alternative Investments	16.6%	5.1%	9.2%

Investment Allocation (at June 30, 2004)*

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 Mix</u>	<u>Long-Term Policy Target</u>	<u>Actual Asset Mix</u>	<u>Long-Term Policy Target</u>
Domestic Equity	48.0%	45.0%	51.4%	45.0%
International Equity	15.3	15.0	15.5	15.0
Bond	21.0	24.0	24.6	25.0
Alternative Investments**	12.7	15.0	4.3	12.0
Cash	1.0	1.0	4.2	3.0
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

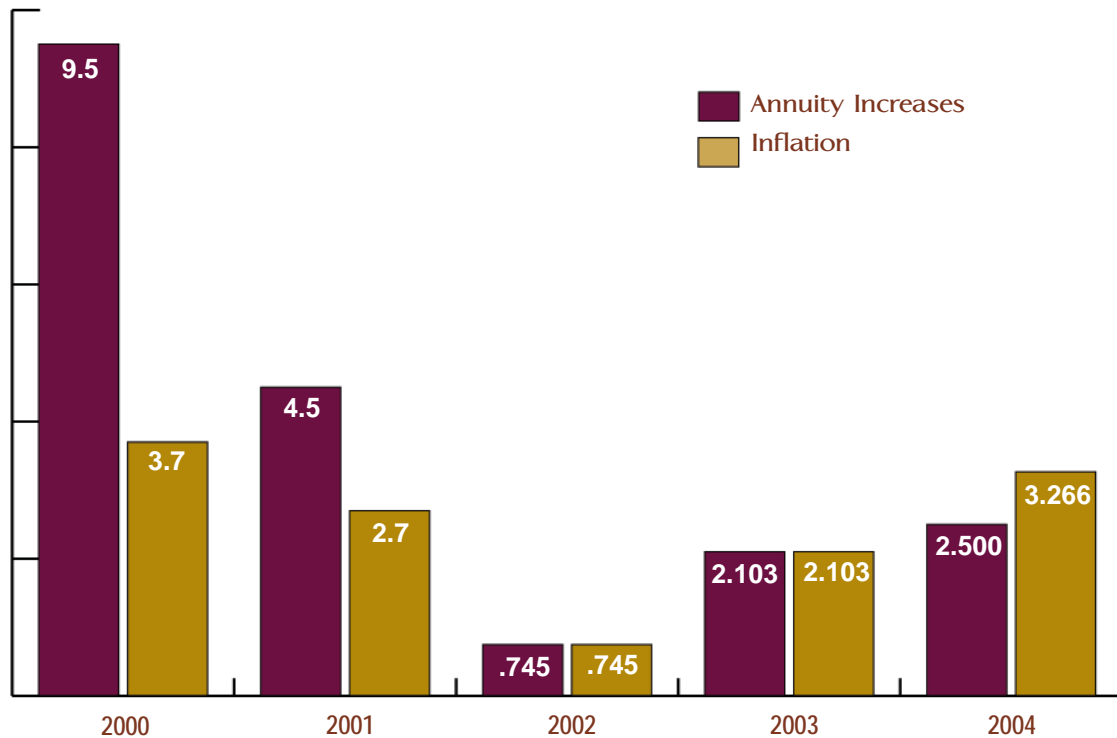
* Source: Minnesota State Board of Investment, fiscal year 2004 annual report.

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

Investment Results

Annuity Increases vs. Inflation

Combined increases awarded to MSRS retirees under the Post-Retirement Investment Fund have in total outpaced inflation during the last five years. Increases and inflation are measured as of June 30. Increases are effective January 1 of the following year.



Investment Performance

Funds

Rates of Return (annualized)

	<u>FY2004</u>	<u>Three-Year</u>	<u>Five-Year</u>
Basic (active accounts)	16.6%	3.0%	2.3%
Basic Composite Market Index	16.3	3.0	2.1
Post-Retirement Investment (retiree accounts)	16.3	3.3	2.2
MPRIF Composite Market Index	15.7	3.4	2.0
Combined (both) *	16.5	3.1	2.2
Combined Composite Market Index	16.0	3.2	2.1

Note: Replace the Wilshire 5000 with the Russell 3000.

*Percentages are net of all management fees.

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, 2004)

Composite Holdings of 10 Largest Equities (by market value)

<u>Company</u>	<u>Percent of Portfolio</u>
Citigroup Inc.	1.64%
General Electric	1.45
Microsoft Corporation	1.43
Exxon Mobil Corporation	1.35
Pfizer Inc.	1.29
Intel Corporation	1.03
Johnson & Johnson	0.96
Cisco Systems Inc.	0.92
Bank America Corporation	0.89
American International Group Inc.	0.79

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>
U.S. Treasury Notes	2.50%	05/31/2006	1.30%
FNMA	6.50	12/01/2099	1.26
FNMA	5.50	12/01/2099	1.16
GNMA	6.00	12/01/2099	1.13
FNMA	5.00	12/01/2099	1.11
FHLMC	6.50	12/01/2099	1.09
FNMA	5.50	12/01/2099	0.80
United States Treasury Bonds	6.00	02/15/2026	0.71
United States Treasury Bonds	8.125	08/15/2019	0.69
United States Treasury Bonds	3.875	04/15/2029	0.63

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.

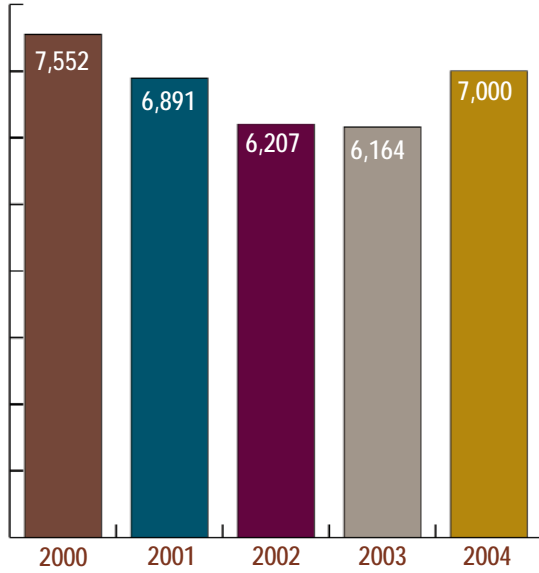
Investment Summary at Fair Value (as of June 30, 2004)

	(In Thousands)		
	Fair Value June 30, 2003	Fair Value June 30, 2004	Percent of Portfolio
State Employees Retirement Fund:			
External Domestic Equity Pool	\$1,248,124	\$1,353,367	33%
Passive Domestic Equity Pool	536,938	647,488	16
Global Equity Pool	538,691	636,416	16
Fixed Income Pool	877,491	878,164	22
Alternative Investments	511,018	525,653	13
Total	<u>\$3,712,262</u>	<u>\$4,041,088</u>	<u>100%</u>
State Patrol Retirement Fund:			
External Domestic Equity Pool	\$68,698	\$70,161	33
Passive Domestic Equity Pool	29,554	33,999	16
Global Equity Pool	29,650	32,994	6
Fixed Income Pool	48,298	45,354	21
Alternative Investments	28,127	28,604	14
Total	<u>\$204,327</u>	<u>\$211,112</u>	<u>100%</u>
Correctional Employees Retirement Fund:			
External Domestic Equity Pool	\$73,955	\$80,272	34
Passive Domestic Equity Pool	31,815	38,331	16
Global Equity Pool	31,919	37,747	16
Fixed Income Pool	51,992	52,116	22
Alternative Investments	30,280	30,948	13
Total	<u>\$219,961</u>	<u>\$239,414</u>	<u>100%</u>
Judges Retirement Fund:			
External Domestic Equity Pool	\$8,794	\$9,987	34
Passive Domestic Equity Pool	3,783	4,769	16
Global Equity Pool	3,796	4,696	16
Fixed Income Pool	6,183	6,484	22
Alternative Investments	3,601	3,850	13
Total	<u>\$26,157</u>	<u>\$29,786</u>	<u>100%</u>

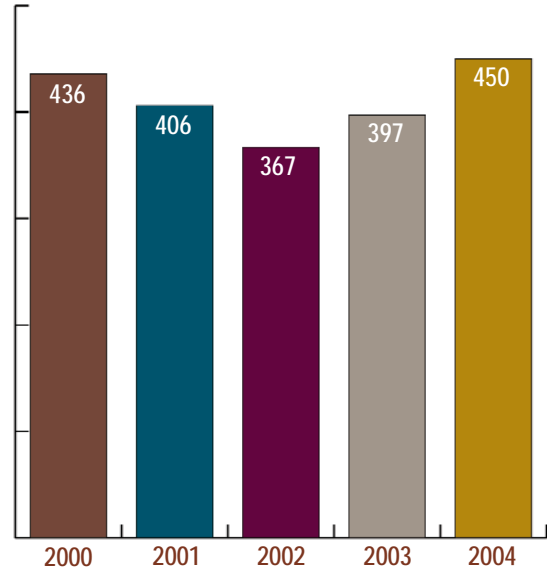
Fair Value of Net Assets

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

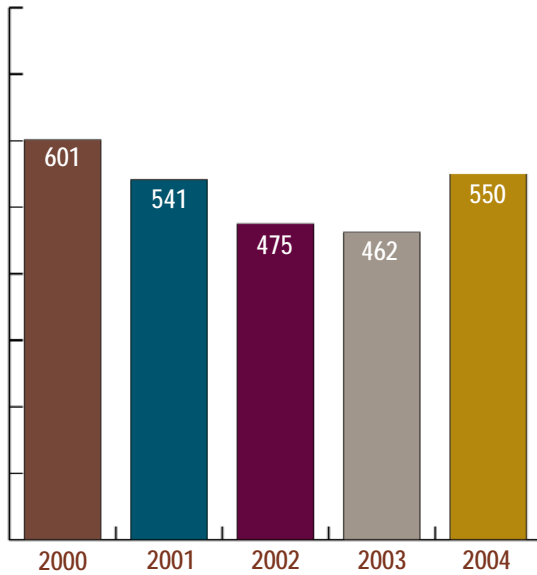
State Employees Retirement Fund



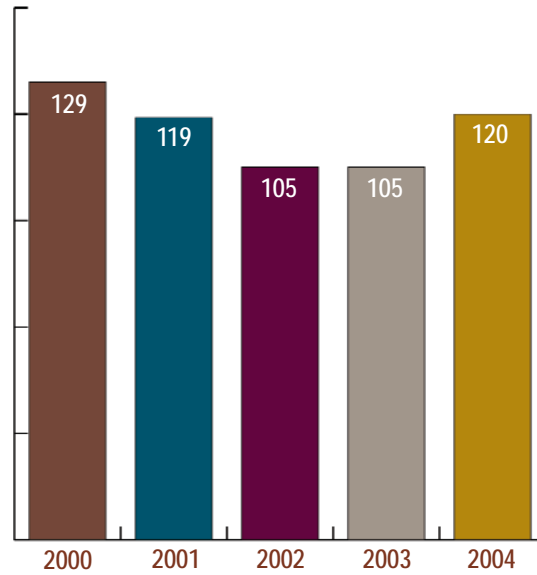
Correctional Employees Retirement Fund



State Patrol Retirement Fund



Judges Retirement Fund



Actuarial

SECTION 4



Actuary's Certification Letter



THE SEGAL COMPANY
6300 S. Syracuse Way Suite 750 Englewood, CO 80111-7302
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E-MAIL ADDRESS
lthompson@segalco.com

March 7, 2005

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

Dear 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), the Judges Retirement Fund (JRF), the Legislators Retirement Fund (LRF), and the Elective State Officers Retirement Fund (ESORF) as of July 1, 2004.

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 is ahead of schedule to meet the required date for full funding. The valuations of the SERF, CERF, JRF, LRF, and ESORF showed that contributions are deficient to meet the target full funding dates. The deficiencies are 1.33% of payroll for SERF, 3.81% of payroll for CERF, 1.38% of payroll for JRF, 95.72% of payroll for LRF, and \$436,594 for ESORF. The ESORF no longer has any active participants (and therefore the deficiency is expressed as a dollar amount). 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, 2004. 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

Board of Trustees
March 7, 2005
Page 2

preparing both of the Requirement Supplemental Information schedules found in the Financial Section of this report.

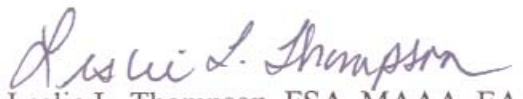
The six valuations were performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state 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 2004 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	2034	100%
SPRF	2034	109%
CERF	2020	93%
LRF	2021	55%
ESORF	2017	5%
JRF	2020	73%

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.

Sincerely,


Leslie L. Thompson, FSA, MAAA, EA
Senior Vice President and Actuary

WM/kcc

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⁾

Actuarial changes There were no changes in plan provisions, actuarial assumptions or actuarial cost methods since the prior valuation. This is the first year that The Segal Company prepared the actuarial valuations of the funds.

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 | |

MINNESOTA STATE RETIREMENT SYSTEM

Required Reserves (As of July 1, 2004)

(In Thousands)

	State Employees Fund	State Patrol Fund	Correctional Employees Fund	Judges Fund	Legislators Fund	State Elective Officers Fund*
Active members:						
retirement annuities	\$3,341,658	\$180,351	\$234,422	\$75,788	\$12,688	\$0
disability benefits	121,872	11,356	9,392	3,062	0	0
survivor benefits	104,352	5,716	6,989	1,908	141	0
withdrawal benefits	173,463	1,403	17,462	0	(169)	0
refunds	(78,164)	(754)	(2,560)	150	0	0
Totals	\$3,663,181	\$198,072	\$265,705	\$80,908	\$12,660	\$0
Deferred retirements	901,478	3,123	34,889	1,584	17,842	451
Former members not vested	20,922	16	382	0	58	0
Annuitants in MPRIF	3,287,223	343,666	223,239	97,945	39,330	0
Annuitants not in MPRIF	0	367	0	9,901	13,307	3,551
Unclassified Plan Contingent Liability	5,559	0	0	0	0	0
Total required reserves	\$7,878,363	\$545,244	\$524,215	\$190,338	\$83,197	\$4,002

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, 2004	4.00%	4.00%	8.00%	9.33%	(1.33)%
State Patrol Fund	July 1, 2004	8.40	12.60	21.00	18.15	2.85
Correctional Employees Fund	July 1, 2004	5.69	7.98	13.67	17.48	(3.81)
Judges Fund	July 1, 2004	8.00	20.50	28.04	29.42	(1.38)
Legislators Plan	July 1, 2004	9.00	0.00	9.00	104.72	(95.72)
Elective State Officers Plan*	July 1, 2004	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)

(Year Ended June 30, 2004)

(In Thousands)

	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	73,379	(52,541)	14,258	42,149	32,569	3,874
B. Change Due to Interest Requirements and Current Rate of Funding						
1. Normal Cost and Expenses	193,153	12,797	20,857	5,797	0	0
2. Contribution	(160,724)	(10,998)	(18,375)	(9,753)	0	0
3. Interest on A, B1, and B2	15,824	(3,845)	2,204	3,661	0	0
4. Totals (B1+B2+B3)	48,253	(2,046)	4,686	(295)	0	0
C. Expected UAAL at End of the Year (A+B)	121,632	(54,587)	18,944	41,854	32,569	3,874
D. Increase (Decrease) Due to Actuarial Losses (Gains) Because of Experience Deviations From the Expected						
1. Salary Increases	0	0	0	0	0	0
2. Investment Return	274,168	17,693	27,646	3,892	0	0
3. MPRIF Mortality	(53,709)	(2,340)	8,751	1,573	0	0
4. Mortality of Other Benefit Recipients	0	0	0	0	0	0
5. Other Items	(348,712)	(10,308)	(17,743)	4,071	4,473	(76)
6. Totals	(128,253)	5,045	18,654	9,536	4,473	(76)
E. UAAL at the End of the Year	(6,621)	(49,542)	37,598	51,390	37,042	3,798

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:				
06/30/99	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
06/30/04	46,899	1,965,546,000	41,910	0.37
State Patrol Retirement Fund:				
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
06/30/04	834	51,619,135	61,893	(8.03)
Correctional Employees Retirement Fund:				
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
06/30/04	3,326	133,172,068	40,040	(0.55)
Judges Retirement Fund:				
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
06/30/04	294	34,682,561	117,968	0.60
Legislators Retirement Fund:				
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.				
06/30/04	87	3,815,256	43,854	15.47
Elective State Officers Retirement Fund:				
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.				
06/30/04	0	-	-	N/A

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

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:						
06/30/99	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
06/30/04	2,024	824	22,654	339,323,000	8.94	14,979
State Patrol Retirement Fund:						
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
06/30/04	42	23	804	35,518,000	3.50	44,177
Correctional Employees Retirement Fund:						
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
06/30/04	148	20	1,188	22,020,000	14.35	18,535
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
06/30/04	13	12	254	13,520,000	(0.28)	53,228
Legislators Retirement Fund:						
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
06/30/04	12	7	315	5,766,000	4.10	18,305
Elective State Officers Retirement Fund:						
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
06/30/04	0	1	13	381,000	2.97	29,308

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

Solvency Test – Funding Ratio

Valuation Date	(In Thousands)				Portion Covered			Funding Ratio
	Active Member Contributions (1)	Retirees and Beneficiaries (2)	Employer Financed Portion (3)	by Reported Assets				
	Aggregate Accrued Liabilities			Reported Assets	(1)	(2)	(3)	
State Employees Retirement Fund:								
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
06/30/04	888,028	3,287,223	3,703,112	7,884,984	100	100	100.2	100.0
State Patrol Retirement Fund:								
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
06/30/04	42,185	344,033	159,026	594,785	100	100	131.2	109.1
Correctional Employees Retirement Fund:								
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
06/30/04	58,960	223,239	242,016	486,617	100	100	84.5	92.8
Judges Retirement Fund:								
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
06/30/04	20,252	107,846	62,240	138,948	100	95.7	17.4	73.0
Legislators Retirement Fund:								
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								
06/30/04	6,749	52,637	23,811	46,155	100	74.9	0	55.5
Elective State Officers Retirement Fund:								
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								
06/30/04	80	3,550	372	204	100	0.0	0	5.0

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

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

Valuation Date	Aggregate Accrued Liabilities	Actuarial Assets	Unfunded Accrued Liabilities	Member Payroll	UAL as a Percent Payroll
State Employees Retirement Fund:					
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
06/30/04	7,878,363	7,884,984	(6,621)	1,965,546	-3
State Patrol Retirement Fund:					
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
06/30/04	545,244	594,785	(49,541)	51,619	-96
Correctional Employees Retirement Fund:					
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
06/30/04	524,215	486,617	37,598	133,172	28.2
Judges Retirement Fund:					
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
06/30/04	190,338	138,948	51,390	34,683	148.2
Legislators Retirement Fund:					
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.					
06/30/04	83,197	46,155	37,042	3,815	971.0
Elective State Officers Fund:*					
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	4,075	201	0	0	N/A
An actuarial valuation of this fund was not prepared for the fiscal year ended 06-30-03.					
06/30/04	4,002	204	3,798	0	N/A

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

Sample Assumed Annual Rates of Termination

as of July 1, 2004

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

as of July 1, 2004

Judges Retirement Fund:

Age	Pre-retirement				Retirement				Salary Increases
	Death		Withdrawal		Disability		Retirement*		
	Male	Female	Male	Female	Male	Female	Male	Female	
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)**

Year	Separation		Salary Increases
	House	Senate	
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)***

Year	Separation		Salary Increases
	Rate		
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 5



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:							
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
2004	82,103	78,622	979,639	7,876	1,148,240	1,965,546	4.00
State Patrol Retirement Fund:							
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
2004	4,493	6,504	73,141	59	84,197	51,619	12.60
Correctional Employees Retirement Fund:							
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
2004	7,748	10,627	57,155	80	75,610	133,172	7.98
Judges Retirement Fund:							
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
2004	2,643	7,110	16,922	12	26,687	34,683	20.50
Legislators Retirement Fund:							
1999	674	N/A	3,245	2,091	6,010	7,490	N/A
2000	523	N/A	2,954	3,192	6,669	5,808	N/A
2001	527	N/A	(2,414)	5,041	3,154	5,858	N/A
2002	458	N/A	664	4,135	5,257	5,032	N/A
2003	433	N/A	528	5,396	6,357	3,610	N/A
2004	343	N/A	5,578	426	6,347	3,815	N/A
Elective State Officers Retirement Fund*:							
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
2004	0	0	0	383	383	N/A*	N/A

*The Elective State Officers Plan has no active members.

Schedule of Expenses by Type

(In Thousands)

Year Ended June 30	<u>Benefits</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Other</u>	<u>Total</u>
State Employees Retirement Fund:					
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
2004	328,546	4,673	10,777	1,696	345,692
State Patrol Retirement Fund:					
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
2004	35,501	95	17	129	35,742
Correctional Employees Retirement Fund:					
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
2004	21,299	275	722	253	22,549
Judges Retirement Fund:					
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
2004	13,520	31	0	35	13,586
Legislators Retirement Fund:					
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
2004	5,766	23	0	0	5,789
Elective State Officers Retirement Fund:					
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
2004*	381	1	0	0	382

Schedule of Benefit Expenses by Type

<u>Fiscal Year</u>	<u>Retirement</u>	<u>Survivor</u>	<u>Disability</u>	<u>Refund</u>	<u>Totals</u>
State Employees Retirement Fund:					
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
2004	279,915	33,417	15,213	10,777	339,322
State Patrol Retirement Fund:					
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
2004	30,201	4,123	1,177	17	35,518
Correctional Retirement Fund:					
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
2004	17,837	915	2,547	722	22,021
Judges Retirement Fund:					
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
2004	9,827	3,270	423	0	13,520
Legislators Retirement Fund:					
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
2004	4,977	789	0	0	5,766
Elected State Officers Retirement Fund:					
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
2004	293	88	0	0	381

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:												
06/30/99	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
06/30/04	34.8	33.2	33.8	32.2	31.7	31.9	46.6	44.7	45.5	13.5	11.4	12.4
State Patrol Retirement Fund:												
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
06/30/04	28.9	29.9	29.4	28.2	27.0	28.1	41.0	37.0	40.6	12.7	9.8	12.4
Correctional Employees Retirement Fund:												
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
06/30/04	33.0	33.9	33.4	31.4	34.5	32.5	41.0	40.8	41.0	9.2	6.0	8.1
Judges Retirement Fund:												
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
06/30/04	46.3	49.6	47.4	45.1	42.8	44.5	56.2	52.4	55.2	10.7	9.6	10.4

Employees Eligible for an Immediate Annuity

(As of June 30, 2004)

	Total
State Employees Retirement Fund:	
- full benefit	502
- reduced benefit due to early retirement	6,935
- proportional benefit (age equal to or more than 65 and service years fewer than 10)	105
- Rule of 90	1,345
- vested employees not eligible to immediate benefit	28,361
- employees not vested	9,806
	47,054
Totals	
State Patrol Retirement Fund:	
- full benefit	24
- reduced benefit	105
- vested employees not eligible to immediate benefit	594
- employees not vested	102
	825
Totals	
Correctional Employees' Retirement Fund:	
- full benefit	107
- reduced benefit	420
- vested employees not eligible to immediate benefit	1,871
- employees not vested	936
	3,334
Totals	
Judges' Retirement Fund:	
- full benefit	8
- reduced benefit	13
- vested judges not eligible to immediate benefit	143
- judges not vested	119
	283
Totals	
Legislators' Retirement Fund:	
- full benefit	27
- reduced benefit	24
- vested members not eligible for an immediate benefit	35
- members not vested	1
	87
Totals	
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*								
06/30/99	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
06/30/04	804	1,277	2,081	39.1	38.5	2.7	2.5	570
State Patrol Retirement Fund:								
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
06/30/04	1	0	1	28.4	0.0	1.0	0.0	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
06/30/04	66	69	135	35.3	36.6	2.3	2.0	32
Judges Retirement Fund:								
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
06/30/04	0	0	0	0	0	0	0	0

*Does not include Unclassified Plan or Health Care Savings Plan.

Schedule of Retired Members by Type of Benefit (As of June 30, 2004)

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	5,962	4,844	353	660	0	105	3,711	1,933	229	89
500-999	5,488	4,173	487	768	2	58	3,281	1,953	211	43
1,000-1,499	4,039	3,140	350	506	2	41	2,173	1,731	105	30
1,500-1,999	2,785	2,390	132	253	2	8	1,351	1,364	53	17
2,000-2,499	1,664	1,460	36	152	0	16	739	893	21	11
2,500-2,999	1,091	983	13	85	1	9	440	634	10	7
3,000-3,499	659	595	4	56	0	4	240	410	5	4
3,500-3,999	391	352	1	32	2	4	154	228	5	4
4,000-4,499	185	170	1	14	0	0	69	115	1	0
4,500-4,999	106	98	0	7	0	1	36	69	0	1
5,000+	104	96	0	4	1	3	30	74	0	0
Totals	22,640	18,444	1,380	2,558	10	248	12,287	9,504	643	206

Type:

1	General Plan annuitants
2	General Plan disabilitants
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	8	0	14	5	3	14
500-999	25	10	2	13	8	6	11
1,000-1,499	29	7	2	20	9	15	5
1,500-1,999	49	15	2	32	10	36	3
2,000-2,499	48	14	4	30	12	29	7
2,500-2,999	65	40	7	18	23	38	4
3,000-3,499	69	50	7	12	23	43	3
3,500-3,999	109	98	4	7	29	79	1
4,000-4,499	116	108	1	7	33	80	3
4,500-4,999	115	108	2	5	60	52	3
5,000+	155	149	3	3	92	63	0
Totals	802	607	34	161	304	444	54

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, 2004)

Correctional Employees' Retirement Fund

Monthly Benefit Amount	Number of Retirees	Retirement Type				Option Selected		
		1	2	3	Life	I	II	III
0-499	184	145	6	33	118	42	24	0
500-999	198	155	20	23	132	53	12	1
1000-1499	250	173	55	22	171	73	6	0
1500-1999	197	149	41	7	133	58	4	2
2000-2499	132	114	16	2	100	30	2	0
2500-2999	111	103	6	2	78	32	1	0
3000-3499	54	51	1	2	44	10	0	0
3500-3999	33	33	0	0	24	9	0	0
4000-4499	13	13	0	0	13	0	0	0
4500-4999	3	3	0	0	3	0	0	0
5000+	4	4	0	0	3	1	0	0
Totals	1,179	943	145	91	819	308	49	3

Type:

- 1 Retired members
2 Disabilitants
3 Survivors

Option:

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

Judges Retirement Fund

Monthly Benefit Amount	Number of Retirees	Retirement Type				Option Selected		
		1	2	3	Life	I	II	III
0-499	0	0	0	0	0	0	0	0
500-999	6	1	0	5	4	0	2	0
1000-1499	13	7	0	6	7	4	1	1
1500-1999	11	3	0	8	4	6	1	0
2000-2499	18	6	0	12	8	9	0	1
2500-2999	18	9	1	8	6	10	2	0
3000-3499	21	7	0	14	8	9	4	0
3500-3999	27	15	0	12	9	15	3	0
4000-4499	26	18	0	8	7	16	2	1
4500-4999	19	13	1	5	4	12	3	0
5000+	95	83	4	8	44	46	1	4
Totals	254	162	6	86	101	127	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, 2004)

Monthly Benefit Amount	Retirement Type			
	Elective State Officers		Legislators	
	Member	Survivor	Member	Survivor
Legislators and Elective State Officers Retirement Funds				
0-499	2	0	17	19
500-999	1	2	67	19
1000-1499	1	0	57	13
1500-1999	0	1	34	6
2000-2499	1	0	28	1
2500-2999	0	0	18	1
3000-3499	0	0	13	1
3500-3999	1	1	8	2
4000-4499	1	0	3	0
4500-4999	0	0	5	1
5000+	2	0	2	0
Totals	9	4	252	63

Schedule of New Retirees and Initial Benefit Paid

(For the Six Fiscal Years Ended June 30, 2004)

State Employees Retirement Fund	Years of Service							Totals
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$92	\$305	\$463	\$706	\$947	\$1,292	\$1,789	\$921
Number of Current Retirees	138	130	139	164	177	137	274	1,159
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$96	\$297	\$529	\$748	\$992	\$1,337	\$1,977	\$1,010
Number of Current Retirees	173	127	166	146	201	148	334	1,295
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$115	\$349	\$537	\$758	\$1,002	\$1,284	\$2,016	\$1,048
Number of Current Retirees	182	112	148	156	177	141	355	1,271
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$138	\$331	\$571	\$772	\$1,006	\$1,402	\$1,980	\$1,050
Number of Current Retirees	175	138	157	152	129	138	359	1,248
Period 7/1/02 to 6/30/03:								
Average Monthly Benefit	\$179	\$360	\$579	\$851	\$1,139	\$1,508	\$2,178	\$1,124
Number of Current Retirees	217	112	150	130	115	147	332	1,203
Period 7/1/03 to 6/30/04:								
Average Monthly Benefit	\$191	\$236	\$374	\$702	\$923	\$1,274	\$1,931	\$1,194
Number of Current Retirees	111	119	187	209	203	203	706	1,738
Period 7/1/98 to 6/30/04:								
Average Monthly Benefit	\$135	\$312	\$505	\$750	\$990	\$1,345	\$1,976	\$1,067
Number of Current Retirees	996	738	947	957	1,002	914	2,360	7,914
State Patrol Retirement Fund								
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$0	\$0	\$0	\$1,960	\$2,745	\$3,526	\$3,780	\$3,397
Number of Current Retirees	0	0	0	6	6	23	25	60
Period 7/1/99 to 6/30/00:								
Average Monthly Benefit	\$250	\$0	\$1,432	\$2,240	\$2,892	\$3,865	\$4,085	\$3,137
Number of Current Retirees	2	0	2	15	11	14	16	60
Period 7/1/00 to 6/30/01:								
Average Monthly Benefit	\$517	\$776	\$878	\$2,462	\$2,935	\$3,980	\$4,169	\$3,467
Number of Current Retirees	2	2	1	1	7	13	17	43
Period 7/1/01 to 6/30/02:								
Average Monthly Benefit	\$642	\$0	\$1,630	\$2,256	\$3,166	\$3,887	\$4,505	\$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	\$776	\$864	\$0	\$2,635	\$3,463	\$3,618	\$4,797	\$3,419
Number of Current Retirees	1	3	0	4	5	11	8	32
Period 7/1/03 to 6/30/04:								
Average Monthly Benefit	\$0	\$295	\$0	\$2,267	\$2,293	\$3,653	\$4,649	\$3,876
Number of Current Retirees	0	1	0	2	4	7	19	33
Period 7/1/98 to 6/30/04:								
Average Monthly Benefit	\$492	\$740	\$1,438	\$2,248	\$2,918	\$3,737	\$4,239	\$3,429
Number of Current Retirees	6	6	6	32	37	80	96	263

Schedule of New Retirees and Initial Benefit Paid

(For the Six Fiscal Years Ended June 30, 2004)

	Years of Service							Totals
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
Correctional Employees Retirement Fund								
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 7/1/03 to 6/30/04:								
Average Monthly Benefit	\$158	\$500	\$764	\$1,099	\$1,328	\$2,245	\$2,393	\$1,426
Number of Current Retirees	9	10	24	24	16	23	28	134
Period 7/1/98 to 6/30/04:								
Average Monthly Benefit	\$301	\$624	\$1,037	\$1,301	\$1,862	\$2,576	\$2,654	\$1,453
Number of Current Retirees	77	87	94	131	137	99	44	669
Judges Retirement Fund								
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$700	\$0	\$2,772	\$3,383	\$4,341	\$4,725	\$4,404	\$3,606
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	\$1,720	\$2,976	\$3,671	\$4,557	\$0	\$3,339
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	\$2,241	\$3,373	\$4,085	\$0	\$0	\$3,388
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	\$1,630	\$2,256	\$3,166	\$3,887	\$4,505	\$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 7/1/03 to 6/30/04:								
Average Monthly Benefit	\$0	\$1,496	\$0	\$4,247	\$4,516	\$4,421	\$6,073	\$4,217
Number of Current Retirees	1	1	3	1	2	3	1	7
Period 7/1/98 to 6/30/04:								
Average Monthly Benefit	\$671	\$1,502	\$2,252	\$3,104	\$4,105	\$4,086	\$4,602	\$3,597
Number of Current Retirees	2	3	10	13	19	17	14	78

Schedule of New Retirees and Initial Benefit Paid

(For the Six Fiscal Years Ended June 30, 2004)

Legislators Retirement Fund	Years of Service							Totals
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
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	8
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 7/1/03 to 6/30/04:								
Average Monthly Benefit	\$0	\$780	\$467	\$1,086	\$0	\$2,104	\$0	\$911
Number of Current Retirees	0	5	2	2	0	1	0	10
Period 7/1/98 to 6/30/04:								
Average Monthly Benefit	\$367	\$818	\$1,061	\$1,369	\$2,279	\$2,377	\$2,887	\$1,235
Number of Current Retirees	7	23	32	7	7	7	3	86

Elected State Officers Retirement Fund

	0-5	5-10	10-15	15-20	20-25	25-30	30+	Totals
Period 7/1/98 to 6/30/99:								
Average Monthly Benefit	\$0	\$2,036	\$0	\$0	\$4,315	\$0	\$0	\$3,176
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	\$3,757
Number of Current Retirees	0	0	0	1	0	0	0	1
Period 7/1/03 to 6/30/04:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
Period 7/1/97 to 6/30/03:								
Average Monthly Benefit	\$0	\$2,036	\$0	\$3,757	\$4,315	\$0	\$0	\$3,370
Number of Current Retirees	0	1	0	1	1	0	0	3

Participating Employers

(as of June 30, 2004)

Agriculture Utilization Research Institute	Crop Improvement Association	Lewiston ISD #857
Albert Lea, City of	Dakota County	Little Falls, City of
Alexandria Lake Area Sanitary	Dassel-Cokato ISD 466	Lincoln County
American Federation of State, County and Municipal Employees (AFSCME)	Deer River ISD 317	Litchfield ISD #465
Amalgamated Transit Union (MTC Union Office)	Detroit Lakes, City of	Luverne, City of
Annandale Independent School District (ISD) #876	Detroit Lakes ISD #22	Luverne ISD #2184
Arrowhead Regional Computing	Douglas County	Mankato ISD 77
Assoc. of Secondary School Principals	Douglas County Hospital	Maple Grove, City of
Austin, City of	Duluth ISD #709	Maple Lake ISD #881
Austin ISD #492	East Central ISD 2580	Marietta, City of
Bagley ISD #162	East Metro Integration Dist 6067	Melrose, City of
Balaton, City of	Eagan , City of	Melrose ISD 740
Becker County	Eden Prairie, City of	Met Con Radio BD
Belgrade/Brooten ISD #2364	Edina, City of	Metro Airport Commission
Beltrami County	Edina ISD 273	Metropolitan Council
Bertha-Hewitt ISD 786	Elgin-Millivlle Comm School	-Environmental Services
Big Lake	Elk River ISD 728	-Transit Operations-Union Office
Blaine, City of	Ely, City of	-Transit Operations-Drivers and Mechanics
Bloomington, City of	Esko ISD #99	Metropolitan Sports Facility Commision
Bloomington ISD #271	Eveleth, City of	Middle Management Association (MMA)
Blue Earth-Winnebago ISD #2860	Fairbauld ISD 656	Mille Lacs County
Brainerd, City of	Fairview Hospital	Minneapolis, City of
Brainerd Public Utilities	Farmington, City of	Minneapolis Community Develop
Breckenridge City of	Fergus Falls, City of	Minneapolis ISD #1
Breezy Point, City of	Fergus Falls ISD 544	Minneapolis Teachers Retirement
Breitung Township	Fillmore Central School 2198	Minnesota Association of Professional Employees
Brown County	Foster Wheeler Inc., Twin Cities	Minnesota Conservations Corp
Brown County Soil & Water Conservation District (SWCD)	Freshwater Education Dist	Minnesota Government Engineers Council (MGEC)
Burnsville ISD #191	Gillette Children's Hospital	Minnesota Historical Society
Caledonia ISD 299	Glencoe/Silver Lake ISD #2859	Minnesota Horticultural Society
Carlton County	Goodhue County	Minnesota House Employees
Cass Lakes-Bena ISD 115	Grant County	Minnesota House of Representatives
Centennial ISD #12	Hawley ISD #150	Minnesota Safety Council
Chanhassen, City of	HELP	Minnesta Senate
Chaska ISD #112	Hermantown, City of	Minnesota Senate Employees
Chatfield ISD #227	Hermantown ISD #700	Minnesota State Fair
Chippewa County Hospital	Hopkins, City of	Minnesota Technology Inc.
Chisago Lake ISD 2144	Houston ISD 294	Minnesota Valley Educational District #6027
Clearwater County	Hoyt Lakes, City of	Montevideo, City of
Cloquet ISD #94	Hubbard County	Moorhead, City of
Comfrey ISD #81	Intermediate Dist 287	Moorhead Public Housing Agency
Cook County ISD #166	Isanti County	Moose Lake ISD 97
Coon Rapids, City of	Ivanhoe Isd-403	Mound, City of
Corcoran, City of	Jackson, City of	
	Jackson County Central ISD #2895	
	Kenyon-Wanamingo ISD #2172	
	Kimball ISD 739	
	Koochiching County	
	La Crescent-Hoka ISD #300	
	Lake Of The Woods ISD #390	
	Lakeville ISD 194	

Participating Employers

(as of June 30, 2004)

Mower County
 New Hope, City of
 New Prague ISD #721
 New Ulm, City of
 New Ulm City Public Util Comm
 Newport, City of
 Nicollet County
 Northeast Metro Intermediate
 ISD #916
 Oakdale, City of
 Olivia, City of
 Orono, City of
 Orono ISD #278
 Ottertail County
 Pelican Rapids, City of
 Pequot Lakes ISD 186
 Pierz ISD #484
 Pine County SWCD
 Pine Island ISD #255
 Princeton ISD 477
 Proctor ISD #704
 Ramsey County
 Red Rock Rural Water System
 Redrock Central ISD #2884
 Renville County

Renville County SWCD
 Richfield, City of
 Rock County
 Rosemount ISD #196
 Roseville, City of
 Roseville ISD #623
 Rush City ISD #139
 Rushford, City of
 Rushford-Peterson ISD 239
 Sandstone, City of
 Sartell, City of
 Sauk Center School Dist #743
 Sauk Rapids ISD 47
 Scott County
 Sebeka ISD #820
 Sherburne County
 South St Paul, City of
 Spring Grove ISD 297
 St. Anthony, City of
 St. Charles ISD #858
 St. Cloud, City of
 St. Cloud Area Plan
 Organization
 St. Louis County ISD 2142
 St. Paul Park, City of

St. Louis County
 State Of Minnesota
 Thief River Falls, City of
 Three Rivers Park Dist.
 Todd County Soil & Water
 Conservation
 Tonka Bay, City of
 Tracy, City of
 University of Minnesota
 Wadea, City of
 Wabasha-Kellogg ISD #811
 Wadena County Social
 Services
 Waite Park, City of
 Washington County
 Watonwan County SWCD
 Wayzata ISD 284
 West St Paul ISD 197
 Windom Area Hospital
 Winona ISD 861
 Worthington, City of
 Worthington Regional Hospital
 Wright County

