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

REFLECTIONS OF THE PAST

MOSERS

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

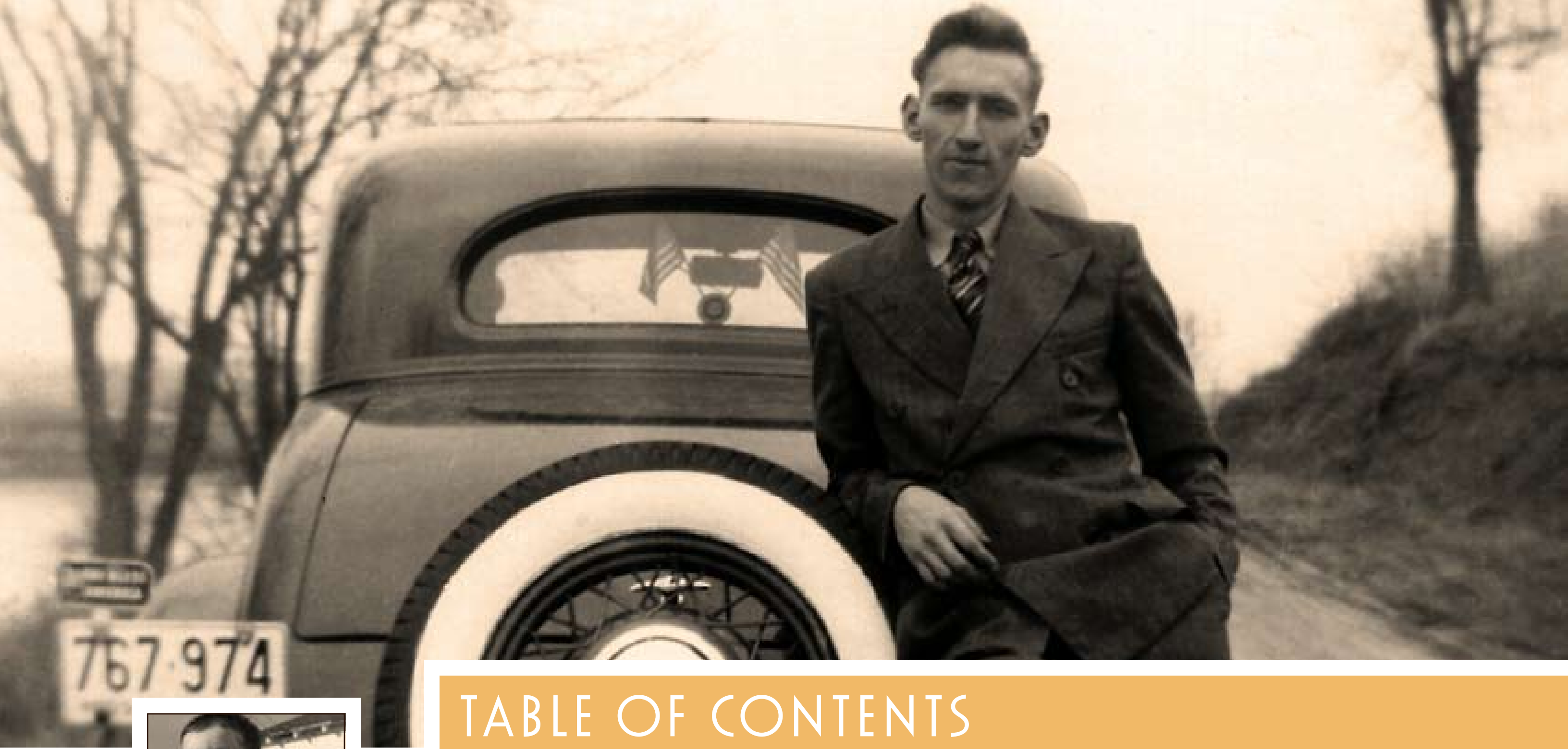
Missouri State Employees' Retirement System
A Component Unit of the State of Missouri

Gary Findlay, Executive Director
Gary Irwin, Chief Finance Officer

REFLECTIONS OF THE PAST

MOSERS.

Comprehensive Annual Finanical Report
Fiscal Year Ended June 30, 2006



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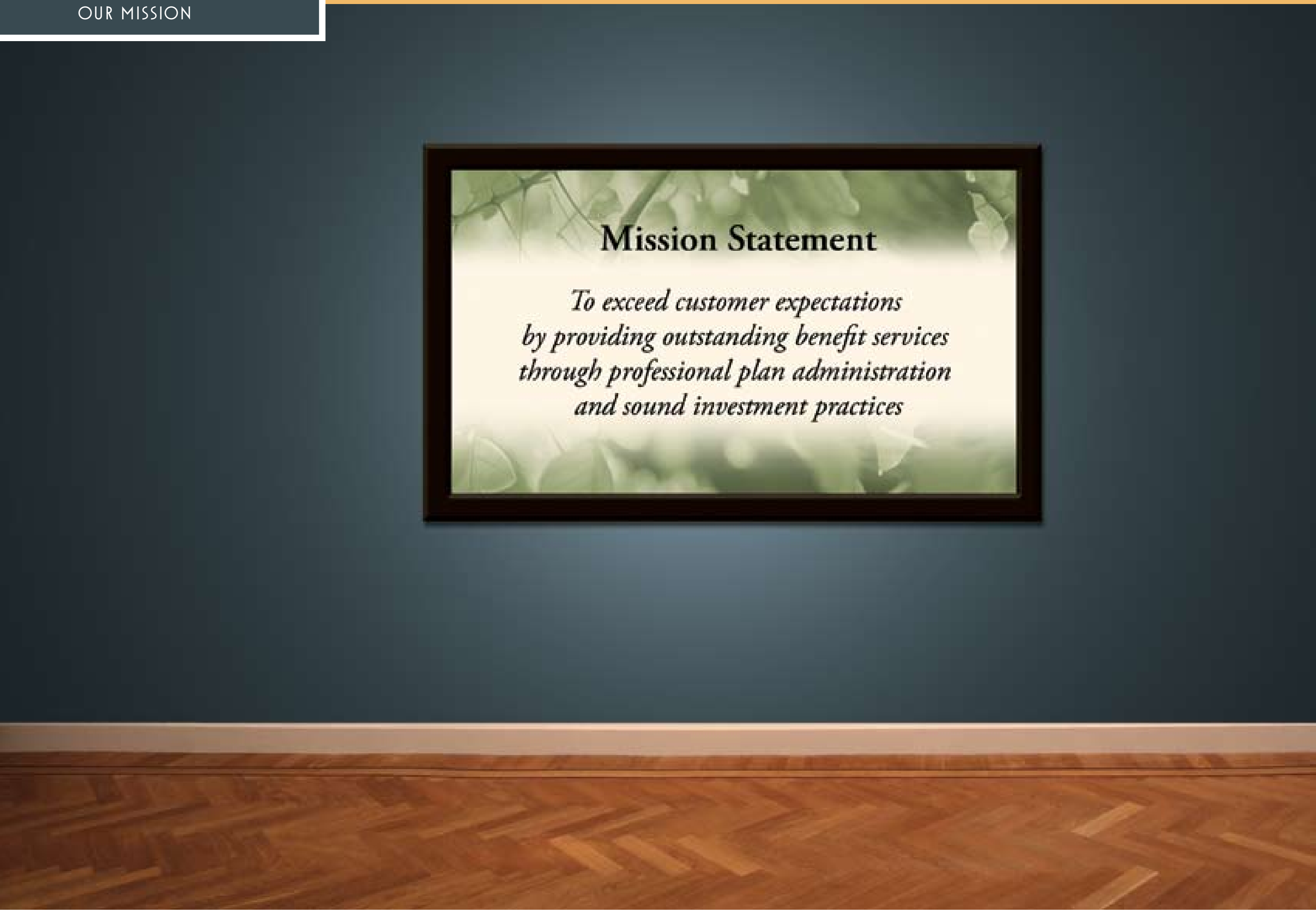


OUR MISSION

Core Values

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

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

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

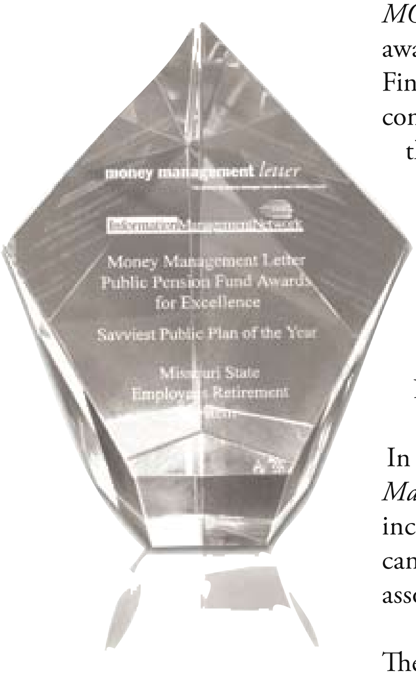
- **Openness -** Be willing to listen to, and share information with, others. Be receptive to new ideas. Be trusting of others.

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

INTRODUCTORY SECTION

INTRODUCTORY SECTION

PROFESSIONAL AWARDS



MOSERS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). This was the seventeenth consecutive year that MOSERS has achieved this prestigious award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

MOSERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2005, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

In April 2006, MOSERS was named the "Savviest Public Plan of the Year" for 2005 by *Money Management Letter*, a publication of Institutional Investor, Inc. The selection criteria for the award included sophistication, investment knowledge and receptiveness to new ideas. MOSERS' success can be credited to the combined efforts of the board of trustees and the investment professionals associated with the system.

These awards are gratifying to the staff involved in the projects and increase MOSERS' stature as a leader in the public retirement fund universe.

LETTER OF TRANSMITTAL

MOSERS®
Missouri State Employees' Retirement System

Mailing Address
PO Box 209
Jefferson City, MO 65102-0209

Shipping Address
907 Wildwood Drive
Jefferson City, MO 65109

October 17, 2006

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

Dear Board Members:

It is with great pleasure that I again submit to you the *Comprehensive Annual Financial Report* (CAFR) of the Missouri State Employees' Retirement System (MOSERS). The theme of this year's report is "Reflections of the Past." I believe it is important to take time each year to reflect on how we got to where we are with an eye toward the future. At MOSERS, that vision is focused on adding value by pursuing excellence in all that we do. Our success in achieving this vision will enable our stakeholders to reflect on the past with confidence that their future benefits are secure.

Report Contents and Structure

This CAFR is designed to satisfy the reporting requirements of state law as stipulated in Sections 104.480, 104.1006, and 105.661 of the Revised Statutes of Missouri (RSMo) as amended. The financial information presented in the report is the responsibility of the management of MOSERS, and sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. An independent auditing firm, Williams-Keepers LLC, has audited the financial statements included in this report and their opinion letter is presented in the financial section of this CAFR. The financial section also contains a management discussion and analysis report that provides a narrative introduction, overview, and analysis of the financial statements. MOSERS is considered a component unit of the state of Missouri for financial reporting purposes and, as such, the financial statements in this report are also included in the *State of Missouri's Comprehensive Annual Financial Report*.

This report is divided into the following five sections:

- The Introductory Section**,** which contains general information regarding the operations of MOSERS.
- The Financial Section**,** which contains the management's responsibility for financial reporting lettter, independent auditor's opinion letter, a management discussion and analysis report, the financial statements and notes thereto, required supplementary information regarding the funds administered by MOSERS, and supporting financial schedules.
- The Investment Section, which contains information pertaining to the management of the investments of the pension trust funds, including reports from the system's chief investment officer (CIO) and investment consultant.

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MO Relay: (800) 735-2466 (Voice) • (800) 735-2966 (TDD)
Email: mosers.@mosers.org • Website: www.mosers.org

- The Actuarial Section, which contains information regarding the financial condition and financial position of the retirement plans administered by the system, including the retained actuary's opinion.
- The Statistical Section, which contains general statistical information regarding the system participants and finances.

Profile of MOSERS

MOSERS is an instrumentality of the state of Missouri established in 1957 by state statutes for the purpose of providing retirement benefits to those state employees not covered by another retirement system. MOSERS provides for those retirement benefits through pension trust funds.

Subsequent to its creation, MOSERS was given the task of also providing members of the retirement system with life and long-term disability insurance. MOSERS operates an internal service fund for the state of Missouri and contracts with insurance companies to provide those benefits through insured defined benefit plans. MOSERS maintains membership information on those eligible for the insurance coverage and collects and remits the premiums to the insurance company. Currently, the life and long-term disability plans are insured through The Standard Insurance Company.

The board of trustees of MOSERS annually approves the administrative expense budgets of MOSERS' operation and investment divisions. MOSERS' governance policy requires an exception report to the board of trustees by the executive director if expenses are expected to exceed budget by 10% or if there are any unscheduled salary increases or staff expansion not included in the budget approved by the board.

Fiscal Year (FY) 2006 Activities

Performance Measurement

This year we implemented software to automate the procedures we employ to monitor, measure, and assess our performance relative to pre-established benchmarks of excellence. The new software reduced the time and effort needed to document performance and increased the quality of the documentation, which helped to simplify administration of the program.

Rumor Central

This was the second year of our use of "Rumor Central" on our website to provide members with authoritative information to either replace or confirm rumors they encounter. Members (and others) have expressed appreciation for us providing a place where they can ask questions and get timely reliable answers. We received and responded to over 200 questions during the last fiscal year. We appreciate being recognized as a reputable source of information, which reflects positively on our goal of being a center of excellence in customer service.

Imaging System Upgrade

This year, we upgraded our imaging system from Optical Storage and Retrieval (OSAR) to Magnetic Storage and Retrieval (MSAR). The MSAR system provides us with faster document retrieval, is more reliable than the OSAR technology, and eliminates the space requirements of the optical disk equipment. In addition, our records section has completed conversion of approximately 10% of terminated member microfiche files to the imaging system. Converting these files to images allows for quicker access to the records when a terminated member returns to a MOSERS' eligible position with the state of Missouri and provides a means to efficiently backup the data for off-site storage.

Electronic Forms
We expanded our capability for electronic submission of forms this past year. Members and employers can now access 21 forms from our website and submit them electronically to MOSERS. This enhances our service to members by reducing the costs associated with handling paper documents while minimizing the potential for error as forms are processed.

Online Access Expanded
To enhance the service to the employing agencies of the state that report payroll information to MOSERS, we automated the aged accounts receivable report and the terminated report and now provide online access to these reports so any needed corrections can be made in a more timely fashion. In addition, MOSERS implemented an online member address match process so the state's human resource representatives and MOSERS can keep this critical piece on information as accurate and up to date as possible.

Benefit recipients can now access their payment stub information online. With the implementation of this service, retirees that receive their benefit payments through direct deposit (EFT) no longer receive a paper EFT stub in the mail unless they choose that as an option. During the implementation of this revision to our procedures, one retiree wrote, "I am proud of the way the Missouri State Employees' Retirement System is managed. The Social Security fund should take some lessons from you. Your direct deposit appears on my bank statement each month so that is enough confirmation."

Cost Effective Measurement
We continue to use the Cost Effective Measurement (CEM) Benefit Administration Benchmarking Analysis to gauge our overall performance and cost effectiveness each year. This year CEM's analysis of our fiscal year ending June 30, 2005, rated MOSERS' service as the highest in our peer group with a total service score of 87, which was well above the peer average service score of 78. This was accomplished with a cost per active and annuitant member of $69, which was equal to the peer group median cost – in other words, the highest service level at median cost.

Change in External Audit Firm
Williams-Keepers LLC was hired in January 2006 as MOSERS' external audit firm replacing KPMG LLP. The change in auditing firms was the result of the normal competitive bid process MOSERS performs every four years for audit services. It should be noted that there were no disagreements between management and KPMG LLP on any accounting or auditing related issues.

Legislation - House Joint Resolution (HJR) 55
HJR 55 will submit to Missouri voters a constitutional amendment to existing language that would allow for automatic approval of the schedule of compensation developed by the Missouri Citizen's Commission on Compensation of Elected Officials for all elected state officials, members of the General Assembly, and judges unless disapproved by a concurrent resolution adopted by the General Assembly. The HJR removes restrictive appropriations language and contains new provisions that would disqualify any public official from receiving any state pension beginning January 1, 2007, if they are convicted in any court of a felony which occurred while in office or have been removed from office for misconduct or by impeachment. The HJR would also prohibit salary increases for any member of the House or Senate until January 2009. The net effect of these changes as they relate to the retirement benefits of MOSERS' legislative members and elected officials would be realized in the calculation of the base benefit and post-retirement cost-of-living adjustments (COLAs) under the plan, which became effective July 1, 2000 – both of which are based on the pay level of active members in those positions.

Summary of Financial Information

The following schedule is a comparative summary of the pension trust funds' additions and deductions for the years ended June 30, 2006, and June 30, 2005.

	Pension Trust Funds	
	Year Ended June 30, 2006	Year Ended June 30, 2005
Additions	$ 987,834,791	$ 957,705,464
Deductions	(425,935,784)	(393,068,640)
Net change	$ 561,899,007	$ 564,636,824

The following schedule is a comparative summary of the revenues and expenses of the Internal Service Fund (insurance activity) for the years ended June 30, 2006, and June 30, 2005.

	Internal Service Fund	
	Year Ended June 30, 2006	Year Ended June 30, 2005
Operating revenues	$ 26,851,737	$ 27,741,794
Operating expenses	(26,902,935)	(27,771,836)
Nonoperating revenues	85,124	49,326
Net change	$ 33,926	$ 19,284

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

Investments

Strong returns in the emerging markets and developed international equity portfolios enabled MOSERS' total fund to return 11.5% (net of fees and expenses) for FY06. This return outpaced our policy benchmark return of 10.1% by 1.37%. This excess resulted in an extra $90 million that was generated for the fund. MOSERS continues to rank in the top quartile when compared to our peer universe of other state-wide public pension funds across the country.

It has been four years since the MOSERS board made the difficult decision to move away from a more traditional approach to portfolio management toward a more dynamic process. This shift was the result of a great deal of research and debate that concluded with the view that financial assets like stocks and bonds that had become the dominant force in our portfolio and most other pension fund portfolios over the last 20 years, were not positioned to deliver the returns necessary to achieve our long-term investment objectives. As a result, in order to better position the fund to achieve its objectives, the following was recognized: (i) there was a way to build a more economically diversified policy portfolio that was less dependent on U.S. stocks and bonds, which should lead to lower overall volatility without sacrificing returns, thus providing for more stability in the contribution rates, (ii) a higher level of active management should be emphasized in the portfolio in areas deemed the most inefficient, as a way to add incremental value to the fund, and (iii) staff should be given greater flexibility to maneuver the portfolio away from the broad policy targets when valuation discrepancies suggested that such a move would lead to better returns, less risk, or a combination of the two.

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

Four-Year Results Ended June 30, 2006

Statistics	Old Policy Benchmark Prior to June 30, 2002	New Policy Benchmark Effective After June 30, 2002	MOSERS Actual Four-year Results
Annualized return	11.2%	11.2%	12.0%
Annualized standard deviation	9.5%	7.7%	8.0%
Sharpe ratio	0.96	1.18	1.23
Percentage of positive months	69.0%	73.0%	71.0%
Percentage of negative months	31.0%	27.0%	29.0%

As can be seen from the table above, in the last four years the new policy portfolio has generated higher risk adjusted returns as observed through its higher sharpe ratio. While the returns over the last four-year period are identical, the portfolio has experienced nearly a 20% reduction in volatility.

In my view, the fund has achieved its goal of adding value over its policy benchmark and, over the longer term, has continued to exceed the assumed funding rate of 8.5%, resulting in over $200 million in added value this fiscal year. A significant portion of our success can be attributed to an excellent investment staff operating under governance policies that allow and encourage them to pursue excellence in investment policy implementation. I firmly believe this is further confirmation of the notion that good governance policies produce good results. Additional detailed information regarding MOSERS' investments can be found in the Investment Section of this report.

Plans Financial Condition

The funding objective of MOSERS' pension trust funds is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on pages 43-46. During the year ended June 30, 2006, the funded ratio of the Missouri State Employees' Plan, which covers 97,309 participants, increased from 84.9% to 85.3%, primarily as the result of experience that was more favorable than assumed. Funding of the Judicial Plan, which covers 857 participants, began on July 1, 1998. During the year ended June 30, 2006, the funded ratio of the Judicial Plan increased from 15.1% to 16.7%, primarily as the result of favorable plan experience during the year. Additional information regarding the financial condition of the pension trust funds can be found in the Actuarial Section of this report.

Awards

Savviest Public Plan of the Year Award

MOSERS was named "Savviest Public Plan of the Year" for 2005 by *Money Management Letter*, a publication of Institutional Investor, Inc. This award for excellence was established to honor leaders in the public pension fund community. The selection criteria for the savviest plan award include sophistication, investment knowledge, and receptiveness to new ideas. MOSERS' success can be attributed to the combined efforts of the MOSERS Board of Trustees and the investment professionals associated with the system. The 11-member board sets broad asset allocation parameters and then allows the CIO and asset consultant, Summit Strategies Group, to make investment strategy and manager selection decisions.

Certificate of Achievement for Excellence in Financial Reporting
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MOSERS for its CAFR for the fiscal year ended June 30, 2005. This was the seventeenth consecutive year that MOSERS has achieved this prestigious award. In order to be awarded a certificate of achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the certificate of achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Public Pension Coordinating Council Public Pension Standards Award
MOSERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2005 in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Conclusion
This report is a product of the combined efforts of the MOSERS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information that will facilitate the management decision making process, serve as a means for determining compliance with legal requirements, and allow for the evaluation of responsible stewardship of the funds of the system. As in the past, MOSERS received an unqualified opinion from our independent auditors on the financial statements included in this report. The opinion of the independent auditor can be found on page 20.

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

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

Respectfully submitted,

Gary Findlay

Gary Findlay
Executive Director

LETTER FROM THE BOARD CHAIR

MOSERS®
Missouri State Employees' Retirement System

Mailing Address
PO Box 209
Jefferson City, MO 65102-0209

Shipping Address
907 Wildwood Drive
Jefferson City, MO 65109

October 17, 2006

Dear Members:

On behalf of the board of trustees, I am pleased to present the *MOSERS Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2006. This report provides information on the financial status of your retirement system while also highlighting changes that occurred during the year.

First and foremost, I am pleased to report that your retirement system remains well funded and your promised benefits are secure. The MOSERS fund generated a return of 11.5% (net of expenses) for the year placing MOSERS' investment return in the top 25% of all public pension funds with assets in excess of $1 billion as reported by the Independent Consultant Cooperative. This resulted in over $200 million in excess of the return that would have been generated by the 8.5% return rate assumed for funding purposes. This type of performance makes your fund more secure while also reducing future costs to the taxpayers.

In keeping with this year's annual report theme, "Reflections of the Past," I'm pleased to report that for the sixth straight year MOSERS' investments have generated returns in excess of our benchmark and have done so with less volatility. The incremental reward from these results over six years has been an additional $1.1 billion in MOSERS' coffers.

In an effort to further ensure that the system is employing best practices, this year we had a comprehensive fiduciary audit conducted by Independent Fiduciary Services – a firm of individuals who have substantial experience with and expertise in matters associated with the public employee retirement industry. I'm pleased to report that their in-depth review did not identify any significant operational deficiencies or major fiduciary concerns. We are, however, considering their suggestions and recommendations for fine tuning our current practices as part of our ongoing efforts to improve the ways in which we manage risk and deliver customer service.

The board experienced some turnover this past year. On behalf of the board, staff and membership, I wish to express our collective thanks to John Pelzer, Gubernatorial Appointee, for his contributions to the system.

In closing, you can be assured that the MOSERS staff continues to provide the expertise and professionalism required for excellence in our retirement system, and I would like to thank them for continuing to maintain a high level of commitment to serving our membership. We look forward to meeting your future needs. If you have any questions regarding this report or any other aspect of MOSERS, please contact us at MOSERS, P.O. Box 209, Jefferson City, MO 65102, or by calling 1-800-827-1063.

Sincerely,

Todd Smith

Representative Todd Smith, Chair
Board of Trustees

Phone: (573) 632-6100 • (800) 827-1063
MO Relay: (800) 735-2466 (Voice) • (800) 735-2966 (TDD)
Email: mosers.@mosers.org • Website: www.mosers.org

BOARD OF TRUSTEES

1

2

3

ADMINISTRATIVE ORGANIZATION

1 Gary Findlay
Executive Director

- **Jake McMahon** — *Chief Counsel*
- **Greg Beck** — *Chief Auditor*
- **Lisa Verslues** — *Human Resources Coordinator*
- **Judy Delaney** — *Legislative Coordinator*

2 Karen Stohlgren
Deputy Executive Director
Chief Operations Officer (COO)

- **Gary Irwin** — *Chief Finance Officer*
- **Stacy Gillmore** — *Manager of Information Technology*
- **JoAnn Looten** — *Manager of Records*
- **Sandra Lynn** — *Manager of Communications*
- **Diana Mosier** — *Manager of Administrative Services*
- **Scott Simon** — *Manager of Benefit Services*

3 Rick Dahl
Deputy Executive Director
Chief Investment Officer

- **Pat Neylon** — *Manager of Public Equity*
- **Jim Mullen** — *Manager of Public Debt*
- **Tricia Scrivner** — *Manager of Alternatives*
- **Shannon Davidson** — *Manager of Investment Operations*
- **Christine Rackers** — *Manager of Investment Policy & Communications*

ADMINISTRATIVE ORGANIZATION

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

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

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

Administration
State law provides that responsibility for the administration of MOSERS is vested in an 11-member board of trustees. The board is comprised of:

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

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

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

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

Executive Services
The executive services team provides administrative support by assisting the executive director and COO, and CIO in the major legal, operational, and oversight functions of the retirement, benefit, and communication programs.

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

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

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

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

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

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

Administrative Services
Administrative services provides clerical support, mail services, and general building maintenance for MOSERS' personnel.

OUTSIDE PROFESSIONAL SERVICES

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

AUDITORS
Williams-Keepers LLC
Certified Public Accountants & Consultants
Heidi Chick, Anita Brand
Columbia/Jefferson City, Missouri

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

Perkins Coie, LLP
Attorneys at Law
Timberland Counsel
Bob Maynard
Boise, Idaho

MASTER CUSTODIAN
Mellon Trust
Primary Custodian
Doug Cook, Eleanor Amidon
Boston, Massachusetts

INVESTMENT MANAGEMENT CONSULTANTS
Summit Strategies Group
General Asset Consultant
Steve Holmes, Tom Pollihan
St. Louis, Missouri

TimberLink, LLC
Timberland Consultant
Kate Robie, Gary Myers
Atlanta, Georgia

RISK MANAGEMENT CONSULTANTS
Charlesworth & Associates, LC
Art Charlesworth, Bob Charlesworth
Overland Park, Kansas

THIRD-PARTY ADMINISTRATORS
The Standard Insurance Company
Disability and Life Insurance
Tom Trussell
Overland Park, Kansas

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

SECURITIES LENDING ADVISORS
Credit Suisse
Dwight Skerritt
New York, New York

INVESTMENT ADVISORS
Aetos Capital. LLC
Michael Klein, Anne Casscells
New York, New York
Mehlo Park, CA

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

AQR Capital Management
Clifford Asness, David Kabiller
Greenwich, Connecticut

Barclays Global Investors
David Cvengros
San Francisco, California

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

Blackstone Group
Tom Hill, Hal Lindquist, Darcy Bradbury,
Gary Sumers, Ken Whitney
New York, New York

Blakeney Management
James Graham-Maw, Miles Morland
London, England

Blum Capital Partners, LP
N. Colin Lind, Jeff Cozad
San Francisco, California

Bridgepoint Capital Limited
William Jackson, Graham Dewhirst
London, England

Bridgewater Associates, Inc.
Joel Whidden, Tom Bachner
Westport, Connecticut

INVESTMENT ADVISORS CONTINUED

Bush O'Donnell
Jim O'Donnell, Mark Reed
St. Louis, Missouri

The Campbell Group
John Gilleland, Julie Lawrence
Portland, Oregon

Capital Guardian Trust Company
Andy Barth, Mike Nyeholt
Los Angeles, California

Catterton Partners
J. Michael Chu, Mark Sirinyan,
John Scerbo, Scott Danke
Greenwich, Connecticut

DDJ Capital Management, LLC
Mike Forrester, David Breazzano, Judy Mencher
Wellesley, Massachusetts

Dimensional Fund Advisors, Inc.
Rex Sinquefield, Carol Wardlaw, Bob Deere
Santa Monica, California

GFI Energy Ventures, LLC
Larry Gilson
Los Angeles, California

Global Forest Partners
Peter Mertz, Tom Goodrich
West Lebanon, New Hampshire

Grantham, Mayo, Van Otterloo & Co, LLC
Carolyn Nelson, Arjun Divecha
Boston, Massachusetts

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

JLL Partners
Paul Levy, Ramsey Frank
New York, New York

Legg Mason Capital Management, Inc.
Kyle Prechtl Legg, Tim McGurkin
Baltimore, Maryland

Leuthold Weeden Capital Management
John Mueller, Eric Bjorgen
Minneapolis, Minnesota

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

Merit Energy
Bill Gayden, Terry Gottberg
Dallas, Texas

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

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

Oaktree Capital Management, LLC
Howard Marks, Bruce Karsh,
Steve Kaplan, Greg Brandner
Los Angeles, California

Pacific Alternative Asset Management Company
Jane Buchan, Kevin Williams
Irvine, California

Parish Capital Advisors, LLC
James Mason, Gabriele Bowers Jackson
Chapel Hill, North Carolina

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

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

Silchester International Investors
Christopher Cowie, Stephen Butt
London, England

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

Silver Creek Capital
Eric Dillon, Byran Weeks
Seatlle, Washington

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

Veritas Capital
Bob McKeon, Ramzi Musallam, Tom Campbell
New York, New York

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

FINANCIAL SECTION

FINANCIAL SECTION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

MOSERS®
Missouri State Employees' Retirement System

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October 17, 2006

Management has prepared the basic financial statements of the Missouri State Employees' Retirement System (MOSERS) and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform with U.S. generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and annual report rests with the board of trustees. The executive director and the rest of MOSERS' staff assist the board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training of employees, the establishment of an organizational structure, and the communications of policies and guidelines throughout the organization. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the board of trustees.

The system's external auditors, Williams-Keepers LLC, have conducted an independent audit of the basic financial statements in accordance with U.S. generally accepted auditing standards. This audit is described in their Independent Auditors' Report on page 20. Management has provided the external auditors with full and unrestricted access to MOSERS' staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.

Gary Findlay	Gary Irwin
Executive Director	Chief Finance Officer

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INDEPENDENT AUDITOR'S REPORT

WILLIAMS KEEPERS LLC
105 E Ash • PO Box 938 • Columbia, MO 65205 • 573/442-6171 • 573/449=5196 fax
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
COLUMBIA
JEFFERSON CITY
MEXICO

The Board of Trustees
Missouri State Employees' Retirement System

We have audited the accompanying basic financial statements of the Missouri State Employees' Retirement System (MOSERS), a component unit of the state of Missouri, as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. We have also audited the financial statements of MOSERS' internal service fund as of and for the year ended June 30, 2006, as displayed in MOSERS' basic financial statements. These financial statements are the responsibility of MOSERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide 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 MOSERS, as well as MOSERS' internal service fund, as of June 30, 2006, and the respective changes in financial position and cashflows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the schedules of funding progress and employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information for the year ended June 30, 2006. However, we did not audit the information and express no opinion on it. Limited procedures were applied by other auditors to the required supplementary information for the years ended June 30, 2005, 2004, 2003, 2002, and 2001.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of MOSERS. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory, investment, actuarial, and statistical sections 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.

Williams Keepers LLC

August 17, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Required Supplementary Information

The basic financial statements contained in this section of the Comprehensive Annual Financial Report consist of:

The ***Statements of Plan Net Assets***, which report the pension trust funds assets, liabilities, and resulted net assets where Assets – Liabilities = Net Assets available at the end of the fiscal year. It can be thought of as a snapshot of the financial position of the pension trust funds of MOSERS at that specific point in time.

The ***Statements of Changes in Plan Net Assets*** which summarize the pension fund financial transactions that have occurred during the fiscal year where Additions – Deductions = Net Change in Net Assets. It supports the change that has occurred to the prior year's net asset value on the *Statements of Plan Net Assets*.

The ***Balance Sheet*** of the internal service fund is similar to the *Statements of Plan Net Assets* in that it also is a snapshot of the financial position of the internal service fund where Assets = Liabilities + Net Assets.

The ***Statement of Revenues, Expenses, and Changes in Net Assets*** of the internal service fund is similar to the *Statement of Changes in Plan Net Assets* in that it also reports the financial activity that occurred over the period of the fiscal year where Revenues – Expenses = Net Revenue and supports the change to the prior year's net assets.

The ***Statement of Cash Flows*** of the internal service fund reports the financial transactions for the fiscal year of the internal service fund on a cash basis. It is similar to the *Statement of Revenues, Expenses, and Changes in Net Assets*; however, the focus of this statement is on the change to cash balances with accrued income and accrued expense items eliminated.

The ***Notes to the Financial Statements*** are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.

This *Required Supplementary Management Discussion and Analysis* information and the required supplementary information and other schedules following the *Notes to the Financial Statements* provide historical and detailed information considered useful in evaluating the condition of the plans administered by MOSERS.

Pages 22-25 contain summary comparative statements of MOSERS' pension trust funds and internal service fund and provide additional analysis of the changes noted on those schedules.

PENSION TRUST FUNDS

MOSERS' overall financial condition improved during the fiscal year ended June 30, 2006. Pension funds net assets increased by $561,899,007 during the fiscal year ended June 30, 2006, primarily as result of the investment earnings of the funds. The investments of the pension trust funds generated a 11.5% return for the year. The funded status of the pension plans increased by .4% for the MSEP and 1.6% for the Judicial Plan.

The internal service funds net assets increased by $33,926. The goal of the internal service fund is to maintain the fund at a level that enables it to meet its obligations of contracting the premiums for the life and long-term disability benefits for state employees at a reasonable cost and maintaining the membership data necessary to track the premiums due from the state and its employees and payable to the insurance carrier.

The following schedules present comparative summary financial statements of the pension trust funds and internal service fund for FY05 and FY06. Following each schedule is a brief summary of the significant changes noted in those schedules.

Pension Trust Funds
Summary Comparative Statements of Plan Net Assets

	As of June 30, 2006	As of June 30, 2005	Amount of Change	Percentage Change
Cash and short-term investments	$ 688,443,267	$ 560,860,102	$ 127,583,165	22.75%
Receivables	196,389,135	574,826,045	(378,436,910)	(65.84)
Investments	6,399,798,514	5,954,341,320	445,457,194	7.48
Invested securities lending collateral	1,152,399,706	1,099,841,751	52,557,955	4.78
Capital assets	3,275,118	3,456,840	(181,722)	(5.26)
Other assets	53,673	43,815	9,858	22.50
Total assets	8,440,359,413	8,193,369,873	246,989,540	3.01
Administrative expense payables	1,949,676	2,063,202	(113,526)	(5.50)
Investment purchase payables	224,570,235	588,670,755	(364,100,520)	(61.85)
Securities lending collateral	1,152,189,688	1,099,608,477	52,581,211	4.78
Other liabilities	20,183,196	23,459,828	(3,276,632)	(13.97)
Total liabilities	1,398,892,795	1,713,802,262	(314,909,467)	(18.37)
Net assets	$7,041,466,618	$6,479,567,611	$ 561,899,007	8.67%

Summary Comparable Statements of Plan Net Assets Analysis
The increase in cash and short-term investments is primarily attributable to normal fluctuations in the short-term investments. For the year ended June 30, 2006, the month-end balance of short-term investments ranged from a low of $514,808,037 in September 2005, to a high of $804,198,182 in May 2006, with an average balance of $672,749,764 for the year.

The decrease in receivables is attributable to normal fluctuations in investment sales receivables during the year. For the year ended June 30, 2006, the month-end balance of investment sales receivables ranged from a low of $151,185,380 in February 2006, to a high of $427,659,195 in September 2005, with an average investment sales receivable balance of $279,368,190.

The increase in the fair value of investments is primarily attributable to the generally favorable market conditions experienced during FY06 as evidenced by MOSERS' total investment return for the year of 11.5%. Detailed information regarding MOSERS' investment portfolio is included in the Investment Section of this report.

The increase in security lending collateral is due to normal fluctuations in the lending program. The month-end collateral balances ranged from a low of $1,101,895,337 in August 2005, to a high of $1,256,340,531 in February 2006, with an average balance of $1,187,517,914 for the year. The investment of the collateral fluctuated in a similar manner except that, since a portion of the collateral is invested in corporate bonds, the invested collateral benefited from the market gains on those bonds.

The decrease in capital assets was primarily due to the sale of equipment that had exceeded its estimated useful life.

The increase in other assets is primarily due to the fluctuation in the amount maintained in prepaid postage. For the year ended June 30, 2006, the month-end balance of prepaid postage ranged from a low of $4,484 in September 2005, to a high of $89,697 in October 2005, with an average month-end balance in prepaid postage of $48,852.

The decrease in administrative expense payables is primarily attributable to the normal fluctuation in the investment fees payable. During the year, the month-end balance of investment manager fees payable ranged from a low of $1,354,675 in November 2005, to a high of $2,221,857 in April 2006, with an average month-end balance of $1,772,252 for the year.

The decrease in investment purchases payable is due to normal fluctuations in the amount of security purchases pending settlement at month-end. For the year ended June 30, 2006, the month-end balances of the investment purchase payables ranged from a low of $141,759,161 in February 2006, to a high of $467,189,709 in August 2005, with an average balance of $300,969,330 for the year.

The decrease in other liabilities is primarily attributable to the adjustment in the amount due for the investment manager incentive fees during the year. The amount represents the portion of the incentive fee calculated as earned through June 30, 2006, to be paid in the future subject to the investment managers' attainment of certain long-term performance measures.

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	Amount of Change	Percentage Change
Contributions	$ 252,868,692	$ 221,653,366	$ 31,215,326	14.08%
Investment income				
Investing activities	730,783,761	731,556,657	(772,896)	(0.11)
Investment income				
Securities lending activities	3,676,741	3,251,139	425,602	13.09
Miscellaneous income	505,597	1,244,302	(738,705)	(59.37)
Total additions	987,834,791	957,705,464	30,129,327	3.15
Benefits	419,261,150	386,576,891	32,684,259	8.45
Contribution refunds	1,341	0	1,341	100.00
Service transfers	133,866	199,201	(65,335)	(32.80)
Administrative expenses	6,539,427	6,292,548	246,879	3.92
Total deductions	425,935,784	393,068,640	32,867,144	8.36
Net increase (decrease)	561,899,007	564,636,824	(2,737,817)	(0.48)
Net assets beginning of year	6,479,567,611	5,914,930,787	564,636,824	9.55
Net assets end of year	$7,041,466,618	$6,479,567,611	$561,899,007	8.67%

Summary Comparable Statements of Changes in Plan Net Assets Analysis

The increase in contributions received is primarily attributable to an increase in the contribution rate for the general employees group from 10.64% to 12.59%.

The decrease in investment income in FY06 over FY05 is attributable to general fluctuations in the overall returns of the investments of the fund. The increase in security lending income was primarily attributed to the increased utilization of MOSERS' domestic equity securities. The average utilization in FY05 was 31.9% while 2006 utilization was 44% due to attractiveness of these particular securities from a borrower standpoint. In addition, the average lendable assets increased across all asset classes due to some portfolio restructuring and overall growth of the total fund. Additional information regarding the security lending activity can be found in the Investment Section of this report.

Benefit payments increased due to changes in benefit rolls for the year. Detailed schedules of changes can be found on pages 108-113 of the Actuarial Section of this report.

Service transfers decreased primarily due to normal fluctuations in the amount of transfers processed, which are dependent on the number of members electing to transfer their service and the cost of that service transferred.

Administration expenses increased primarily due to increased salary and fringe benefits cost of $104,482, increased professional services of $74,774, and increased communication costs of $72,004.

Internal Service Fund
Summary Comparative Balance Sheets

	As of June 30, 2006	As of June 30, 2005	Amount of Change	Percentage Change
Premiums receivable	$ 972,669	$1,036,597	$ (63,928)	(6.17)%
Investments	2,051,203	1,942,452	108,751	5.60
Total assets	$3,023,872	$2,979,049	$ 44,823	1.50
Premiums payable	$2,410,331	$2,496,903	$ (86,572)	(3.47)
Other liabilities	242,970	145,501	97,469	66.99
Total liabilities	2,653,301	2,642,404	10,897	0.41
Unrestricted net assets	370,571	336,645	33,926	10.08
Total liabilities and net assets	$3,023,872	$2,979,049	$ 44,823	1.50%

Summary Comparative Balance Sheets Analysis
Premiums receivable decreased due to a reduction in premium rates and less premiums remaining uncollected at the end of FY06.

Investments increased over the previous year-end balance as a function of less premiums remaining uncollected at year end plus the increase in fund balance from the additional earnings on the funds throughout the year.

Premiums payables decreased due to a reduction in the premium rates.

Other liabilities increased primarily as a result of the reimbursements due to the pension trust funds for the internal service fund's portion of shared expenses.

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	Amount of Change	Percentage Change
Premium receipts	$26,415,236	$27,305,305	$(890,069)	(3.26)%
Miscellaneous income	436,501	436,489	12	0.00
Total operating revenue	26,851,737	27,741,794	(890,057)	(3.21)
Premium disbursements	26,379,919	27,271,948	(892,029)	(3.27)
Premium refunds	35,317	33,357	1,960	5.88
Administrative expenses	487,699	466,531	21,168	4.54
Total operating expenses	26,902,935	27,771,836	(868,901)	(3.13)
Net operating income (loss)	(51,198)	(30,042)	(21,156)	70.42
Investment income	85,124	49,326	35,798	72.57
Net revenues over expenses	33,926	19,284	14,642	75.93
Net assets beginning of year	336,645	317,361	19,284	6.08
Net assets end of year	$ 370,571	$ 336,645	$ 33,926	10.08

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets Analysis
Premium receipts and disbursements decreased due a reduction in premium rates and normal fluctuations in the amount of optional life insurance coverage selected by state employees.

Refunds increased as a result of normal fluctuations in the amount of premium refunds issued to correct processing errors.

Administrative expenses increased primarily due to an increase in salary and fringes of $20,838.

Investment income increased primarily due to the increase in the 90-day treasury bill rates during the fiscal year.

Summary Comparative Statements of Cash Flows

	Year Ended June 30, 2006	Year Ended June 30, 2005	Amount of Change	Percentage Change
Cash flows from operating activities	$ 21,465	$ 132,574	$(111,109)	83.81%
Cash flows from noncapital financing activities	2,162	(2,261)	4,423	195.62
Cash flows from investing activities	(23,627)	(130,313)	106,686	(81.87)
Net change in cash	0	0	0	
Cash balances beginning of year	0	0	0	
Cash balances end of year	$ 0	$ 0	$ 0	

Summary Comparative Statements of Cash Flows Analysis
The decrease in cash flows from operating activities is primarily attributable to the decrease in premiums received and disbursed to the insurance company.

The increase in cash flows from noncapital financing activities is primarily attributable to an increase in the amount premium refund checks that remained outstanding at the end of FY06 over that of FY05.

The increase in cash flows from investing activities is primarily attributable to an increase in the cash flows from net purchase and maturities of overnight repurchase agreements of $70,888 plus an increase in the investment income received of $35,798.

STATEMENTS OF PLAN NET ASSETS

Pension Trust Funds - As of June 30, 2006

	MSEP	Judicial Plan	Total
Assets			
Cash and short-term investments	$ 682,881,497	$ 5,561,770	$ 688,443,267
Receivables			
State contributions	10,329,992	933,596	11,263,588
Investment income	11,283,853	91,902	11,375,755
Investment sales	172,110,080	1,401,761	173,511,841
Other	236,029	1,922	237,951
Total receivables	193,959,954	2,429,181	196,389,135
Investments at fair value			
U.S. treasury securities	712,356,345	5,801,829	718,158,174
Corporate bonds	490,928,768	3,998,399	494,927,167
Convertible bonds	7,323,768	59,649	7,383,417
Government bonds & gov't mortgage-backed securities	218,135,308	1,776,616	219,911,924
Real estate equity	728,105	5,930	734,035
Common stock	802,732,033	6,537,900	809,269,933
Preferred stock	8,474,269	69,019	8,543,288
Limited partnerships	2,633,772,539	21,450,920	2,655,223,459
Real estate investment trust	110,640,377	901,117	111,541,494
Collateralized mortgage obligations	10,102,554	82,281	10,184,835
Foreign currency	96,865,366	788,926	97,654,292
International equities	1,215,793,960	9,902,107	1,225,696,067
U.S. dollar-denominated international corporate bonds	40,242,670	327,759	40,570,429
Total investments	6,348,096,062	51,702,452	6,399,798,514
Securities lending collateral	1,143,089,743	9,309,963	1,152,399,706
Capital assets			
Land	265,127	2,159	267,286
Building and building improvements	3,337,245	27,180	3,364,425
Furniture, fixtures, and equipment	1,606,565	13,085	1,619,650
Total capital assets	5,208,937	42,424	5,251,361
Accumulated depreciation	(1,960,277)	(15,966)	(1,976,243)
Net capital assets	3,248,660	26,458	3,275,118
Prepaid expenses and other	53,239	434	53,673
Total assets	8,371,329,155	69,030,258	8,440,359,413
Liabilities			
Administrative expense payables	1,933,925	15,751	1,949,676
Investment purchases payables	222,755,985	1,814,250	224,570,235
Securities lending collateral	1,142,881,421	9,308,267	1,152,189,688
Investment incentive fees payable	19,697,274	160,426	19,857,700
Employee vacation and overtime liability	322,866	2,630	325,496
Total liabilities	1,387,591,471	11,301,324	1,398,892,795
Net assets held in trust for pension benefits	$6,983,737,684	$57,728,934	$7,041,466,618

(A schedule of funding progress for each plan is presented on page 43.)
See accompanying *Notes to the Financial Statements*.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Pension Trust Funds -Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Additions			
Contributions			
State contributions	$ 227,233,195	$22,401,569	$ 249,634,764
Member purchases of service credit	3,072,315	0	3,072,315
Service transfer contributions	161,613	0	161,613
Total contributions	230,467,123	22,401,569	252,868,692
Investment income			
From investing activities			
Net appreciation in fair value of investments	525,854,603	4,282,855	530,137,458
Interest	146,906,913	1,196,492	148,103,405
Dividends	39,728,768	323,573	40,052,341
Other	92,136,447	750,411	92,886,858
Total investing activity income	804,626,731	6,553,331	811,180,062
Investing activity expenses			
Management fees	(75,820,847)	(617,527)	(76,438,374)
Custody fees	(887,441)	(7,228)	(894,669)
Consultant fees	(692,679)	(5,642)	(698,321)
Performance measurement fees	(340,983)	(2,777)	(343,760)
Internal investment activity expenses	(2,004,848)	(16,329)	(2,021,177)
Total investing activity expenses	(79,746,798)	(649,503)	(80,396,301)
Net income from investing activities	724,879,933	5,903,828	730,783,761
From securities lending activities			
Securities lending income	53,139,780	432,800	53,572,580
Securities lending expenses			
Borrower rebates	(48,700,106)	(396,641)	(49,096,747)
Management fees	(792,636)	(6,456)	(799,092)
Total securities lending activities expenses	(49,492,742)	(403,097)	(49,895,839)
Net income from securities lending activities	3,647,038	29,703	3,676,741
Total net investment income	728,526,971	5,933,531	734,460,502
Miscellaneous income	501,512	4,085	505,597
Total additions	959,495,606	28,339,185	987,834,791
Deductions			
Benefits	365,456,615	19,091,587	384,548,202
BackDROP & lump sum benefits	34,712,948	0	34,712,948
Service transfer payments	133,866	0	133,866
Contribution refunds	1,341	0	1,341
Administrative expenses	6,486,597	52,830	6,539,427
Total deductions	406,791,367	19,144,417	425,935,784
Net increase	552,704,239	9,194,768	561,899,007
Net assets held in trust for pension benefits			
Beginning of year	6,431,033,445	48,534,166	6,479,567,611
End of year	$6,983,737,684	$57,728,934	$7,041,466,618

See accompanying *Notes to the Financial Statements*.

BALANCE SHEET
Internal Service Fund - As of June 30, 2006

Assets	
Premiums receivable	$ 972,669
Investments at fair value	2,051,203
Total assets	$3,023,872
Liabilities and net assets	
Liabilities	
Premiums payable	$2,410,331
Checks outstanding net of deposits	2,459
Other	240,511
Total liabilities	2,653,301
Unrestricted net assets	370,571
Total liabilities and net assets	$3,023,872

See accompanying *Notes to the Financial Statements*.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN PLAN NET ASSETS

Internal Service Fund - Year Ended June 30, 2006

Operating revenues	
Premium receipts	$26,415,236
Miscellaneous income	436,501
Total operating revenues	26,851,737
Operating expenses	
Premium disbursements	26,379,919
Premium refunds	35,317
Administrative expenses	487,699
Total operating expenses	26,902,935
Operating revenues under operating expenses	(51,198)
Nonoperating revenues	
Investment income	85,124
Net revenues over expenses	33,926
Net assets beginning of year	336,645
Net assets end of year	$ 370,571

See accompanying *Notes to the Financial Statements*.

STATEMENT OF CASH FLOWS
Internal Service Fund - Year Ended June 30, 2006

Cash flows from operating activities	
Cash received from employer and members	$ 26,915,775
Miscellaneous income	12
Premium payments to outside carriers	(26,466,491)
Refunds of premiums to members	(35,317)
Cash payments to employees for services	(225,316)
Cash payments to other suppliers of goods and services	(167,198)
Net cash provided by operating activities	21,465
Cash flows from noncapital financing activities	
Implicit funding of checks outstanding net of deposits	2,459
Implicit repayment of prior years checks outstanding net of deposits	(297)
Net cash provided by noncapital financing activities	2,162
Cash flows from investing activities	
Purchase of investment securities	(485,731,197)
Proceeds from sale and maturities of investment securities	485,622,446
Cash received from investment income	85,124
Net cash used in investing activities	(23,627)
Net increase in cash	0
Cash balances June 30, 2005	0
Cash balances June 30, 2006	$ 0
Reconciliation of operating revenues under operating expenses to net cash provided by operating activities	
Operating revenues under operating expenses	$ (51,198)
Adjustments to reconcile operating revenues under operating expenses to net cash provided by operating activities	
Change in assets and liabilities:	
Decease in operational accounts receivable	64,051
Increase in operational accounts payable	8,612
Total adjustments	72,663
Net cash provided by operating activities	$ 21,465

See accompanying *Notes to the Financial Statements*.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2006

(1) PLAN DESCRIPTIONS

Missouri State Employees' Plan (MSEP)

The MSEP is a single-employer, public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000 (new plan), which are administered by the Missouri State Employees' Retirement System (MOSERS) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the system are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo.

Responsibility for the operation and administration of the system is vested in MOSERS' board of trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Generally, all full-time state employees hired before July 2000, who were not covered under another state-sponsored retirement plan are eligible for membership in the MSEP (closed plan). All full-time state employees hired after July 2000 are eligible for membership in the MSEP 2000 (new plan). MOSERS participates as an employer in the MSEP.

Prospective Plan Termination

On April 26, 2005, Governor Matt Blunt signed into law Senate Bill 202, et al that terminated the Administrative Law Judges and Legal Advisors' Plan (ALJLAP) for new hires only. Individuals appointed or employed as administrative law judges or legal advisors in the Division of Workers' Compensation, members of the Labor and Industrial Relations Commission and their attorneys, the chairperson of the State Board of Mediation, and administrative hearing commissioners were previously eligible for membership in the ALJAP. Under this legislation, individuals who assume a position after April 26, 2005, who would have otherwise been covered by the ALJLAP will instead participate in the MSEP or the MSEP 2000, depending on when they initially became state employees. This legislation did not impact anyone serving in (or who had served in) a position covered by the ALJLAP prior to the effective date of the legislation. During FY05, all liabilities and assets of the ALJLAP were transferred and combined with the MSEP. Membership totals for ALJLAP members are reflected as combined with the MSEP in all relevant sections of this report.

As of the June 30, 2006 valuation, membership in the MSEP consisted of the following:

Retirees and beneficiaries currently receiving benefits		27,052
Terminated employees entitled to, but not yet receiving benefits		15,764
Active		
Vested	36,858	
Nonvested	17,635	54,493
Total membership		97,309

The MSEP provides retirement, survivor, and disability benefits.

MSEP (closed plan)

General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP (closed plan), general employees may retire with full benefits upon the earliest of attaining:

- Age 65 and active with 4 years of service;
- Age 65 with 5 years of service;
- Age 60 with 15 years of service; or
- Age 48 with age and service equaling 80 or more "Rule of 80".

General employees may retire early at age 55 with at least 10 years of service with reduced benefits.

The base benefit in the general employee plan is equal to 1.6% multiplied by the final average pay multiplied by years of credited service.

For members hired prior to August 28, 1997, cost-of-living adjustments (COLAs) are provided annually based on 80% of the change in the consumer price index (CPI) with a minimum rate of 4% and maximum rate of 5% until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least five, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

Administration of the MSEP is financed through contributions to this plan from the state of Missouri.

MSEP 2000 (new plan)
General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP 2000 (new plan), general employees may retire with full benefits upon the earliest of attaining:

- Age 62 with 5 years of service; or
- Age 48 with age and service equaling 80 or more "Rule of 80".

General employees may retire early at age 57 with at least 5 years of service with reduced benefits.

The base benefit in the general employee plan is equal to 1.7% multiplied by final average pay multiplied by years of credited service. For those retiring under "Rule of 80," an additional temporary benefit equivalent to 0.8% multiplied by final average pay multiplied by years of credited service is payable until age 62.

COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

Contributions are determined through annual actuarial valuations. Administration of the MSEP 2000 is financed through contributions to this plan from the state of Missouri.

For a more detailed summary of benefits for general employees and a description of benefits available to legislators and elected officials under the MSEP (closed plan) and the MSEP 2000 (new plan), refer to the *Summary of Plan Provisions* contained in the Actuarial Section of this report.

The state of Missouri is required to make all contributions to the MSEP. Prior to September 1, 1972, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest through August 28, 1997, are refundable to the member or designated beneficiaries upon request.

Judicial Plan
The Judicial Plan is a single-employer, public employee retirement plan administered in accordance with Sections 476.445 to 476.690, RSMo. Responsibility for the operation and administration of the Judicial Plan is vested in MOSERS' board of trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Judicial Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Judges and commissioners of the supreme court or the court of appeals, judges of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, a justice of the peace, or a commissioner or deputy commissioner of the circuit court appointed after February 29, 1972, are eligible for membership in the Judicial Plan.

As of the June 30, 2006 valuation, membership in the Judicial Plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		398
Terminated employees entitled to, but not yet receiving benefits		65
Active		
Vested	394	
Nonvested	0	394
Total membership		857

The Judicial Plan provides retirement, death, and disability benefits. Members are immediately eligible for benefits.

Under the Judicial Plan, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service;
- Age 60 with 15 years of service; or
- Age 55 with 20 years of service.

Employees may retire early at age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit that is based upon years of service relative to 12 or 15 years.

In the Judicial Plan, the base benefit for members with 12 or more years of service is equivalent to 50% of compensation on the highest court served.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI with a minimum rate of 4% and maximum rate of 5% until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

For a more detailed summary of benefits for members of the Judicial Plan, refer to the *Summary of Plan Provisions* contained in the Actuarial Section of this report.

Funding of the Judicial Plan on an actuarial basis began on July 1, 1998. The state of Missouri is required to make all contributions to the Judicial Plan. Administration of the Judicial Plan is financed through contributions to this plan from the state of Missouri.

Missouri State Defined Contribution Insurance Plan

The Missouri State Defined Contribution Insurance Plan is accounted for as an internal service fund of the state of Missouri and is administered by MOSERS. It provides basic life insurance in an amount equal to one times annual salary while actively employed (with a $15,000 minimum) to:

- Eligible members of the MSEP and MSEP 2000 (except employees of the Missouri Department of Conservation and certain state colleges and universities).
- Members of the Judicial Plan and certain members of the Public School Retirement System.

The plan also provides duty-related death benefits, optional life insurance for active employees and retirees who are eligible for basic coverage, and a long-term disability plan for certain eligible members.

For a more detailed description of insurance benefits, refer to the *Summary of Plan Provisions-Life Insurance Plans* in the Actuarial Section of this report.

Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Missouri State Defined Contribution Insurance Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as an internal service fund. Administration of the Missouri State Defined Contribution Insurance Plan is financed through contributions to this plan from the state of Missouri.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting

The financial statements of the MSEP, the Judicial Plan, and the Missouri State Defined Contribution Insurance Plan were prepared using the accrual basis of accounting.

Contributions are due to MOSERS when employee services have been performed and paid. Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made. The direct method of reporting cash flows is used.

Cash

The board has no formal policy specific to custodial credit risk. Custodial credit risk for cash deposits and investments is the risk that in the event of a bank failure, the system and plans' deposits may not be returned to them. The system mitigates custodial credit risk for deposits and investments by requiring the bank to pledge securities from an acceptable list in an amount over the FDIC insured amount of at least equal in market value to 100% of the aggregate amount of the deposits. These securities are required to be delivered to a third-party institution mutually agreed upon by the bank and MOSERS. The deposits are held in one financial institution with a balance of up to $100,000 insured by the Federal Deposit Insurance Corporation (FDIC).

Cash balances represent both operating cash accounts held by the banks and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the balance sheet of the internal service fund and included in the cash and short-term investments on the *Statements of Plan Net Assets* of the pension trust funds. The table (above right) is a schedule of the aggregate book and bank balances of all cash accounts. In addition to the FDIC insurance coverage on the accounts of MOSERS, the Central Trust Bank pledged the following securities to MOSERS on June 30, 2006, as collateral for overnight repurchase agreements:

- $500,000 Federal Farm Credit Bank – callable Maturity Date 04/16/2008
- $500,000 Federal National Mortgage Assoc. Float Rate Note Maturity Date 12/11/2006
- $2,813,758 Small Business Association Pool #504192 Maturity date 04/25/2012
- $1,000,000 Small Business Association Pool #505430 Maturity Date 08/25/2019
- $1,000,000 Small Business Association Pool #505624 Maturity Date 09/25/2021
- $1,250,000 Small Business Association Pool #507184 Maturity Date 08/25/2018

	Cash Balances	
	Book	Bank/Investment Custodian
Pension Trust Funds	$22,622,754	$32,888,387
Internal Service Fund	(2,459)	297

Method Used to Value Investments

Section 104.440, RSMo allows the board of trustees to invest the trust fund assets in accordance with the prudent person rule. Investments of the pension trust funds and the internal service fund are reported at fair value.

The schedule on page 40 provides a summary of the fair values of the investments as reported on the *Statements of Plan Net Assets* of the pension trust funds and balance sheet of the internal service fund. Fair values for the equity real estate investments are based on appraisals. Fair values of the limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Fair value of the commingled funds are determined based on the underlying asset values. The remaining assets are primarily valued by the investment custodian using the last trade price information supplied by various pricing data vendors.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOSERS. As of June 30, 2006, MOSERS' fixed income assets that are not government-guaranteed represented 77.3% of the fixed income portfolio. In preparing this report, credit risk associated with all fixed income holdings including collateral for repurchase agreements and securities lending collateral has been included. The following tables on page 35 summarize MOSERS' fixed income portfolio exposure levels and credit qualities.

As a matter of practice, there are no overarching limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality of overall portfolios. A quality rating of D is not permissible in any of the guidelines except in those circumstances of downgrades subsequent to purchase (as is the case with the current exposure of $109,067), in which the investment manager has been given permission to hold the security usually due to mitigating circumstances such as a very short maturity or a much higher rating from one of the other ratings agencies, among others.

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Market Value June 30, 2006	Percent of All Fixed Income Assets	Weighted Average Credit Quality	Ratings Dispersion Requiring Further Disclosure
Mortgages	$ 148,756,287	4.4%	Agency	See below
Agencies	164,500,276	4.9	Agency	None
Collateralized mortgage obligations	29,366,102	0.9	Agency	See below
Asset-backed securities	201,991,413	6.0	AAA	See below
Corporate bonds	1,584,836,714	47.3	A	See below
Bank loans	24,538,471	0.7	Not rated	None
Commercial paper	247,474,405	7.4	Tier 2	See below
Preferred stock	61,912,289	1.8	AAA	See below
Pooled investments	126,801,193	3.8	Not rated	None
Total nongov't guaranteed securities	$2,590,177,150	77.3%		
Total fixed income securities	$3,351,805,328			

Ratings Dispersion Detail – Market Value

Credit Rating Level	Collateralized Mortgage Obligations	Asset-Backed Securities	Corporate Bonds	Commercial Paper	Preferred Stock	Mortgages
Agency	$21,897,646	$ 13,996,264				$144,447,504
AAA	7,468,456	179,047,350	$ 350,475,972		$61,200,000	4,308,783
AA		7,452,378	405,925,281			
A			495,783,183			
BBB			35,250,323			
BB		1,495,421	106,014,407		704,250	
B			168,976,401			
CCC			15,438,930		8,039	
CC						
C						
D			109,067			
Tier 1				$ 14,596,351		
Tier 2				232,878,054		
Not rated			6,863,150			
Total	$29,366,102	$201,991,413	$1,584,836,714	$247,474,405	$61,912,289	$148,756,287

Credit risk for derivative instruments held by the system results from counterparty risk assumed by MOSERS. This is essentially the risk that the counterparty to a MOSERS' transaction will be unable to meet its obligation. Information regarding MOSERS' credit risk related to derivatives is found under the derivatives disclosures found on pages 38-39 of these notes.

Policies related to credit risk pertaining to MOSERS' securities lending program is found under the securities lending disclosures found on page 39 of these notes.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single-issuer. There is no single-issuer exposure within the MOSERS' portfolio that comprises 5% or more of the overall portfolio and, therefore, there is no concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of interest rate changes. This methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. The modified duration method is used for bank loans because the technology is not available to calculate effective duration. Considering the segment's minimal size, the different methodology has virtually no effect on overall results. All of the system's fixed income portfolios are managed in accordance with operational guidelines that specify the degree of interest rate risk taken. In any circumstance where interest rate risk is implied it is specifically indicated in the guidelines that credit risk is more prominent in the portfolio. It is believed that the reporting of effective duration found in the tables below quantifies to the fullest extent possible the interest rate risk of the system's fixed income assets. Floating rate assets that are structurally complex and contain inappropriate coupon adjustment mechanisms are expressly forbidden by the guidelines and are not present in any of the portfolios.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2006	Percent of All Fixed Income Assets	Weighted Average Effective Duration (Years)	Interest Rate Risk Requiring Future Disclosure
U.S. treasuries	$ 761,566,265	22.7%	7.3	See below
Government guaranteed mortgages	61,914	0.0	2.9	None
Mortgages	148,756,287	4.4	4.5	None
Agencies	164,500,276	4.9	3.9	None
Collateralized mortgage obligations	29,366,102	0.9	2.2	None
Asset-backed securities	201,991,413	6.0	0.7	None
Corporate bonds	1,584,836,714	47.4	1.0	None
Bank loans	24,538,471	0.7	3.7	None
Commercial paper	247,474,405	7.4	0.1	None
Preferred stock	61,912,289	1.8	0.2	None
Pooled investments	126,801,193	3.8	0.1	None
	$ 3,351,805,329	100.0%	2.6	

Effective Duration Analysis of U.S. Treasuries

Fixed Income Security Type	Market Value June 30, 2006	Average Effective Duration of the Security Type	Contribution to Effective Duration
Less than 1 year to maturity	$ 64,271,164	0.3	0.0
1 to 10 year maturities	363,629,129	4.9	1.7
Long-coupon treasuries	246,681,705	10.6	3.4
Long-stripped treasuries	86,984,267	18.5	2.1
	$761,566,265		7.3

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. MOSERS' currency risk exposures, or exchange rate risk, primarily reside within MOSERS' international equity investment holdings. MOSERS' implementation policy is to allow MOSERS' external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts. MOSERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2006, is highlighted in the table below.

Currency Exposures by Asset Class

Currency	Cash & Cash Equivalents	Equities	Fixed Income	Alternatives	Total
Argentine Peso	$ 27,934				$ 27,934
Australian Dollar	481,856	$ 17,782,904			18,264,760
Brazilian Real	88,709	22,276,986			22,365,695
Canadian Dollar	1,342,077	50,969,400			52,311,477
Chilean Peso	9				9
Czech Koruna	14				14
Danish Krone		13,196,935			13,196,935
Egyptian Pound	287	7			294
Euro	1,949,129	258,184,658		$1,601,453	261,735,240
Hong Kong Dollar	192,848	81,163,988			81,356,836
Hungarian Forint	784				784
Indian Rupee	8,884,177	4,414,245			13,298,422
Indonesian Rupiah	(1,299)	309,309			308,010
Israeli Shekel	1	901,499			901,500
Japanese Yen	169,058,205	287,521,577			456,579,782
Malaysian Ringgit	3,789,960	7,350,144			11,140,104
Mexican Peso	50	15,133,748			15,133,798
Norwegian Krone		19,264,777			19,264,777
Philippines Peso	18	752,437			752,455
Polish Zloty		168,826			168,826
Russian Ruble		18,181			18,181
Singapore Dollar	283,068	78,829,782			79,112,850
South African Rand	15	10,295,886	$ 74,384		10,370,285
South Korean Won	21,784,184	33,833,089	4,584,658		60,201,931
Sri Lankan Rupee		2,196			2,196
Swedish Krona		24,457,630			24,457,630
Swiss Franc	(1,270,335)	89,178,714	1,634,694		89,543,073
Taiwan Dollar	18,583,388	27,173,207			45,756,595
Turkish Lira	3,331	737,314			740,645
Maltese Lira		218,784			218,784
British Pound	(57,067,547)	236,177,047	924,775		180,034,275
China Renminbi	11,410,644				11,410,644
Colombian Peso	52,824				52,824
Thai Baht	401	6,216,301			6,216,702
Grand Total	$179,594,732	$1,286,529,571	$7,218,511	$1,601,453	$1,474,944,267

Futures Contracts

Futures Contract	2006 Expiration Date	Long/Short	Notional/ Fair Value	Exposure
U.S 5-year Treasury Notes	September	Short	$ (3,515,813)	$ (7,969)
U.S 2-year Treasury Notes	September	Short	(10,747,406)	(8,281)
U.S 10-year Treasury Notes	September	Long	2,411,766	10,422
Topix Index	September	Long	113,739,309	891,378
SPI 200 Index	September	Short	(14,530,616)	(228,237)
Natural Gas	July	Long	32,107,040	(163,060)
Heating Oil	July	Long	66,474,643	(710,506)
Gasoline NY UNLD	July	Long	73,153,836	(422,016)
Gas Oil	August	Long	43,140,150	16,650
FTSE 100 Index	September	Short	(45,680,186)	(202,959)
DJ Euro Stoxx 50	September	Short	(36,803,792)	(726,171)
Crude Oil	July	Long	146,307,470	811,390
Brent Crude Oil	August	Long	114,836,750	1,244,000
Total			$480,893,151	$ 504,641

Swaps

Type	MOSERS Pays	MOSERS Receives	Maturity Date	Notional Value	Exposure	Counterparty
S&P 500 Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	10/31/06	$ 252,253,174	$ (741,874)	JP Morgan Chase
Russell 2000 to Libor	Libor minus 55 bps	Russell 2000 Total Return	04/30/07	43,617,998	114,055	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 5 bps	S&P 100 Total Return	04/30/07	334,071,150	(1,957,800)	JP Morgan Chase
S&P 500 Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	10/31/06	84,969,092	(249,889)	JP Morgan Chase
Russell 2000 to Libor	Libor minus 55 bps	Russell 2000 Total Return	04/30/07	14,191,561	37,107	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 7 bps	S&P 100 Total Return	08/31/06	33,516,606	(393,964)	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 5 bps	S&P 100 Total Return	04/30/07	96,526,048	(568,772)	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 10 bps	S&P 100 Total Return	01/31/07	19,566,657	(125,920)	JP Morgan Chase
Lehman U.S. Treasury to Libor	Libor minus 12 bps	Lehman U.S. Treasury Index	01/31/07	9,306,367	(9,004)	Lehman
Lehman U.S. Treasury to Libor	Libor minus 12 bps	Lehman U.S. Treasury Index	03/30/07	152,008,426	(147,940)	Lehman
Lehman U.S. Credit to Libor	Libor plus 15 bps	Lehman U.S. Credit Index	01/31/07	24,661,514	(70,197)	Lehman
Lehman U.S. MBS Index to Libor	Libor	Lehman U.S. MBS Index	03/30/07	41,932,701	(96,473)	Lehman
Lehman U.S. MBS Index to Libor	Libor	Lehman U.S. MBS Index	09/29/06	34,999,346	(81,200)	Lehman
Lehman U.S. MBS Index to Libor	Libor plus 2 bps	Lehman U.S. MBS Index	07/01/07	32,144,791	130,496	Lehman
Lehman U.S. Agency Index to Libor	Libor plus 5 bps	Lehman U.S. Agency Index	01/31/07	3,895,791	(9,267)	Lehman
Lehman U.S. Agency Index to Libor	Libor	Lehman U.S. Agency Index	04/30/07	11,347,982	(22,782)	Lehman
Lehman U.S. Agency Index to Libor	Libor plus 4 bps	Lehman U.S. Agency Index	07/01/07	58,252,760	235,393	Lehman
Crude Oil to T-Bills	T-Bills plus 7.5 bps	Crude Oil GSCI Index	11/30/06	75,845,972	(2,016,207)	JP Morgan Chase
Brent Crude Oil to T-Bills	T-Bills plus 7.5 bps	Brent Crude Oil GSCI Index	11/30/06	80,420,249	(2,361,584)	JP Morgan Chase
Gas Oil to T-Bills	T-Bills plus 7.5 bps	Gas Oil GSCI Index	11/30/06	32,292,138	(1,000,711)	JP Morgan Chase
Gasoline to T-Bills	T-Bills plus 7.5 bps	Gasoline GSCI Index	11/30/06	51,068,278	(3,122,172)	JP Morgan Chase
Heating Oil to T-Bills	T-Bills plus 7.5 bps	Heating Oil GSCI Index	11/30/06	48,297,764	81,458	JP Morgan Chase
Natural Gas to T-Bills	T-Bills plus 7.5 bps	Natural Gas GSCI Index	11/30/06	20,017,924	1,699,960	JP Morgan Chase
GSCI Non Energy to T-Bills	T-Bills plus 28 bps	GSCI Non Energy Index	06/30/07	56,131,635	0	AIG International
Total				$1,611,335,924	$(10,677,287)	

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. While the board has no formal policy specific to derivatives, the MOSERS' investment implementation program, through its external managers, holds investments in futures contracts, swap contracts, and forward foreign currency exchange. MOSERS enters into these certain derivative instruments primarily to enhance the performance and reduce the volatility of its portfolio. It enters swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and forward foreign exchange contracts primarily to hedge foreign currency exposure. The tables on the proceeding page summarize the various contracts in the portfolio as of June 30, 2006. The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure (unrealized gains/losses) on these instruments are recorded. Interest risks associated with these investments are included the tables on page 35. MOSERS does not anticipate additional significant market risk from the swap arrangements.

MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MOSERS anticipates that the counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivative totals.

MOSERS invests in mortgage-backed securities, which are reported at fair value in the *Statements of Plan Net Assets* of pension trust funds and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. MOSERS invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures on page 35.

Securities Lending Program

The board of trustees' investment policy permits the pension trust funds to participate in a securities lending program. Fixed income, international equity, and domestic equity securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. treasury or government agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. MOSERS does not have the authority to pledge or sell collateral securities, without borrower default. Securities on loan at fiscal year end for cash collateral and on loan for noncash collateral are presented in the schedule on page 40. On June 30, 2006, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2006, Credit Suisse/First Boston, New York Branch (CSFB), served as the agent for the fixed income, domestic equity, and international equity securities lending programs. In this capacity, MOSERS reduces credit risk by allowing CSFB to lend these securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by CSFB, an "AA-rated" bank. With each of MOSERS' securities lending programs, a majority of loans are open loans and can be terminated on demand by either MOSERS or the borrower. Net income from the three lending programs is split on an 85/15 basis between MOSERS and CSFB respectively.

Daily monitoring of securities that are on loan ensure proper collateralization levels and mitigate counterparty risk. Cash collateral from all three programs is commingled and invested in a separately managed short-term investment fund for MOSERS. This cash collateral fund is managed by CSFB. On June 30, 2006, the cash collateral fund had a market value of $1,152,399,706 and a weighted average maturity of 31 days. For all of the securities lending operational services, the custodian is paid an annual fee, which is netted out against MOSERS' earnings in the securities lending programs managed by CSFB.

Limited Partnerships

Many of MOSERS' alternative investments are organized in the form of limited partnerships. In these partnerships, the manager is the general partner and the limited partners are the investors. As of June 30, 2006, MOSERS had contracts with 32 limited partnerships across various types of alternative investments. These partnerships collectively represent 41.25% of the total fund. A schedule of limited partnerships is presented on page 41.

Investments as of June 30, 2006

	Pension Trust Funds		Internal Service Fund	
Type of Investment	**Investments at Cost Value**	**Investments at Fair Value**	**Investments at Cost Value**	**Investments at Fair Value**
Common stocks				
Out on loan	$ 377,577,625	$ 349,681,834		
Not on securities loan	350,721,648	459,588,099		
Total	728,299,273	809,269,933		
International equities				
Out on loan	82,177,437	61,495,316		
Not on securities loan	760,974,855	1,164,200,751		
Total	843,152,292	1,225,696,067		
International corporate bonds	41,559,952	40,570,429		
Preferred stocks	8,406,115	8,543,288		
Treasury bonds, notes, and bills				
Out on loan	665,084,431	673,150,889		
Not on securities loan	36,345,656	45,007,285		
Total	701,430,087	718,158,174		
Government bonds and gov't mortgage-backed securities	222,544,305	219,911,924		
Corporate bonds				
Out on loan	103,666,818	37,124,007		
Not on securities loan	1,311,862,934	1,370,777,144		
Total	1,415,529,752	1,407,901,151		
Convertible bonds	7,103,792	7,383,417		
Repurchase agreements	578,835	578,835	$2,051,203	$2,051,203
Short-term investment funds	904,667,401	904,667,401		
Collateralized mortgage obligations	10,475,662	10,184,835		
Real estate equity holdings	734,035	734,035		
Real estate investment trusts	65,854,040	111,541,494		
Foreign currencies	98,384,743	97,654,292		
Limited partnerships	2,141,155,569	2,655,223,459		
Total investments				
Out on loan	1,228,506,310	1,121,452,046		
Not on securities loan	5,535,553,587	7,096,566,688	2,051,203	2,051,203
Total	$7,189,875,853	$8,218,018,734	$2,051,203	$2,051,203

Reconciliation to investments on *Statements of Plan Net Assets*	
Total from above	$8,218,018,734
Less short-term investments	
Repurchase agreements	(578,835)
Short-term investment funds	(665,241,678)
Less invested securities lending collateral	
Short-term investment funds	(239,425,723)
Corporate bonds	(912,973,984)
Investments on *Statements of Plan Net Assets*	$6,399,798,514

Capital Assets

Office building, furniture, fixtures, and equipment costing $250 or more when acquired are capitalized at cost. Improvements, which increase the useful life of the property, are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related assets according to the following schedule:

- 5 years for furniture, fixtures, and equipment
- 40 years for building

The bottom table on the following page is a schedule of the capital asset account balances as of June 30, 2005, and June 30, 2006, and changes to those account balances during the year ended June 30, 2006.

Limited Partnerships

Partnership Name	Style	Investments at Fair Value as of June 30, 2006
Blackstone Real Estate Partners IV	Active real estate	$ 57,267,639
Blackstone Real Estate Partners V	Active real estate	12,637,399
OCM Real Estate Opportunities Fund III	Active real estate	62,328,051
RH Fund 7	Activist equity	64,784,815
Stinson Capital Partners	Activist equity	57,120,725
Bridgepoint Europe III A	Corporate buyout	1,601,453
Catterton Partners V	Corporate buyout	18,991,528
JLL Partners Fund V	Corporate buyout	3,310,068
OCM/GFI Power Opportunities Fund II	Corporate buyout	7,416,635
Silver Lake Partners II	Corporate buyout	15,313,502
The Veritas Capital Fund III	Corporate buyout	0
Parish Capital Buyout Fund I	Corporate buyout - fund of funds	6,694,130
B IV Capital Partners	Distressed debt	43,862,645
Blackstone Distressed Securities Fund	Distressed debt	53,382,967
MHR Institutional Partners II	Distressed debt	51,936,793
OCM Opportunities Fund IV B	Distressed debt	8,486,616
Sapphire Special Opportunities Fund	Distressed debt	8,892,067
Onyx Partnership	Emerging markets	131,466,569
Merit Energy Partners F-II	Energy-oil & gas	3,382,682
Blackstone Hedged Equity Fund	Long/short	449,238,335
AQR Absolute Return Institutional Fund	Market neutral	178,480,457
BGI Global Market Neutral Fund	Market neutral	221,100,427
Blackstone Topaz Fund	Market neutral	290,888,167
Diamond Ridge	Market neutral	84,195,096
Jade Ridge	Market neutral	338,848,646
Newport Pioneer	Market neutral	330,615,290
TCW Energy Fund XD-NL	Mezzanine debt	25,136,357
TCW Energy Partners I	Mezzanine debt	9,999,643
Silver Creek Special Opportunities Fund I	Special situations - fund of funds	43,168,057
Global Timber Investors 7	Timberland	13,711,397
Wildwood Timberlands	Timberland	60,945,414
Brinson	Venture capital	19,889
		$ 2,655,223,459

Capital Asset Account

Capital Assets	Land	Building and Building Improvements	Furniture, Fixtures, and Equipment	Total Capital Assets
Balances June 30, 2005	$267,286	$3,351,493	$1,956,938	$5,575,717
Additions	0	12,932	51,195	64,127
Deletions	0	0	(388,483)	(388,483)
Balances June 30, 2006	267,286	3,364,425	1,619,650	5,251,361
Accumulated depreciation				
Balances June 30, 2005	0	570,073	1,548,804	2,118,877
Depreciation expense	0	84,285	157,214	241,499
Deletions	0	0	(384,133)	(384,133)
Balances June 30, 2006	0	654,358	1,321,885	1,976,243
Net capital assets June 30, 2006	$267,286	$2,710,067	$ 297,765	$3,275,118

(3) CONTRIBUTIONS AND RESERVES

The MSEP and the Judicial Plan are pension plans covering substantially all state of Missouri employees, administrative law judges and legal advisors in the Division of Workers' Compensation, and judges. The state of Missouri is obligated by state law to make all required contributions to the plans. The required contributions are expressed as a level percentage of covered payroll and are actuarially determined using an individual entry-age actuarial cost method. The unfunded accrued liabilities are amortized over an open 30-year period. Costs of administering the plans are financed from the contributions to the pension trust funds.

(4) OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to the retirement benefits provided through MOSERS, the state of Missouri also funds, either partially or in its entirety, OPEB for eligible retirees as follow:

Retiree Life Insurance
Members, who retire on or after October 1, 1985, are eligible for $5,000 of state-sponsored, basic life insurance coverage if they retire directly from active employment. As of June 30, 2006, 14,903 retirees were eligible and participating in the program. This insured defined benefit coverage is financed on a percent of payroll (.12%) and is purchased as a group policy through competitive bids. The cost for year ended June 30, 2006, was $1,714,081. Premiums are contributed entirely by the state as provided for by Section 104.515, RSMo.

Retirees of the Department of Labor and Industrial Relations (DOLIR), who retired prior to January 1, 1996, are eligible for state-sponsored insured defined benefit insurance coverage in the same amount of coverage they were receiving through the DOLIR. As of June 30, 2006, 466 retirees were eligible and participating in the program. The coverage of this closed group is purchased as a group policy through competitive bids at a current cost of $2.07 per thousand dollars of coverage, per month, per eligible participant ($54,640 for the year ended June 30, 2006). Premiums are paid entirely by the DOLIR as provided for by Section 228.225, RSMo. Retirees of the DOLIR who retired on or after January 1, 1996, are eligible for $5,000 of state-sponsored life insurance coverage if they retire directly from active employment. They are included in the group described in the preceding paragraph.

Long-Term Disability Insurance
MOSERS also provides for long-term disability coverage for eligible members. Membership generally includes those active members of MOSERS retirement plans that do not have other disability coverage or are not yet eligible to receive normal (unreduced) retirement benefits. As of June 30, 2006, 41,704 members were eligible and covered under the program. This insured defined benefit coverage is financed on a percentage of covered payroll (.55%) and is purchased as group policy through competitive bids and is currently administered through The Standard Insurance Company. The cost for the year ended June 30, 2006, was $7,903,568. Premiums are contributed by the state as provided for by Section 104.515, RSMo.

(5) PLAN TERMINATION

MOSERS and its related plans are administered in accordance with Missouri statutes. Plans can only be terminated by an amendment to these statutes by the Missouri legislature.

(6) CONTINGENCIES

MOSERS is a defendant in one lawsuit that, in management's opinion, will not have a material effect on the financial statements.

Required Supplementary Information

SCHEDULES OF FUNDING PROGRESS

Pension Trust Funds - Last Six Years

MSEP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
6/30/01	$5,881,232,850	$6,065,166,716	$183,933,866	97.0%	$1,758,190,268	10.5%
6/30/02	6,033,133,598	6,294,272,275	261,138,677	95.9	1,773,283,484	14.7
6/30/03	6,057,329,072	6,662,291,406	604,962,334	90.9	1,739,895,364	34.8
6/30/04	6,118,214,495	7,230,010,928	1,111,796,433	84.6	1,737,454,454	64.0
6/30/05	6,435,344,102	7,578,028,017	1,142,683,915	84.9	1,806,600,560	63.3
6/30/06	6,836,567,188	8,013,205,414	1,176,638,226	85.3	1,777,277,138	66.2

ALJLAP*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
6/30/01	$14,410,199	$16,809,962	$2,399,763	85.7%	$4,661,020	51.5%
6/30/02	15,172,619	18,175,342	3,002,723	83.5	4,779,504	62.8
6/30/03	15,626,461	19,946,487	4,320,026	78.3	4,657,896	92.7
6/30/04	16,238,804	20,384,213	4,145,409	79.7	4,655,340	89.0

*Assets and liabilities of the ALJLAP were transferred to the MSEP during FY05.

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
6/30/01	$22,613,050	$247,978,904	$225,365,854	9.1%	$38,687,793	582.5%
6/30/02	29,651,113	256,115,452	226,464,339	11.6	40,068,744	565.2
6/30/03	34,566,516	267,049,857	232,483,341	12.9	40,052,952	580.4
6/30/04	39,120,142	280,397,464	241,277,322	14.0	39,878,499	605.0
6/30/05	44,223,509	292,303,886	248,080,377	15.1	40,016,098	620.0
6/30/06	51,652,867	309,002,752	257,349,885	16.7	40,270,535	639.1

See *Notes to the Schedules of Required Supplementary Information*.
See accompanying *Independent Auditors' Report*.

Required Supplementary Information

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Pension Trust Funds - Last Six Years

MSEP

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
2001	11.59%	$215,750,128	100%
2002	11.59	209,515,026	100
2003	8.81	156,576,150	100
2004	9.35	164,691,836	100
2005	10.64	194,524,059	100
2006	12.59	226,338,183	100

ALJLAP

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
2001	22.32%	$1,074,946	100%
2002	22.32	1,072,562	100
2003	20.02	951,023	100
2004	20.12	945,950	100
2005	22.13	1,124,924	100
2006*	21.79	895,012	100

* The ALJLAP was transitioned to the MSEP in FY05.
2006 is the last year for separate ALJLAP contributions; future contributions to be included in the MSEP rate.

Judicial Plan

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
2001	55.30%	$22,473,913	100%
2002	55.30	22,088,485	100
2003	52.12	20,802,140	100
2004	51.68	20,636,314	100
2005	54.51	21,852,985	100
2006	55.76	22,401,569	100

See Notes to the *Schedules of Required Supplementary Information*.
See accompanying *Independent Auditors' Report*.

Required Supplementary Information

NOTES TO THE SCHEDULES

Pension Trust Funds - Last Six Years

Actuarial Methods and Assumptions for Valuations Performed June 30, 2006

The entry-age actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. An open 30-year amortization period was used for the June 30, 2006, valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market return over a 5-year period. However, at their meeting on September 15, 2005, the MOSERS board considered the extreme volatility in the markets during the last 5 years and the statutory funding objective to employ methods, which establish contribution rates that are likely to remain level from one period to another. As a result, the board elected to set the actuarial value of assets to market value as of June 30, 2005. Consequently, all remaining unrecognized investment gains or losses that would have otherwise been recognized over a period of years were fully recognized as of June 30, 2005. No change was made to the asset valuation method for future years, so it is anticipated that future investment gains or losses above or below the assumed investment return of 8.5% will continue to be recognized over discrete 5-year periods. The investment return rate assumption used is 8.5% per year, compounded annually (net of investment expenses). The price inflation assumption used is 3.5% per year. Projected salary increase assumptions are based on 4% per year for wage inflation plus an additional 0% to 2.7% per year for the MSEP and 0% to 1.6% per year for the Judicial Plan (depending on age, attributable to seniority, and/or merit increases). The assumption used for annual post-retirement benefit increases is 4% (on a compound basis) for approximately the first 12 years, 3.1% for the 13th year, and 2.8% per year thereafter or 2.8% per year, depending upon the date of hire and benefit election.

Factors That Have Significantly Affected Trends

1999 - The actuarial valuations as of June 30, 1999, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2001.

	Amount	Percent of Payroll
MSEP		
Changes in benefits	$ 6,258,206	.40%
Experience and nonrecurring items	(11,264,771)	(.72)
ALJLAP		
Change in benefits	72,914	2.09
Experience and nonrecurring items	4,535	.13
Judicial Plan		
Change in benefits	321,123	.94
Experience and nonrecurring items	150,313	.44

2000 - The actuarial valuations as of June 30, 2000, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2002.

	Amount	Percent of Payroll
MSEP		
Changes in assumptions	$ (5,051,091)	(.30)%
Experience and nonrecurring items	(10,438,922)	(.62)
ALJLAP		
Change in assumptions	36,656	.90
Experience and nonrecurring items	(51,726)	(1.27)
Judicial Plan		
Change in assumptions	(315,414)	(.85)
Experience and nonrecurring items	(352,521)	(.95)

2001 - The actuarial valuations as of June 30, 2001, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2003.

	Amount	Percent of Payroll
MSEP		
Change in assumptions	$(41,844,928)	(2.38)%
Release of asset funding margin	(15,647,893)	(.89)
Change in asset valuation method	(3,868,019)	(.22)
Plan experience	12,483,151	.71
ALJLAP		
Change in assumptions	(105,339)	(2.26)
Change in amortization of UAAL	(88,559)	(1.90)
Change in asset valuation method	(4,195)	(.09)
Plan experience	49,873	1.07
Judicial Plan		
Change in assumptions	(1,133,552)	(2.93)
Change in asset valuation method	(197,308)	(.51)
Plan experience	441,041	1.14

2002 - The actuarial valuations as of June 30, 2002, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2004.

	Amount	Percent of Payroll
MSEP		
Recognizing state pay freeze FY03	$(6,206,492)	(.35)%
Plan experience	15,782,223	.89
ALJLAP		
Recognizing state pay freeze FY03	(20,074)	(.42)
Plan experience	23,420	.49
Judicial Plan		
Recognizing state pay freeze FY03	(208,357)	(.52)
Plan experience	32,055	.08

2003 - The actuarial valuations as of June 30, 2003, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2005.

	Amount	Percent of Payroll
MSEP		
Reduction in projected across-the-board pay increases to 1.67% for the fiscal year ending June 30, 2005	$(6,089,634)	(.35)%
Plan experience	28,543,284	1.64
ALJLAP		
Recognizing state pay freeze for annual salaries above $40,000	(18,632)	(.40)
Plan experience	112,255	2.41
Judicial Plan		
Recognizing state pay freeze for annual salaries above $40,000	(224,297)	(.56)
Plan experience	1,357,795	3.39

2004 - The actuarial valuations as of June 30, 2004, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2006.

	Amount	Percent of Payroll
MSEP		
Change in assumptions	$ 8,166,036	.47%
Experience and nonrecurring items	25,714,326	1.48
ALJLAP		
Change in assumptions	466	.01
Experience and nonrecurring items	(16,294)	(.35)
Judicial Plan		
Change in assumptions	(15,951)	(.04)
Experience and nonrecurring items	514,433	1.29

2005 - The actuarial valuations as of June 30, 2005, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2007.

	Amount	Percent of Payroll
MSEP		
Mark-to-market asset valuation method adjustment	$(10,116,963)	(.56)%
Recognition of state pay freeze on across-the-board increases for FY06	(3,793,861)	(.21)
Experience and nonrecurring items including the addition of the assets and liabilities from the ALJLAP	17,162,705	.95
Judicial Plan		
Mark-to-market asset valuation method adjustment	28,011	.07
Recognition of state pay freeze on across-the-board increases or FY06	(136,055)	(.34)
Change in amortization factor to reflect the state pay freeze for fiscal year ending June 30, 2006	556,224	1.39
Experience and nonrecurring items	640,258	1.60

2006 - The actuarial valuations as of June 30, 2006, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2008.

	Amount	Percent of Payroll
MSEP		
Change to an open 30-year amortization period	$(1,244,094)	(.07)%
Experience and nonrecurring items	2,310,460	.13
Judicial Plan		
Change to an open 30-year amortization period	(265,786)	(.66)
Experience and nonrecurring items	334,245	.83

SCHEDULE OF INVESTMENT EXPENSES
Pension Trust Funds - Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Investing activity			
Investment management fees			
Aetos Capital Management - alpha pool	$ 1,785,442	$ 14,542	$ 1,799,984
Americap Advisors - domestic all-cap	142,205	1,158	143,363
AQR Capital Management - alpha pool	10,978,807	89,416	11,068,223
Barclays Global Investors - alpha pool	3,306,000	26,926	3,332,926
BlackRock Financial Management L.P.-high yield	1,272,088	10,361	1,282,449
BlackRock Financial Management L.P.-MBS/ABS	230,814	1,880	232,694
Blackstone - distressed debt	1,379,172	11,233	1,390,405
Blackstone BREP V	90,874	740	91,614
Blackstone - hedged equity	4,328,818	35,256	4,364,074
Blackstone - market neutral	3,622,880	29,507	3,652,387
Blackstone - real estate	5,785,616	47,121	5,832,737
Blakeney - emerging markets	7,365,793	59,991	7,425,784
Blum Capital Stinson - private equity	3,419,269	27,848	3,447,117
Bridgewater Associates, Inc - alpha pool	2,933,528	23,892	2,957,420
Bridgepoint Capital - private equity	119,654	975	120,629
Brinson Partners, Inc. - private equity	(2,559)	(21)	(2,580)
Bush O'Donnell - real estate	92,993	757	93,750
Capital Guardian Trust - domestic all-cap	547,281	4,457	551,738
Catterton Partners - private equity	384,887	3,135	388,022
DDJ Capital Management - distressed debt	1,858,670	15,138	1,873,808
Dimensional Fund Advisors Inc.- domestic SMID-cap	247,980	2,020	250,000
Global Forest Partners - timber	26,073	212	26,285
GMO - emerging markets	1,364,508	11,113	1,375,621
Hoisington Investment Management Co. - U.S. treasuries	177,985	1,450	179,435
JLL Partners V	959,711	7,816	967,527
Legg Mason - domestic all-cap	385,027	3,136	388,163
Mastholm Investment Managers - int'l developed	929,289	7,569	936,858
Merrill Lynch - EAFE	205,037	1,670	206,707
Merrill Lynch - emerging markets	411,013	3,348	414,361
MHR Institutional Partners II - distressed debt	3,779,162	30,780	3,809,942
MOSERS Inc. - alpha pool	66	1	67
NISA Investment Advisors, LLC - commodities	994,348	8,099	1,002,447
NISA Investment Advisors, LLC - fixed income	203,404	1,657	205,061
NISA Investment Advisors, LLC - beta program domestic equity	260,999	2,126	263,125
NISA Investment Advisors, LLC - beta program hedged equity	13,774	112	13,886
NISA Investment Advisors, LLC beta program fixed income	(44,061)	(359)	(44,420)
Oaktree Capital Management - real estate	2,527,356	20,584	2,547,940
Oaktree Capital Management - distressed debt	(607,864)	(4,951)	(612,815)
Oaktree Capital Management GFI Power - private equity	379,581	3,092	382,673
Pacific Alternative Asset Management Co. - alpha pool	3,163,589	25,766	3,189,355
Parish Capital - private equity	204,926	1,669	206,595
Relational Investors, LLC. - private equity	1,188,869	9,683	1,198,552
Resource Management Service - timber	517,087	4,211	521,298
Silchester International Investors - int'l developed	2,523,030	20,549	2,543,579
Silver Lake Partners - private equity	307,106	2,501	309,607
Trust Company of the West Energy Fund - real estate	296,999	2,419	299,418
Veritas	443,871	3,615	447,486
Wayzata Investment Partners - distressed debt	5,319,750	43,327	5,363,077
Total investment management fees	75,820,847	617,527	76,438,374

Continued on page 48

SCHEDULE OF INVESTMENT EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

Continued from page 47

	MSEP	Judicial Plan	Total
Other investment fees			
Investment consultant fees			
Summit Strategies Group	686,806	5,594	692,400
TimberLink Consulting	5,873	48	5,921
Investment custodial fees			
Mellon Bank	806,613	6,570	813,183
Partnership Fees	80,828	658	81,486
Performance measurement fees			
Mellon Bank	340,983	2,777	343,760
Internal investment activity expenses	2,004,848	16,329	2,021,177
Total investing activity expenses	79,746,798	649,503	80,396,301
Securities lending activity			
Securities lending borrower rebates	48,700,106	396,641	49,096,747
Securities lending management fees			
Mellon Bank	123,990	1,010	125,000
Credit Suisse First Boston	668,646	5,446	674,092
Total securities lending activity expenses	49,492,742	403,097	49,895,839
Total investment expenses	$129,239,540	$1,052,600	$130,292,140

See accompanying *Independent Auditors' Report*.

SCHEDULE OF INTERNAL INVESTMENT ACTIVITY EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$1,093,618	$ 8,907	$1,102,525
Employee fringe benefits	307,367	2,503	309,870
Total personnel services	1,400,985	11,410	1,412,395
Professional services			
Attorney services	69,697	568	70,265
Consulting services	218,935	1,783	220,718
Total professional services	288,632	2,351	290,983
Communications			
Telephone	3,040	25	3,065
Total communications	3,040	25	3,065
Equipment			
Maintenance	119	1	120
Total equipment	119	1	120
Travel and meetings			
Staff travel and meetings	59,063	481	59,544
Total travel and meetings	59,063	481	59,544
General			
Educational materials	8,475	69	8,544
Office supplies	229	2	231
Subscriptions and dues	244,305	1,990	246,295
Total general	253,009	2,061	255,070
Total administrative expenses	$2,004,848	$16,329	$2,021,177

See accompanying *Independent Auditors' Report*.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$2,961,016	$24,116	$2,985,132
Employee fringe benefits	1,070,778	8,721	1,079,499
Total personnel services	4,031,794	32,837	4,064,631
Professional services			
Actuarial services	162,709	1,325	164,034
Attorney services	75,084	612	75,696
Auditing services	34,717	283	35,000
Banking services	19,288	157	19,445
Consulting services	244,001	1,987	245,988
Total professional services	535,799	4,364	540,163
Communications			
Postage and mailing	358,214	2,917	361,131
Telephone	76,580	624	77,204
Printing	149,868	1,221	151,089
Total communications	584,662	4,762	589,424
Building and grounds			
Depreciation	83,604	681	84,285
Utilities	59,390	484	59,874
Maintenance	41,622	339	41,961
Total building and grounds	184,616	1,504	186,120
Equipment			
Depreciation	155,944	1,270	157,214
Maintenance	230,339	1,876	232,215
Rental	117,161	954	118,115
Loss on sale of equipment	3,391	28	3,419
Total equipment	506,835	4,128	510,963
Travel and meetings			
Board travel and meetings	29,479	240	29,719
Staff travel and meetings	207,496	1,690	209,186
Vehicle maintenance and operation	7,237	59	7,296
Total travel and meetings	244,212	1,989	246,201
General			
Educational materials	19,692	160	19,852
Office supplies	98,190	800	98,990
Subscriptions and dues	142,715	1,162	143,877
Insurance	116,903	952	117,855
Advertising	4,076	33	4,109
Miscellaneous	17,103	139	17,242
Total general	398,679	3,246	401,925
Total administrative expenses	$6,486,597	$52,830	$6,539,427

See accompanying *Independent Auditors' Report*.

SCHEDULE OF ADMINISTRATIVE EXPENSES
Internal Service Fund - Year Ended June 30, 2006

Personnel services	
Salaries	$281,640
Employee fringe benefits	95,728
Total personnel services	377,368
Professional services	
Attorney services	1,255
Auditing services	2,412
Banking services	627
Total professional services	4,294
Communications	
Postage and mailing	1,502
Telephone	5,531
Total communications	7,033
Building and grounds	
Building use charge	8,429
Utilities	4,125
Maintenance	2,891
Total building and grounds	15,445
Equipment	
Equipment use charge	15,900
Maintenance	15,829
Rental	8,138
Total equipment	39,867
Travel and meetings	
Board travel and meetings	2,048
Staff travel and meetings	18,515
Vehicle maintenance and operation	503
Total travel and meetings	21,066
General	
Educational materials	1,956
Office supplies	6,836
Subscriptions and dues	4,213
Insurance	8,120
Advertising	283
Miscellaneous	1,218
Total general	22,626
Total administrative expenses	$487,699

See accompanying *Independent Auditors' Report*.

SCHEDULE OF PROFESSIONAL/CONSULTANT FEES

Year Ended June 30, 2006

		Pension Trust Funds			Internal Service Fund
Professional/Consultant	**Nature of Service**	**MSEP**	**Judicial Plan**	**Total**	**MO State Insurance Plan**
Operation administrative expenses					
Central Bank	Banking	$ 19,288	$ 157	$ 19,445	$ 627
Charlesworth & Associates	Risk management consulting	6,511	53	6,564	0
Cortex Applied Research Inc.	Governance consulting	9,502	77	9,579	0
Gabriel, Roeder, Smith & Co.	Actuarial	162,709	1,325	164,034	0
Hubber & Associates	Information technology consulting	188	2	190	0
International Centre for Pension Management	Pension management research	18,502	151	18,653	0
Independent Fiduciary Services, Inc.	Fiduciary performance review	173,586	1,414	175,000	0
Interactive Solutions International, LLC	Phone system consulting	746	6	752	0
Jack Pierce	Governmental pension consulting	29,758	242	30,000	0
QFlow Systems, LLC	Image system consulting	5,208	42	5,250	0
Thompson Coburn LLP	Legal counsel	75,084	612	75,696	1,255
Williams-Keepers LLC	Financial audit	34,717	283	35,000	2,412
Operation administrative expenses subtotal		535,799	4,364	540,163	4,294
Internal investment administrative expenses					
CT Corporation	Legal services	288	2	290	0
Independent Fiduciary Services, Inc.	Fiduciary performance review	198,384	1,616	200,000	0
KPMG of Taiwan	Tax services	2,258	18	2,276	0
Perkins Coie	Legal counsel (credit)	(1,166)	(9)	(1,175)	0
Summit Strategies Group	Travel expenses	17,995	147	18,142	0
Thompson Coburn LLP	Legal counsel	70,575	575	71,150	0
Williams-Keepers LLC	Tax services	298	2	300	0
Internal investment administrative expenses subtotal		288,632	2,351	290,983	0
Total professional/consultant fees		$824,431	$6,715	$831,146	$4,294

See accompanying *Independent Auditors' Report*.
Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 47-48.

INVESTMENT SUMMARY

Pension Trust Funds - Year Ended June 30, 2006

Type of Investment	June 30, 2005 Cost Value	June 30, 2005 Fair value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2006 Cost Value	June 30, 2006 Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills	$ 633,925,736	$ 706,098,134	$ 109,263,185	$ (41,758,834)	$ 701,430,087	$ 718,158,174	11%
Government bonds and gov't mortgage-backed securities	274,022,359	275,317,809	160,415,227	(211,893,281)	222,544,305	219,911,924	3
Corporate bonds	488,781,175	491,449,657	167,172,435	(153,187,823)	502,765,787	494,927,167	8
Convertible bonds	2	16	8,291,486	(1,187,696)	7,103,792	7,383,417	0
Collateralized mortgage obligations	56,334,781	56,707,757	18,670,274	(64,529,393)	10,475,662	10,184,835	0
International corporate bonds	54,061,823	53,613,090	11,028,048	(23,529,919)	41,559,952	40,570,429	1
Total fixed income	1,507,125,876	1,583,186,463	474,840,655	(496,086,946)	1,485,879,585	1,491,135,946	23
Common stock	640,263,159	770,328,662	221,817,573	(133,781,459)	728,299,273	809,269,933	13
Preferred stock	6,734,580	10,234,536	10,287,557	(8,616,022)	8,406,115	8,543,288	0
International investments							
International equities	761,323,287	1,041,283,437	171,291,924	(89,462,919)	843,152,292	1,225,696,067	19
Foreign currency	14,096,354	13,388,428	193,228,416	(108,940,027)	98,384,743	97,654,292	2
EAFE index fund	114,874,465	127,318,920	0	(114,874,465)	0	0	0
Total international investments	890,294,106	1,181,990,785	364,520,340	(313,277,411)	941,537,035	1,323,350,359	21
Real estate							
Equity holdings	734,035	734,035	0	0	734,035	734,035	0
REITs	84,179,310	127,310,040	70,761,911	(89,087,181)	65,854,040	111,541,494	2
Total real estate	84,913,345	128,044,075	70,761,911	(89,087,181)	66,588,075	112,275,529	2
Limited partnerships	1,931,308,922	2,280,556,799	744,522,657	(534,676,010)	2,141,155,569	2,655,223,459	41
Investments (per *Statement of Plan Net Assets* page 26)	5,060,639,988	5,954,341,320	1,886,750,693	(1,575,525,029)	5,371,865,652	6,399,798,514	100%
Short-term investments							
Short-term investment funds	567,674,458	567,674,458	1,247,542,677	(1,149,975,457)	665,241,678	665,241,678	
Repurchase agreements	404,230	404,230	136,097,358	(135,922,753)	578,835	578,835	
Total short-term investments	568,078,688	568,078,688	1,383,640,035	(1,285,898,210)	665,820,513	665,820,513	
Invested securities lending collateral							
Corporate bonds	749,696,356	749,929,631	611,508,406	(448,440,797)	912,763,965	912,973,984	
Short-term investment funds	349,912,120	349,912,120	53,415,346,109	(53,525,832,506)	239,425,723	239,425,723	
Total invested securities lending collateral	1,099,608,476	1,099,841,751	54,026,854,515	(53,974,273,303)	1,152,189,688	1,152,399,707	
Total investments	$6,728,327,152	$7,622,261,759	$57,297,245,243	$(56,835,696,542)	$7,189,875,853	$8,218,018,734	

See accompanying *Independent Auditors' Report.*

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS' office.

INVESTMENT SUMMARY

Internal Service Fund - Year Ended June 30, 2006

	June 30, 2005				June 30, 2006		
Type of Investment	**Cost Value**	**Fair value**	**Purchases and Capital Additions at Cost**	**Sales and Redemptions at Cost**	**Cost Value**	**Fair Value**	**Percent of Total Fair Value**
Repurchase agreements	$1,942,452	$1,942,452	$485,731,197	$(485,622,446)	$2,051,203	$2,051,203	100%

See accompanying *Independent Auditors' Report*.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS' office.

INVESTMENT SECTION

INVESTMENT SECTION

CHIEF INVESTMENT OFFICER'S REPORT

MOSERS®
Missouri State Employees' Retirement System

Mailing Address
PO Box 209
Jefferson City, MO 65102-0209

Shipping Address
907 Wildwood Drive
Jefferson City, MO 65109

October 17, 2006

Dear Members:

I am pleased to present the Investment Section of the *MOSERS Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2006.

Pension funds are a special type of financial business that must be managed with clearly stated objectives, beliefs, and implementation strategies. The most important objective of the MOSERS investment program is to generate investment returns that exceed our long-term actuarial assumption of 8.5% while minimizing the associated risk to the greatest extent possible. If we are successful in achieving that objective, it further ensures that benefits promised to you by the state of Missouri will be paid. As I reflect on my time as CIO, which now spans more than a decade, I can state with confidence that we have been successful in achieving that objective. As witness to this achievement, our 10- and 15-year annualized returns have been 9.3% and 10.1%, respectively. While the investment markets will largely dictate to what extent future results will continue to meet or exceed our assumption, I think the investment program at MOSERS is as well positioned as it has ever been to continue to generate strong returns. This is the result of several factors that have evolved over the years that I view to be the "Keys to Our Success." I will spend a bit of time discussing some of those with you but, before doing so, I will first focus on a few highlights from fiscal year 2006.

Current year highlights include:

- The portfolio surpassed $7 billion in market value for the first time and ended the year at $7.038 billion.
- Our return for the fiscal year was 11.5% (performance returns are calculated using a time weighted rate of return on market values, net of expenses), which compared favorably to the 8.5% rate assumed for actuarial purposes. The incremental return will result in roughly a $200 million gain to the system over time, making pensions more secure and reducing future costs to taxpayers.
- For the sixth straight year, MOSERS' investments have generated returns in excess of our benchmark and have done so at a lower relative level of risk. The incremental reward from these results over that six-year period relative to our benchmark has been an additional $1.1 billion in MOSERS' coffers.
- The public equity portfolio generated returns of 17.3% and the alternatives portfolio produced results of 9.5%; while public debt added 3%.
- Across periods of 1, 3, 5 and 10 years, our investment performance has been in the top quartile when compared with other public pension funds in the nation.

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All in all, 2006 was an excellent year for the system. While the results for the year relative to our peers were not as high as they have been in the recent past, I'm very comfortable with the way our portfolio performed given that we had about 10% less aggregate equity exposure than our peers in a year in which equity risk was rewarded handsomely.

For additional information regarding our results for FY06 and a description of portfolio positioning and future direction, please refer to the recent asset allocation report letter prepared for our board of trustees. It can be accessed on our website at http://www.mosers.org/about/invest_cioletter.asp.

In my opinion, the most important contributor to our long-term success has been the governance structure and policies adopted by the board. Governance, broadly defined, details the processes and business model by which an organization operates. At MOSERS, it is the set of rules that have been handed down over the years by our board of trustees that direct the management of the system. While all organizations have a governance structure, very few have devoted the time and effort to its formalization that our board has. The outgrowth of well thought out governance policies is an organizational culture where all individual decision makers work together to produce results that aggregate to the mutual benefit of the system. Additionally, strong governance provides a means by which the various decision makers can have confidence that all of the players are making their contribution for the collective good and that none gain unfairly at the expense of others. Lastly, good governance provides a means by which information can quickly flow among the various parties resulting in a more fluid investment decision making process. A key driver of our investment results over time, relative to our peers, has been our ability to move quickly when an opportunity presented itself.

Another important aspect of our success is the extent to which we have diversified our portfolio. One of the underlying beliefs guiding our investment program is that "diversification is critical because the future is unknown." You will find no crystal balls at MOSERS. Diversification is a fairly easy concept to understand. Conceptually it boils down to "don't put all your eggs in one basket." However, in practice, diversification is an art and involves a keen understanding of how various economic conditions will impact different types of investments. On page 60 of this report, we discuss in greater detail how we think about diversification and how various asset categories should be expected to perform under alternative economic conditions.

One other area that I believe has been critical to our success is the contrarian nature of our investment process. We strive to be providers of capital to markets that are out of favor with most other investors because it is these areas where the potential for better than market returns exists. To explain further, most of the markets in which we invest are at least semi-efficient and, as a result, current prices are generally reflective of consensus opinion about the market's future direction. What this means is that in order for us to make outsized returns our opinion must differ from the consensus, we must act on that opinion, and be right about it. Only in these circumstances will above market returns be achieved. Trying to outsmart the consensus in the short-term is very difficult and is a strategy we employ very infrequently. Most of our time and effort has been focused on contrarian investing over longer-term periods of time (3-5 years). What makes this a difficult process, and one very few investment groups have been successful in taking advantage of, is that it requires a great deal of patience. It is relatively easy to initiate one of these contrarian bets; however, many a career has been ended as a result of the inability to survive as the market moves against you for a period of time. Very few organizations are positioned to be successful in this area. It requires strong governance, mutual trust and respect among the decision makers, and acknowledgment that there will certainly be times when outsiders will judge the decisions as rash.

Success in investing is a journey, not a destination. Upon reflection, by most any standard, I believe our program has been successful in the past. Hard work and perseverance lay ahead in order for us to continue to be successful. Performing at a high level on a consistent basis in this business is a daunting challenge; however, there is no public retirement system in the country better positioned to excel than MOSERS. As MOSERS' CIO, I would like to thank the board of trustees, the ultimate fiduciaries of this pension fund, for their willingness to stand outside the pack and embrace a governance structure that allows the investment program to function efficiently and be well positioned to achieve excellence. To you, the members, please find comfort in knowing that we work very hard to ensure that you will receive the benefits you have been promised.

Until next year,

Rick Dahl
Chief Investment Officer

INVESTMENT CONSULTANT'S REPORT

Summit Strategies Group

October 17, 2006

Dear Members:

When I was growing up, I remember being told that I had to behave when I was out because, "Your behavior is a reflection on your family." Now that I have kids of my own I find myself saying the exact same thing. How many times have I met a kid who was polite, confident, and well-spoken and then met his mom or dad and thought, "I see where he gets it." Conversely, I've seen kids whose behavior on a soccer field shocked me, only to see him get in the car after the game with the guy who was screaming at the refs the entire game and I think, "I see where he gets it."

I was once told that in business you ultimately get the clients you deserve. I believe that to be true. Unlike the chicken and egg debate, I'm pretty sure I know which comes first. You establish your culture, you determine how you are going to conduct yourself, and the ethic by which your efforts shall be governed and, more times than not, your results will align with these core fundamental decisions. Indeed, the results you achieve are almost always a direct reflection of the culture in which they are attained.

As you will read in other sections of this report, the MOSERS' investment portfolio continues to return very positive results relative to the markets and other public funds, the governance model is considered the standard to which other public plans aspire, and the "trophy case" of national awards continues to grow. Just as a kid is a reflection on his parents, this portfolio is a very good reflection on its overseers.

A great kid is not the result of one lesson or one good "talking to" but is the culmination of a lifetime of good decisions, positive lessons, and character-shaping events. I believe the same is true of a successful investment program. I was once asked by a corporate client, who has had very similar success and industry recognition, if I thought top performance, 10% of all funds, was the result of skill or just extreme risk-taking that happened to pay off. In other words, were these results more likely to be a product of skill or luck? My answer to that question is also my answer to why MOSERS continues to excel; it is a series of very thoughtful decisions consistently carried out.

I told my corporate client that any fund can, and probably will, be at the top of some sample for some year simply from luck but the funds that I have observed over my career that get to and continue to stay at the top conduct themselves in a manner that is unique. My observations can be summarized as follows:

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It's very easy to get a fund to median or average performance - simply look like everybody else. There is no shortage of surveys and data to tell pension fund managers what all of their peers are doing. And it seems that great comfort is derived in this industry from looking like everybody else. The thinking seems to be that if we all do the same things the same way no one will criticize us.

In order to be consistently in the top quartile (outperforming 75% of other funds), a pension fund must have a governance structure that allows it to be different. Not different for the sake of being different, but different in a thoughtful way. If a board has established a governance structure in which people are both responsible and accountable for positioning assets within the framework of the investment policy, by definition, this streamlined decision making process will be more nimble and the people will be more willing to try innovative investment approaches. Beyond that, the people who are in charge of these decisions will feel more ownership and responsibility for their decisions. I believe this structure alone is enough to push a fund strongly toward top quartile results.

For this, the MOSERS board must be given the credit. I find it interesting that the membership of almost every public pension board I have observed does not include an investment expert; yet these boards typically want to be involved in every investment decision. This results in a very slow moving process that is almost always overly cautious and defines safety as what was done yesterday and risk as anything new. All too often, by the time an opportunity is considered safe and acceptable, 90% of the reward has been achieved by nimble investors. Several years ago, the MOSERS board stepped out from the security of the norm and put in place a structure of delegation that allows for nimble investing by investment professionals who are responsible for their actions and held accountable for the results. The fact that the board adopted this approach, continues to endorse it, and remains relatively free of political pressures is the foundation of this program's success – success that is very much a reflection of the board's continuing commitment to this industry-leading model.

I went on to tell my corporate client that to move a fund from median to top performance (outperforming 80% of funds, like MOSERS has done consistently over 3- 5-, and 10-year time horizons) it takes a decision maker that is a fundamental contrarian. This is a fancy way of saying once you've created the decision making structure that allows the decision-makers to move quickly and nimbly, you can rise to, and stay at, the head of the pack by regularly doing the unpopular. Investors love to jump on the bandwagon. They want to buy into the asset class that has already gone up 50% and would never think about buying into an asset class that's down 25%; yet this is where successful investors make their money. For this aspect of MOSERS' success I must credit staff. You have a very thoughtful, detail-minded group of investment professionals that look at, study, validate, and seek out opportunities for this portfolio all day, every day. Their efforts and contrarian investment philosophy have added hundreds of millions of incremental dollars to this portfolio. As a Missouri taxpayer, I'm glad they are on the job.

This program is a reflection of the MOSERS board and the staff and, as such, is something which should make all of you feel very proud.

Stephen P. Holmes, CFA
President

INVESTMENT POLICY SUMMARY

MOSERS' Board of Trustees is charged with the responsibility for investing the assets of the system in a manner consistent with fiduciary standards set forth in the "prudent person" rule. To that end, the board has adopted the following guiding principles to guide all investment-related decisions:

1. Preserve the long-term corpus of the fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of the members of the system.

The investment policy summary serves as a reference point for management of system assets and outlines MOSERS' investment philosophy and practices.

Investment Objective

In keeping with the three guiding principles, the board has established the following broad investment objective:

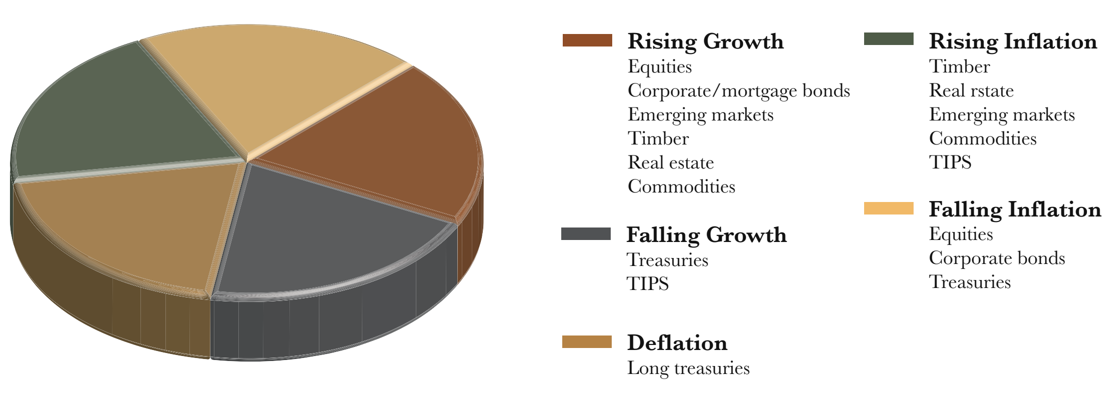
- Develop a real return objective (RRO)[1] that will:
  - Keep contribution rates reasonably level over long periods of time, absent changes in actuarial assumptions.
  - Maintain contribution rates consistent with historical levels ranging from 8% to 12% of covered payroll.
- Establish an asset allocation policy that is expected to meet the RRO over long periods of time, while minimizing volatility.
- Minimizing the costs associated with implementation of the asset allocation through the efficient use of internal and external resources.

Investment Beliefs

MOSERS' internal investment staff and external asset consultant have established investment beliefs, which have served as a guiding light in the implementation of the investment objectives adopted by the board. These beliefs have helped to form the basis of nearly every decision made within MOSERS' portfolio. From time to time, these beliefs may need slight modification to keep pace with the changing investment landscape; however, the fundamental concepts outlined in these beliefs should stand the test of time. The primary beliefs underlying MOSERS' investment program are as follows:

- **Diversification is critical because the future is unknown.** At the root of this belief is the knowledge that the future is unknowable. Accordingly, MOSERS' investment portfolio has been built upon the premise that very little is known about what the future holds and as a result, the portfolio is structured to combat a variety of economic outcomes. The pie chart below reflects the various economic environments and the types of investments that should be expected to perform well in those environments. While staff may have views on the direction of the markets over the short term, the adjustments to the portfolio will only be made at the margins to match those views. As a result, the portfolio will have significant diversification to provide risk reduction in a variety of markets.

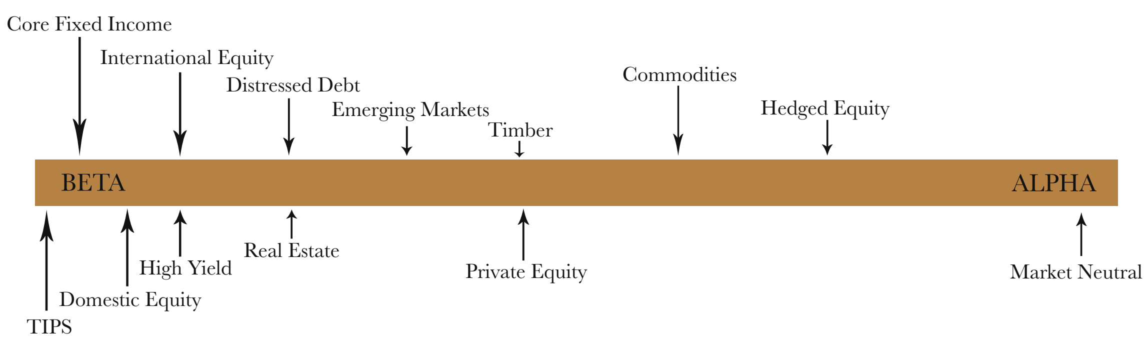
ECONOMIC DIVERSIFICATION



[1] The RRO is the rate by which the total return exceeds the inflation rate as measured by the CPI, U.S. City Average for all Urban Consumers (CPI-U). MOSERS' real return is the excess return over the CPI utilizing the formula: Real = (1+Nominal) ÷ (1 + CPI) - 1. As of June 30, 2006, the RRO was 5%.

- **Every investment should be examined in the context of the two distinct return components – beta and alpha.** Beta is the return which is expected from simply having exposure to the asset class. It is the return that can be earned by investing passively within a specific asset class. Exposures to beta can be purchased very cheaply and, over long periods of time, it is expected that returns from beta should be positive and coincide with the risk associated with a given asset class. Alpha, in contrast, is return generated through a manager's ability to select particular investments that perform better than the asset class as a whole. Alpha is a zero-sum game. For every winner, there is a loser on the other side. Historically, MOSERS' portfolio has been heavily weighted towards investments that provided mainly beta returns. In 2002, after the most recent asset/liability study, a greater emphasis was placed upon generating alpha returns within the portfolio, it was expected that returns strictly from beta would not generate the returns necessary to fund the liabilities of the system. As you can see in the chart below, several alpha-generating strategies are in place within the portfolio today.
- **Asset classes will be in and out of favor at different times and they all tend to be cyclical, thus flexibility is key.** This belief acknowledges that economies are cyclical; thus, it is only logical that certain investments will fair better than others depending upon the current economic environment. In order to make a "good" investment, the price one pays for an investment must be considered. No investment offers the birthright of a high return. In order to capitalize on potential opportunities that may arise due to asset classes being "cheap" or "expensive" relative to their historical norms, the board has granted the CIO the ability to make strategic sub-asset class allocation decisions at the margins subject to predefined ranges.
- **This isn't about risk or return. It's about risk-adjusted returns with a long-term focus on the liabilities.** While it is easy to focus all attention on the returns a portfolio is able to generate, the risks relative to the liabilities of the system must be taken into consideration. Despite MOSERS' infinite time horizon, it must not be overlooked that there are benefits to be paid in the short run. In addition, the "cost of volatility" within the portfolio must not be underestimated as volatility has a dramatic impact on the contribution rate and thus the state's ability to fund the plan going forward.

CONTINUUM OF BETA AND ALPHA



[2] Section 105.688, RSMo - Investment Fiduciaries, Duties.

Roles and Responsibilities

Board of Trustees – The board of trustees bears the ultimate fiduciary responsibility for the investment of system assets. Members of the board must adhere to state law and prudent standards of diligence with respect to their duties as investment fiduciaries. Accordingly, they are required to discharge their duties in the interest of plan participant. They must also "act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims."[2] Specifically related to investments, the board is charged with the duties of establishing and maintaining broad policies and objectives for the investment program along with the recommendations of staff and the external asset consultant.

Executive Director – The executive director is appointed by and serves at the pleasure of the board. The board has given the executive director broad authority for planning, organizing, and administering the operations and investments of the system under broad policy guidance from the board. Specifically with regard to investments, the executive director is broadly responsible for the oversight of the investment program. He or she must ensure the system assets are invested in accordance with the board's policies and that internal controls are in place to safeguard system assets. The executive director must also certify that all manager hiring and firing decisions were made in accordance with the board's governance policy. In addition, the executive director certifies strategic allocation decisions made by the CIO and external asset consultant.

Chief Investment Officer and Internal Staff – The CIO serves at the pleasure of the executive director, yet has a direct line of communication with the board on investment-related issues. The CIO has primary responsibility for the overall direction of the investment program. The CIO works with the external asset consultant and executive director in advising the board on policies related to the investment program. The CIO has primary responsibility to make hiring and firing decisions related to money managers with the approval of the external asset consultant. The CIO is also charged with the responsibility of making strategic allocation decisions with the approval of the external asset consultant. Other responsibilities of the CIO include monitoring the investment of system assets, oversight of external money managers and the internally managed portfolios, and keeping the board apprised of situations, which merit their attention. The internal investment staff is accountable to the CIO.

External Asset Consultant – Summit Strategies Group of St. Louis, Missouri, serves as the system's external asset consultant. The external asset consultant serves at the pleasure of the board. The primary duties of the external asset consultant are to advise the board on policies related to the investment program and to provide a third-party perspective and level of oversight to the system's investment program. The external asset consultant must also approve all manager hiring and firing decisions and strategic allocation decisions made by the CIO. The external asset consultant also provides advice and input to the CIO and internal investment staff on investment-related issues and money manager searches.

Chief Auditor – The chief auditor reports directly to the executive director and, if in the opinion of the chief auditor circumstances warrant, may report directly to the board. The chief auditor is independent of the system's investment operations and, among other things, is responsible for providing objective audit and review services for the investment operations. It is the chief auditor's objective to promote adequate and effective internal controls at a reasonable cost, which results in suggested improvements that will lead to economies and efficiencies in the system's investment operations.

Master Custodian – Mellon Financial Corp. of Boston, Massachusetts serves as the master custodian of the system's assets, except in cases where investments are held in partnerships, commingled accounts, or unique asset classes where it is impossible for them to do so. The master custodian is responsible for maintaining the official book of records, providing performance reports, and serving as an additional layer of risk control in the safekeeping of system assets.

Asset Allocation

The system's asset allocation is regarded as one of the most important decisions in the investment management process. The current asset allocation is designed to achieve the long-term required return objectives of the system, given certain risk constraints. The current asset allocation reflects the need for a diversified portfolio, which will perform well in a variety of economic conditions and will help reduce the portfolio's overall volatility. In determining the optimum mix of assets, the board considers five factors:

- The expected rate of return for each asset class.
- The expected risk of each asset class.
- The correlation between the rates of return of the asset classes.
- The investment objectives and risk constraints of the fund.
- The impact of the portfolio's volatility on the contribution rate.

The policy allocation as of June 30, 2006, is illustrated in the table below.

Asset Class/ Sub-Asset Class	Target Allocation	Strategic Allocation Ranges
Public equity	**50.0%**	**47.50 to 52.50%**
Domestic equity	27.5	15.0 to 40.0
Hedged equity	5.0	0.0 to 10.0
International developed equity	15.0	5.0 to 25.0
Emerging market equity	2.5	0.0 to 5.0
Public debt	**30.0**	**27.50 to 32.50**
Core fixed income	10.0	5.0 to 15.0
High yield bonds	5.0	0.0 to 10.0
TIPS	10.0	5.0 to 15.0
Market neutral	5.0	0.0 to 10.0
Alternatives	**20.0**	**18.75 to 21.25**
Real estate	5.0	2.5 to 7.5
Commodities	2.5	0.0 to 5.0
Private debt	2.5	0.0 to 5.0
Timber	5.0	2.5 to 7.5
Private equity	5.0	2.5 to 7.5

While the board maintains a set policy allocation mix, they have taken steps to provide flexibility at the sub-asset class level by granting authority to the CIO, with the approval of the external asset consultant and certification of the executive director, to make sub-asset class allocation decisions based upon expectations for each sub-asset class. This flexibility has allowed the system to take advantage of changing market conditions. The board has placed ranges on the sub-asset class allocations in order to maintain appropriate risk controls. These ranges are included in the table above.

Rebalancing

It is the responsibility of staff to ensure that the asset allocation adheres to the system's rebalancing policy. Staff has engaged NISA Investment Advisors, LLC of St. Louis, Missouri, to assist in the oversight and implementation of the rebalancing policy. MOSERS utilizes a combination of cash market and exchange traded futures transactions to maintain the total fund's allocation at the broad policy level. Month-end reviews are conducted to bring the portfolio back within allowable ranges of the broad policy targets.

Risk Controls

MOSERS' investment program faces numerous risks; however, the primary risk to MOSERS is that the assets will not support the liabilities over long periods of time. In order to control this risk and numerous other risks that face the system, the board has taken the following steps to help protect the system on an ongoing basis:

- Actuarial valuations are performed each year to ensure the system is on track to meet the funding objectives of the plan. In addition, every 5 years an external audit of the actuary is conducted to ensure that the assumptions being made and calculation methods being utilized are resulting in properly computed liabilities.
- Asset/liability studies are conducted at least once every 5 years. The purposed of these studies are to ensure that the current portfolio design is structured to meet the system's liabilities. During these studies investment expectations are also reexamined in a more detailed way.
- A governance policy, which incorporates investment limitations, is in place to ensure that board policies are clearly identified. Within these documents, the desired outcomes are outlined, individuals are identified as to their responsibility for particular areas of the portfolio's management, and details are lined out as to how the outcomes will be measured by the board. Reporting requirements are clearly identified to ensure appropriate checks and balances are in place. In addition, annual performance audits are conducted to ensure the measurement tools and methodology being utilized to gauge performance are proper.

Performance Objectives and Monitoring Process
Total Fund
Generating returns net of expenses in excess of the RRO of 5% after inflation remains the primary performance objective for the total fund over the long-term. The reason for the long-term focus on this objective is to preclude the temptation to overreact to events in the marketplace that have no relevance in the management of the relationship between the system's assets and liabilities. The resulting dilemma is the conflicting need to evaluate investment policy implementation decisions over shorter time frames while maintaining the longer-term focus necessary to manage and measure the fund's performance relative to the RRO. To address this problem, the board evaluates performance relative to policy and strategy benchmarks, which help to evaluate the board's broad policy decisions and the staff and external consultant's implementation decisions. Policy benchmarks measure broad investment opportunities of each sub-asset class in which MOSERS has chosen to invest. The strategy benchmarks represent decisions made by the CIO to strategically deviate from the policy asset allocation for each sub-asset class (mid-point of the strategic allocation range). The return of the strategy benchmarks are determined based upon the actual weight of the asset class multiplied by the appropriate benchmark.

The policy and strategy benchmarks are used in the following manner to evaluate decisions made by the board and staff:

- **Board Decisions:** The value added through board policy decisions is measured by the difference between the total fund policy benchmark return and the RRO. This difference captures the value added by the board through their policy asset allocation decisions relative to the return necessary to fund the system's liabilities. A policy benchmark return greater than the RRO reflects value added through board decisions. A policy benchmark return less than the RRO reflects losses or shortfalls in performance in funding the liabilities. These policy decisions are measured over long periods of time.
- **CIO and External Asset Consultant Decisions:** There are two components to decisions made by the CIO and external asset consultant, which are monitored by the board on an ongoing basis. These include 1) strategic sub-asset class allocation decisions, and 2) implementation decisions.

Strategy Decisions are sub-asset class allocation choices made by the CIO with the approval of the external asset consultant and the certification of the executive director to deviate from the policy benchmark weight. The value added through these decisions to overweight or underweight these sub-asset classes is measured by the difference between the strategy benchmark return and the policy benchmark return. This difference captures the value added by the CIO through sub-asset class strategic decisions relative to the board's broad policy allocation decisions. A strategy benchmark return greater than the policy benchmark return reflects value added through the sub-asset class allocation decisions. A strategy benchmark return less than the policy benchmark return reflects losses to the fund's performance based upon strategy decisions. Strategy decisions should be measured over all periods of time with majority weight placed on outcomes that have occurred over a market cycle.

Implementation Decisions are money manager selection choices made by the CIO with the approval of the external asset consultant and the certification of the executive director that the decision was made in accordance within the board's adopted governance policy. The value added through these decisions is measured by the difference between the actual portfolio return and the strategy benchmark return. This difference captures the value added through these manager selection decisions. An actual portfolio return greater than the strategy benchmark return reflects value added through these manager selection decisions. An actual portfolio return less than the strategy benchmark return reflects losses to the fund's performance based upon implementation decisions. Implementation decisions should be measured over all periods of time with a majority weight placed on outcomes that have occurred over a market cycle.

The board receives performance information on a quarterly basis to help ensure adequate monitoring of the fund's overall performance objectives.

Asset Classes
At the broad asset class level, policy and strategy benchmarks have been established to measure board, strategic, and implementation decisions. At the manager level, performance is measured against appropriate benchmarks for each particular investment mandate. Investment guidelines have been established for each manager outlining specific expectations for each portfolio. Many managers are employed with performance-based fee structures, which help to align the manager's interest with the total fund objectives.

TOTAL FUND REVIEW

As of June 30, 2006, the MOSERS investment portfolio had a market value of $7 billion. The graph to the right illustrates the growth of MOSERS' portfolio since the system's inception.

Investment Performance
MOSERS generated a return of 11.5% on investments for the fiscal year ended June 30, 2006.

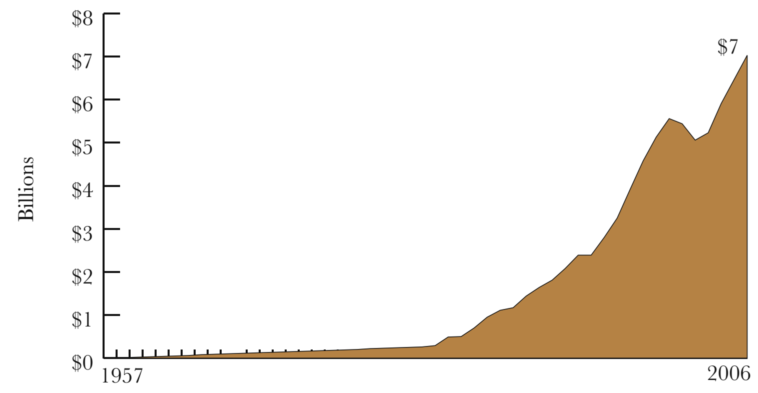
Performance for the fiscal year may be attributed to the various asset classes. During the year, the public equity portfolio generated returns of 17.3%; public debt added 3% while the alternatives portfolio produced results of 9.5%. The table to the right illustrates each sub-asset classes' contribution to the total return.

Investment Performance vs. the Actuarial Required Rate of Return
The first measure of comparison for the portfolio's investment performance is to determine how well the fund performed relative to the actuarial required rate of return. The RRO is the rate established by the board that MOSERS' investment portfolio must earn in order to meet future plan obligations after accounting for inflation. The actuarial funding objective is to produce a return that equals RRO (5%) plus inflation. The best known measure of inflation is the Consumer Price Index (CPI).[3] For purposes of examining fund performance relative to the actuarial required rate of return, we are interested in long periods of time. Given the volatile nature of the investment markets, we should not expect the portfolio to always meet the actuarial required rate of return in the short-term. The graph to the right, reflects that MOSERS' investment returns have exceeded the actuarial required rate of return over long periods of time.[4]

[3] CPI Source: United States Department of Labor, Bureau of Labor Statistics (not seasonally adjusted).

[4] Performance returns were calculated using a time weighted rate of return on market values.

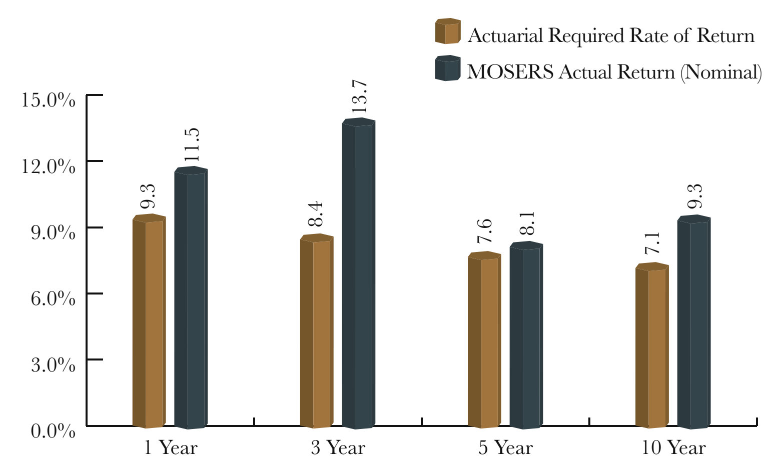
TOTAL FUND GROWTH



Sub-Asset Class Returns for Fiscal Year Ended June 30, 2006

Asset Class	Fiscal Year Return	Contribution to Total Return
Domestic equity	9.4%	1.7%
Developed international equity	26.0	4.6
Emerging markets	36.0	1.7
Hedged equity	9.2	0.8
Total public equity	**17.3**	**8.8**
Core bonds	0.9	0.1
High yield	5.3	0.2
Tips	(1.7)	(0.1)
Market neutral	9.0	0.7
Total public debt	**3.0**	**0.9**
Real estate	16.0	0.8
Commodities	13.3	0.4
Private debt	19.9	0.5
Timber	(2.6)	(0.1)
Private equity	6.2	0.3
Total alternatives	**9.5**	**1.9**
Total fund	**11.5%**	**11.5%**

TOTAL FUND ACTUAL RETURN VS. ACTUARIAL REQUIRED RATE OF RETURN



Investment Performance vs. Benchmark Comparisons
In addition to measuring performance relative to the RRO, the board also compares fund returns to the following two market benchmarks: the policy benchmark and the strategy benchmark. Descriptions of the policy and strategy benchmarks follow.

The policy benchmark provides an indication of the returns that have been achieved (excluding transaction costs) by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation.

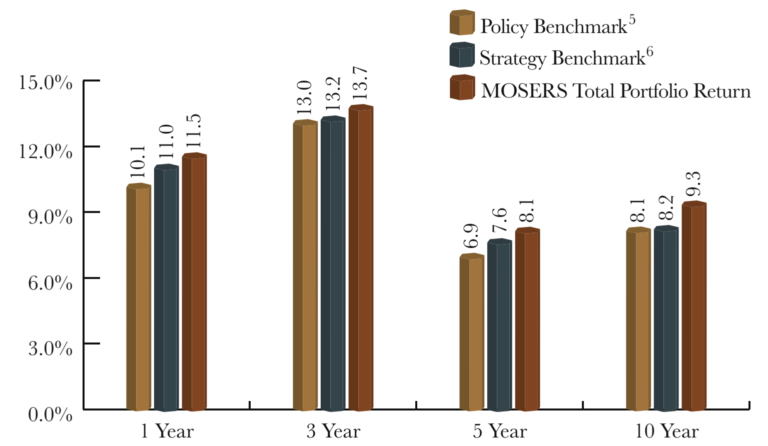
The strategy benchmark is more narrowly defined and focuses on the sub-asset class allocation decisions made by the CIO.

By comparing the policy benchmark to the strategy benchmark, the board is able to determine what value is being added through strategic decisions made by the CIO to position the fund away from the policy allocation. Value is being created if the strategy benchmark returns exceed the policy benchmark returns. The historical returns for the total fund versus these benchmarks are displayed in the bar graph to the right.

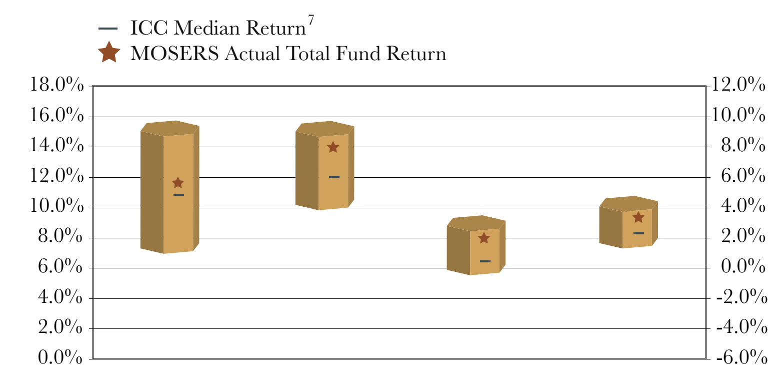
Similarly, by comparing the actual return to the strategy benchmark, the board will, over time, be able to judge the success or failure of the staff and the consultant in implementing the CIO's strategic decisions. The primary implementation decision is in determining which managers the fund should employ. Value is being added from manager selection if the total fund return exceeds the strategy benchmark return.

Investment Performance vs. Peer Universe
To a lesser extent, the board compares total fund performance to the returns generated by a peer group of public pension funds and compiled by the Independent Consultants Cooperative (ICC). For the past fiscal year, MOSERS' total fund return of 11.5% outperformed 75% of the ICC universe of public pension plans with assets in excess of

TOTAL FUND ACTUAL RETURN VS. BENCHMARKS



TOTAL FUND RETURN VS. ICC UNIVERSE



	1 Year	3 Year	5 Year	10 Year
Percentile	75%	88%	89%	85%
Observations	54	51	48	46

$1 billion. Historical data about MOSERS' total fund performance within the ICC universe is provided in the graph directly above.

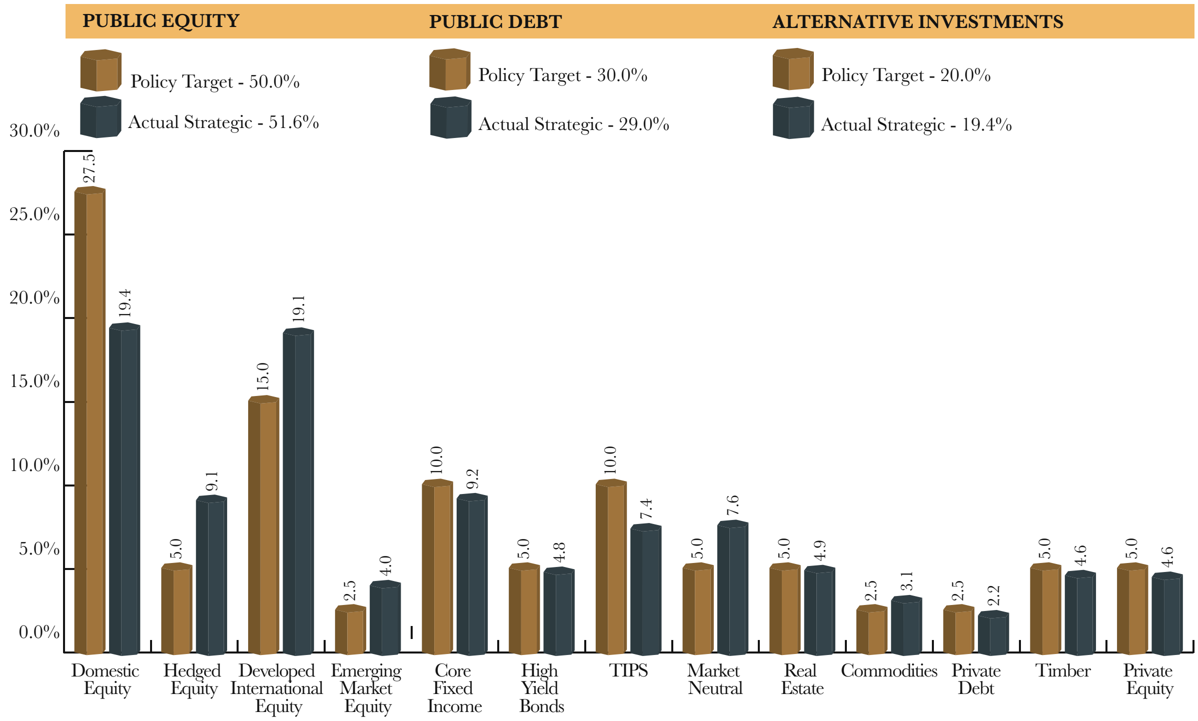
Total Fund Asset Allocation Overview
As of June 30, 2006, the board's broad policy allocation mix was 50% public equity, 30% public debt, and 20% alternative investments. The graph located on the following page illustrates the policy target as of June 30, 2006, for each sub-asset class, along with the actual strategic allocation to each type of investment.

5 As of 6/30/06, the policy benchmark was comprised of the following components: 50% total public equity policy benchmark, 30% total public debt policy benchmark, and 20% total alternative investments policy benchmark.

6 As of 6/30/06, the strategy benchmark was comprised of the following components: 51.6% total public equity strategy benchmark, 29% total public debt strategy benchmark, and 19.4% total alternative investments strategy benchmark.

7 The ICC is a cooperative of 17 independent consultants from across the U.S. and one major custodial bank that collectively provides performance data to create the universe of funds with assets in excess of $1 billion. Note that performance within this universe is captured gross of fees.

TOTAL FUND POLICY VS ACTUAL ALLOCATION (AS A PERCENTAGE OF THE TOTAL FUND)



In the spring of 2002, staff, in conjunction with Summit Strategies Group, the system's external asset consultant, conducted an asset/liability study to reexamine the policy asset allocation of the fund. The intent was to examine the portfolio's ability to generate the required rate of the return given return expectations from the various asset classes represented in the portfolio and to lower the total portfolio volatility. The formal study revealed that the MOSERS' portfolio could be further diversified in order to protect it from a variety of economic scenarios that might play out over time, thus, reducing the portfolio volatility and ultimately contribution rates.

In addition, the board granted flexibility to the CIO to make strategic decisions related to the allocation subject to predefined ranges. A strategic decision should be thought of as any decision that might cause MOSERS' actual portfolio to differ from the policy asset allocation. This has allowed MOSERS to capitalize on investment opportunities at the margin by overweighting asset classes that are viewed as "cheap" relative to their historical norm and underweighting asset classes that are "expensive" relative to their historical norm. Since being granted this authority in 2002, the ability to make strategic asset allocation decisions has added .25% of return annually or approximately $72 million of additional assets annually to the portfolio.

Statistics

The table below displays the statistical performance data (net of fees) of the total fund as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	11.5%	13.7%	8.1%	9.3%
Annualized standard deviation	6.0%	5.7%	9.1%	10.0%
Sharpe ratio	1.3	2.0	0.7	0.6
Beta*	1.1	1.0	1.0	1.0
Annualized alpha*	0.5%	1.0%	1.1%	1.5%
Correlation*	1.0	1.0	1.0	1.0

* As compared to total fund policy benchmark.

SCHEDULE OF INVESTMENT PORTFOLIOS BY ASSET CLASS

As of June 30, 2006

	Fair Value	Percentage of Investments at Fair Value
Public equity		
Domestic equity	$1,365,926,333	19.4%
International developed equity	1,340,627,932	19.1
Emerging market equity	283,293,796	4.0
Hedged equity	638,967,703	9.1
Total public equity	3,628,815,764	51.6
Public debt		
Core fixed income	646,804,239	9.2
High yield bonds	334,244,487	4.7
TIPS	520,471,380	7.4
Market neutral	535,560,862	7.6
Total public debt	2,037,080,968	28.9
Alternative investments		
Real estate	343,407,775	4.9
Commodities	217,793,403	3.1
Distressed debt	154,338,282	2.2
Private equity	318,570,887	4.5
Timber	321,406,580	4.6
Total alternative investment	1,355,516,927	19.3
Other portfolios		
Other investments	999,287	0.0
Cash reserve*	15,520,773	0.2
Total other	16,520,060	0.2
Grand total	$7,037,933,719	100.0%

Reconciliation to *Statements of Plan Net Assets*	
Total portfolio value	$7,037,933,719
STIF	(665,241,678)
Uninvested cash	59,297
Cash collateral for futures	(32,915,968)
Interest and dividend receivable	(11,810,042)
AR securities sold	(174,097,011)
AP securities purchased	224,738,350
Incentive fees payable	19,857,700
Custody, management and performance fees payable	1,274,148
Investments per *Statements of Plan Net Assets*	$6,399,798,514

* Cash reserve is not reflected as an individual asset class; therefore, minor rounding differences exist between the percentages reported in this schedule and other information contained in this section.

INVESTMENT MANAGER FEES

For the Year Ended June 30, 2006

	Total Fees Paid	Change in Incentive Fee Accrual
Public equity managers		
Americap Advisors	$ 143,363	$ 0
Capital Guardian Trust	551,738	0
Legg Mason	912,793	(524,630)
Dimensional Fund Advisors	250,000	0
Mastholm Investment Managers	936,858	0
Merrill Lynch - EAFE	206,707	0
Silchester	2,543,579	0
Blakeney	7,425,784	0
Graham, Mayo, and Van Otterloo	1,375,621	0
Merrill Lynch Emerging Markets	414,361	0
Blackstone Hedged Equity	4,364,074	0
Total public equity managers	19,124,878	(524,630)
Public debt managers		
Blackrock MBS/ABS	232,694	0
NISA Fixed Income	205,061	0
Blackrock High Yield	1,282,449	0
Total public debt managers	1,720,204	0
Alternative investment managers		
Blackstone Real Estate IV	5,832,737	0
Blackstone Real Estate V	91,614	0
Oaktree Capital Management - Real Estate	607,122	1,940,818
TCW Energy Fund	299,418	0
TCW Coinvestment	0	0
Merit Energy	0	0
Bush O'Donnell	93,750	0
NISA Commodities	1,002,447	0
DDJ Capital Management	750,000	1,123,808
Oaktree Capital Management - Distress Debt	(1,147,058)	534,243
Wayzata Advisers	476,706	4,886,371
MHR Fund Management	761,789	3,048,153
Blackstone Distressed	1,390,405	0
Relational	1,198,552	0
Blum Capital	3,447,117	0
Catterton Partners	388,022	0
Silver Lake	309,607	0
Parish Capital	206,595	0
OCM GFI Power Oppty	382,673	0
Silver Creek	0	0
Bridgepoint	120,629	0
JLL Partners	967,527	0
Veritas	447,486	0
RMS Wildwood	521,298	0
GFP	26,285	0
Hoisington	179,435	0
Total alternative investment managers	18,354,156	11,533,393
Alpha program managers		
Aetos	1,799,984	0
AQR	11,068,223	0
BGI	3,332,926	0
Bridgewater	2,957,420	0
PAAMCO	3,189,355	0
Blackstone	3,652,387	0
Total alpha program managers	26,000,295	0
Other managers		
Brinson Partners	(2,580)	
NISA Beta Program	232,591	0
MOSERS Inc.	67	0
Total other managers	230,078	0
Grand totals	$65,429,611	$11,008,763

PUBLIC EQUITY ASSET CLASS SUMMARY

As of June 30, 2006, the MOSERS public equity portfolio had a market value of $3.6 billion, representing 51.6% of the total fund. Performance for the fiscal year was 17.3% net of fees and expenses.

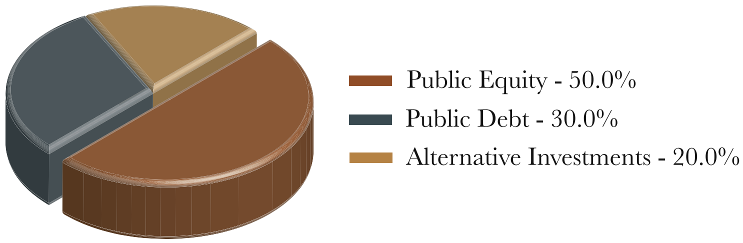
Highlights
The public equity portfolio underwent some minor changes during the year. A manager was terminated and some tactical positions were added to the portfolio. Here are a few of the highlights:

- The passive allocation to domestic equity was altered to overweight large cap equities relative to the benchmark.
- An index manager was terminated to reduce the overweight to emerging markets.
- A passive position in Japanese equities was initiated. The expectation is that the Japan market will outperform the international equity benchmark.

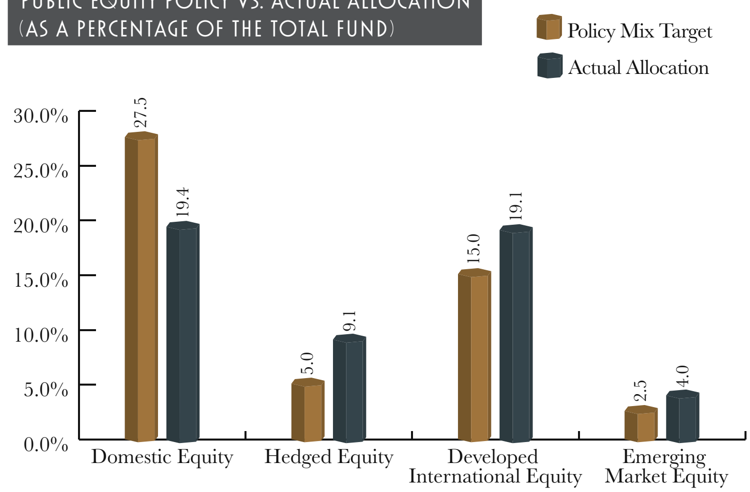
Portfolio Structure
The public equity portfolio has a target allocation of 50% of the total fund. The portfolio is comprised of four sub-asset classes including domestic equity, hedged equity, international developed equity, and emerging market equity. The center graph illustrates the actual sub-asset class allocation relative to the board's policy allocation for each asset class. This reflects the CIO's strategic decisions to overweight or underweight sub-asset classes as of June 30, 2006. These decisions are confined to pre-established ranges set by the board to provide risk controls within the portfolio. The table below the bar graph summarizes the sub-asset class allocation ranges established by the board.

Market Overview
The equity markets in FY06 contributed positive returns for the third consecutive year. U.S. equities returned 9.4% for FY06. As was the case in FY04 and FY05, the public equity portfolio performed better in the first half of the year than in the second half. Energy costs soared again this fiscal year.

PUBLIC EQUITY ALLOCATION



PUBLIC EQUITY POLICY VS. ACTUAL ALLOCATION (AS A PERCENTAGE OF THE TOTAL FUND)



Strategic Sub-Asset Allocation Ranges (As a Percentage of the Total Fund)

Sub-Asset Class	Minimum	Maximum	Policy Target
Domestic equity	15.0%	40.0%	27.5%
Hedged equity	0.0	10.0	5.0
Developed int'l equity	5.0	25.0	15.0
Emerging market equity	0.0	5.0	2.5

Oil started the year at $56 per barrel and ended the year at $74 per barrel. During this year, the Federal Reserve raised short-term interest rates eight times. Rates began the year at 3.25% and ended the year at 5.25%. Hurricane Katrina brought destruction to the gulf coast and oil facilities on land and in the gulf. In spite of these issues, the Russell 3000 still generated a respectable 9% return. The strength of corporate earnings and the willingness of the U.S. consumer to continue to spend provided much of the impetus for the stock market's positive performance.

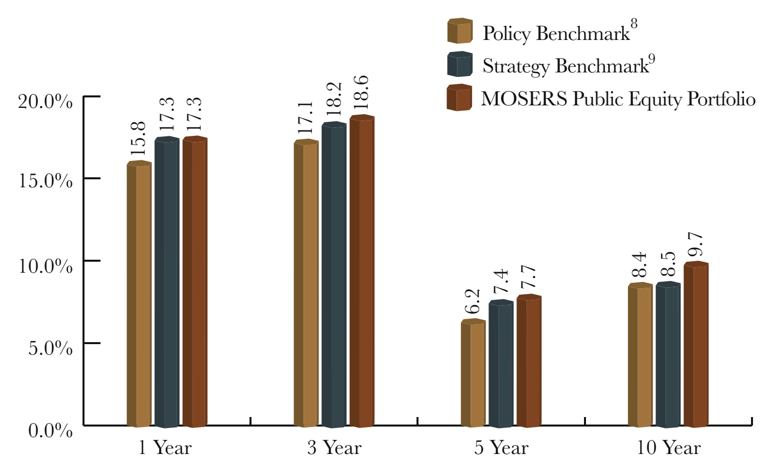
The international markets returned 28% for the year. The major developed markets were strong across the board. The U.S. dollar weakened over the year; therefore, the currency impact on unhedged portfolios was positive in total with Japan being the exception. In aggregate, the weakening dollar added about 2% to the developed international return. The emerging markets were up 34% in local currency. As with developed international equity, the weakening dollar added nearly 2% additional return while unhedged dollar returns came in just below 36%.

Our view continues to be that future expected returns from equities are below their long-term average. The impact of higher energy costs and rising interest rates on corporations and the consumer will be watched closely over the coming months. The threat of terrorism continues to be a wild card in the market outlook. The domestic housing market is slowing. The impact of the housing sector could be felt throughout the economy and the markets. Conflicts in Iran, Iraq, North Korea, and the middle east all present potential problems for world markets.

Performance

The public equity portfolio returned 17.3% for the fiscal year, exceeding the policy benchmark return of 15.8% and matching the strategy benchmark return of 17.3% as illustrated in the graph to the right. FY06 proved to be another strong year for the public equity markets, both domestic and international. The positive performance of the actual portfolio relative to the policy benchmark shows value added by staff and the external asset consultant through strategic decisions and manager selection decisions. The strategy benchmark is compared to the policy benchmark to capture the value added by strategic allocation decisions. In FY06, 1.5%, or approximately $50 million, of value was added through strategic allocation decisions. The primary drivers were overweights to both developed non-U.S. and emerging markets with a corresponding underweight to U.S. equities. Within public equity, emerging markets and developed international were the best performers. Emerging markets led with a return of 36% and the developed international markets posted a 25% return as reflected in the table on page 65. In order to capture the impact of manager selection decisions, the actual portfolio return is compared to the strategy benchmark. In FY06, manager selection decisions did not add or detract value.

PUBLIC EQUITY RETURN VS BENCHMARKS



Top Ten Holdings

The top ten holdings within the public equity portfolio as of June 30, 2006, are illustrated below. A detailed listing of holdings is available upon request.

Ten Largest Holdings as of June 30, 2006	Market Value	Percent of Total MOSERS Public Equity Portfolio
Talisman Energy	$26,143,243	0.72%
Komatsu	21,252,438	0.59
Mitsubishi UFJ Financial Group	19,441,017	0.54
Bouygues	19,393,873	0.53
Toray Industries Inc.	17,876,866	0.49
Lonza Group AG	17,611,922	0.49
LVMH Moet Hennessy	16,014,631	0.44
Keppel Corp.	15,635,628	0.43
Tesco Ord	13,716,514	0.38
General Electric Co.	13,477,344	0.37

8 As of 6/30/06, the public equity policy benchmark was comprised of the following components: 65% Russell 3000, 30% MSCI EAFE Net, and 5% MSCI EMF.

9 As of 6/30/06, the public equity strategy benchmark was comprised of the following components: 40.3% domestic equity strategy benchmark (comprised of the S&P 100, and Russell 3000), 17.7% hedged equity strategy (40% of S&P 500 + 5%), 34.2% MSCI EAFE Net, and 7.8% MSCI EMF.

DOMESTIC EQUITY

Market Value

The domestic equity allocation was $1.4 billion or 19.4% of the total fund as of June 30, 2006.

Summary of Portfolio

MOSERS maintains a significant allocation to publicly traded shares of corporations domiciled in the U.S. domestic equity exposure is achieved through broadly diversified portfolios representing a variety of styles, sectors, and market capitalizations and an allocation to the beta/alpha program (see page 95 for further details). The domestic equity component is expected to contribute significantly to the fund's achievement of a long-term real return in excess of the 5% objective set by the board due to equities' historic return premium over inflation. In addition, we would expect this component to perform well in periods of falling inflation and rising growth and offer income potential through dividend payments. As of June 30, 2006, MOSERS was underweight the policy benchmark in this sub-asset class as valuations relative to the other sub-classes within public equity appear somewhat high. In addition, a large current account deficit is expected to put downward pressure on the U.S. dollar relative to our trading partners.

Statistics

The table below displays the statistical performance data (net of fees) of the domestic equity portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	9.4%	14.2%	5.1%	9.6%
Annualized standard deviation	8.5%	9.9%	16.4%	16.6%
Sharpe ratio	0.6	1.2	0.2	0.3
Beta*	1.1	1.2	1.2	1.0
Annualized alpha*	(0.9)%	(0.5)%	1.2%	0.8%
Correlation*	1.0	1.0	1.0	1.0

* As compared to the Russell 3000 Index

Investment Advisors

As of June 30, 2006, MOSERS had contracts with four external investment advisors who manage 49.6% of the domestic equity portfolio. The remaining 50.4% of the portfolio is in the beta/alpha program.

In FY06, there were no managers hired or terminated in the domestic equity portfolio. Management expenses for these managers can be found on page 69 under the Total Fund Overview Section of this report.

Investment Advisor	Style	Portfolio Market Value
AmeriCap Advisers, LLC	Active all-cap	$ 169,169,104
Capital Guardian Trust Co.	Active all-cap	210,915,670
Dimensional Fund Advisors	Enhanced SMID-cap	120,218,541
Legg Mason Capital Management, Inc.	Active all-cap	177,438,241
Beta/alpha program	Enhanced index	624,762,483
MOSERS S&P 100	Index	63,422,294
Total		$1,365,926,333

Brokerage Activity

The brokerage activity shown below occurred within the domestic equity portfolio during the fiscal year.

Brokerage Firm	Shares Traded	Dollar Volume of Trades	Commissions Dollar Amount	Commissions Value Per Share
U.S. Clearing Institutional Trading	53,631,015	$874,708,403	$1,215,384	$0.02
Banc of America Securities	2,817,120	58,737,561	53,259	0.02
Pershing, LLC	1,509,733	85,660,248	51,540	0.03
Instinet Corp.	2,625,181	57,832,694	43,010	0.02
Merrill Lynch	1,004,807	26,681,844	37,746	0.04
Citigroup Global Markets Corp.	809,250	26,104,782	28,841	0.04
Jefferies & Co. Inc.	731,644	18,519,788	23,447	0.03
UBS Securities, LLC	584,644	17,224,340	21,190	0.04
JP Morgan Securities Inc.	377,000	3,707,733	15,747	0.04
BMO Capital Markets Corp.	271,300	2,865,330	12,007	0.04
Credit Suisse	383,259	12,733,473	11,574	0.03
State Street Brokerage Services	346,400	1,522,975	10,423	0.03
Leerink, Swann & Co.	241,676	4,078,021	9,906	0.04
Deutsche Bank Securities Inc.	196,950	5,456,943	8,730	0.04
HSBC Securities Inc.	246,000	10,379,155	8,610	0.04
Sanders Morris Mundy	220,800	10,809,422	8,122	0.04
Baypint Trading, LLC	262,100	2,913,361	7,863	0.03
Bear Stearns & Co. Inc.	196,560	5,688,413	7,657	0.04
Morgan Stanley & Co. Inc.	267,335	9,341,965	7,379	0.03
Nutmeg Securities	155,100	2,358,650	7,284	0.05
Morgan Keegan & Co. Inc.	127,300	3,822,378	7,265	0.06
Raymond James & Associates Inc.	134,400	2,609,886	6,570	0.05
Sanford C. Bernstein & Co.	141,600	5,209,415	6,367	0.04
Friedman Billings Ramsey	120,600	1,890,202	5,695	0.05
BNY Brokerage Inc.	100,000	2,868,509	5,637	0.06
Liquidnet Inc.	277,130	5,041,571	5,543	0.02
Cantor Fitzgerald & Co. Inc.	108,626	1,983,011	5,514	0.05
Investment Technology Groups	279,489	7,938,770	4,973	0.02
Magna Securities Corp.	216,300	7,511,973	4,675	0.02
Lehman Brothers Inc.	157,900	5,800,733	4,403	0.03
Weeden & Co.	83,485	1,637,500	4,378	0.05
Capital Institutional Services Inc.	71,469	2,492,496	4,012	0.06
Piper Jaffray & Co.	91,000	2,987,466	3,210	0.04
Jones & Associates Inc.	59,125	1,371,029	3,188	0.05
Thomas Weisel Partners	84,100	4,561,403	3,097	0.04
Other (45 additional brokerage firms)	1,131,293	31,642,800	43,264	0.04
Total	70,061,691	$ 1,326,694,243	$ 1,707,510	

Soft Dollar Expenditures

In the fiscal year ended June 30, 2006, MOSERS' domestic equity managers declared $108,652 of the commissions generated were utilized to acquire a variety of services and research information. These expenditures, referred to as soft dollars (expendable excess commissions), are permitted under current SEC guidelines and represent 6% of MOSERS' domestic equity agency commissions.

Types of Services Acquired	Commissions Used	Percentage of Total
Consulting/benchmarks	$ 0	0.0%
Trading/analytic systems	65,184	60.0
Research services	29,841	27.5
Portfolio management systems	0	0.0
Pricing services	5,692	5.2
Proxy services	0	0.0
Exchange fees	7,935	7.3
Transaction cost analysis	0	0.0
Market research	0	0.0
Total	$108,652	100.0%

HEDGED EQUITY

Market Value

The hedged equity allocation was $639 million or 9.1% of the total fund as of June 30, 2006.

Summary of Portfolio

MOSERS added the hedged equity portfolio to the total fund in FY03. Hedged equity managers utilize skill-based investment strategies, which allow them to take advantage of periodic inefficiencies that may exist within the market. Hedged equity managers seek to produce consistent returns in various economic environments. The ultimate goal for hedged equity within the public equity portfolio is to provide downside protection in slumping equity markets. MOSERS utilizes a fund-of-funds approach and an allocation to the beta/alpha program to gain exposure to this asset class. This portfolio targets about 40% of the U.S. equity market volatility, which is expected to cushion returns during periods of negative returns from stocks. As of June 30, 2006, MOSERS' weight to this sub-asset class was 9.1% (the maximum weight is 10%) and above the policy target weight of 5%.

Statistics

The table below displays the statistical performance data (net of fees) of the hedged equity portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	Since Inception*
Annualized return	9.2%	8.8%	9.1%
Annualized standard deviation	6.3%	5.4%	5.1%
Sharpe ratio	0.8	1.2	1.4
Beta**	0.8	0.6	0.4
Annualized alpha**	2.1%	2.3%	3.3%
Correlation**	0.9	0.8	0.8

* Inception date January 2003

** As compared to the S&P 500 Index

Investment Advisors

Blackstone Alternative Asset Management and the beta/alpha program are the two investments in the hedged equity portfolio. The beta/alpha program was added to the hedged equity portfolio in FY05. The table below summarizes our investments with them as of June 30, 2006. Management fee information may be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
Blackstone Alternative Asset Management	Long/short equity	$369,998,151
Beta/alpha program	Portable alpha	268,969,552
Total		$638,967,703

INTERNATIONAL DEVELOPED EQUITY

Market Value
As of June 30, 2006, the international developed equity portfolio was $1.3 billion or 19.1% of the total fund.

Summary of the Portfolio
MOSERS' international developed equity allocation allows for participation in the growth of non-U.S. companies. Historically, this asset class has delivered returns at a premium relative to inflation, thus, enhancing the total fund's ability to achieve the long-term real rate of return objective of 5%. It is anticipated that this sub-asset class will perform well in periods of falling inflation and periods of rising growth. In addition, this asset class provides diversification associated with holding nondollar assets. As of June 30, 2006, MOSERS' allocation exceeded the policy allocation target of 15%. This overweight to international developed is a reflection of the outperformance of international versus domestic over the last year. The weakening U.S. dollar played a role in this performance differential.

Statistics
The table below displays the statistical performance data (net of fees) of the international developed equity portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	25.6%	23.6%	11.3%	9.0%
Annualized standard deviation	11.8%	10.1%	13.4%	13.6%
Sharpe ratio	1.8	2.1	0.7	0.5
Beta*	1.0	1.0	0.9	0.8
Annualized alpha*	(1.8)%	0.8%	2.0%	4.8%
Correlation*	1.0	1.0	1.0	0.9

* As compared to the MSCI EAFE Index

Investment Advisors
As of June 30, 2006, MOSERS had contracts with three external investment advisors for the management of three separate international developed equity portfolios. Two of these advisors are managing active portfolios and are expected to add incremental returns over the MSCI EAFE Net index through stock selection, country selection, and small amounts of currency hedging. The third manager holds Japanese equity index swaps to express the staff's and asset consultant's belief that Japanese stocks will outperform the MSCI EAFE Net index.

The table below displays the firms that were under contract with MOSERS during FY06 for management of international developed equity portfolios. Information on management fees paid may be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
Mastholm Asset Management	Active growth	$ 609,926,766
Silchester International Investors	Active value	616,357,851
NISA EAFE Short	Index hedge	(1,575,536)
NISA Topix Index Futures	Index overweight	115,918,851
Total		$1,340,627,932

Brokerage Activity

The following brokerage activity occurred within the international developed equity portfolio during the fiscal year.

Brokerage Firm	Shares Traded	Dollar Volume of Trades	Commissions Dollar Amount	Commissions Percentage
Merrill Lynch	33,405,498	$ 351,253,620	$ 626,334	0.18%
G-Trade Services Ltd.	50,111,235	590,712,154	496,701	0.08
Credit Suisse	29,774,181	227,607,521	487,990	0.21
Morgan Stanley & Co.	9,215,204	163,026,197	312,169	0.19
UBS AG	10,541,464	194,375,563	304,128	0.16
Nomura Securities Intl Inc.	35,274,215	126,155,042	282,098	0.22
JP Morgan Securities	8,199,638	149,546,638	278,997	0.19
Neonet Securities AB	22,859,263	395,987,086	250,628	0.06
Union Bank Securities	6,062,001	95,407,564	186,689	0.20
Exane	2,556,500	82,142,461	162,461	0.20
Credit Lyonnais Securities	17,200,915	63,823,562	143,663	0.23
Societe Generale	2,106,653	60,803,876	120,088	0.20
ABG Securities	3,482,500	49,743,328	99,505	0.20
Sanford C. Bernstein & Co.	3,343,339	52,363,255	94,519	0.18
Mainfirst Bank AG	1,044,600	42,742,941	85,443	0.20
Carnegie ASA	1,598,300	29,477,526	58,943	0.20
Other (Includes 18, each contributing 1% or less)	8,442,668	267,280,542	380,826	0.14
Total	245,218,174	$2,942,448,876	$ 4,371,182	

Soft Dollar Expenditures

In the fiscal year ended June 30, 2006, MOSERS' international developed equity managers declared $78,890 of the commissions generated were utilized to acquire a variety of services and research information. These expenditures, referred to as soft dollars (expendable excess commissions), are permitted under current SEC guidelines and represent 2% of MOSERS' international developed equity agency commissions.

Types of Services Acquired	Commissions Used	Percentage of Total
Research services	$78,890	100.0%

EMERGING MARKET EQUITY

Market Value

As of June 30, 2006, the emerging market equity portfolio was $284.3 million or 4% of the total fund.

Summary of the Portfolio

The emerging market equity allocation allows for participation in the growth of companies in emerging economies outside of the U.S. It is anticipated that this sub-asset class will perform well in periods of rising inflation, as these economies tend to be driven by commodity businesses. In addition, this asset class provides diversification associated with holding nondollar assets and currently offers some of the best fundamental valuations available from equity markets around the globe. As of June 30, 2006, MOSERS' allocation was 4% of the total fund, above the policy allocation target of 2.5%.

Statistics

The table below displays the statistical performance data (net of fees) of the emerging market equity portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception*
Annualized return	36.0%	35.3%	23.1%	8.2%
Annualized standard deviation	18.9%	14.2%	18.4%	23.5%
Sharpe ratio	1.7	2.3	1.1	0.2
Beta**	0.8	0.8	0.9	1.0
Annualized alpha**	5.7%	7.3%	3.4%	1.0%
Correlation**	1.0	1.0	1.0	1.0

* Inception date August 1996

** As compared to the MSCI EMF Index

Investment Advisors

As of June 30, 2006, MOSERS had three emerging market equity managers. One manager was terminated.

The table below displays the firms under contract with MOSERS during FY06 for the management of emerging market equity portfolios. Information regarding management fees may be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
GMO, LLC	Active growth	$152,521,001
Blakeney Management	Active value	131,466,569
NISA Currency Forwards	Index hedge	(978,203)
Merrill Lynch Quantitative Advisors	Enhanced index	284,429
Total		$283,293,796

Brokerage Activity

The table below summarizes brokerage activity, which occurred within the emerging market equity portfolio throughout the fiscal year. Information in the table is strictly for the Merrill Lynch Emerging Markets Free portfolio.

Brokerage Firm	Shares Traded	Dollar Volume of Trades	Commissions Dollar Amount	Commissions Percentage
JP Morgan Securities	279,646,938	$ 66,682,435	$143,888	0.22%
Societe Generale	55,356,048	11,324,317	26,771	0.24
Merrill Lynch	103,487,432	25,109,719	15,079	0.06
Morgan Stanley & Co.	148,840	1,947,264	11,296	0.58
Raymond James	2,183,000	2,095,509	6,268	0.30
Camara de Lequidacao e Custodia	30,688,147	1,815,174	4,534	0.25
Instinet Corp.	71,000	5,602,470	1,420	0.03
SD Indeval SA de CV	121,375	194,291	486	0.25
Citigroup Global Markets Inc.	39,510	338,814	475	0.14
Bancolombia SA	18,047	41,101	265	0.65
Agora CTVM	15,300,000	151,009	227	0.15
Corredores Asociados SA	6,459	34,065	220	0.65
Jefferies & Co. Inc.	6,900	569,323	138	0.02
B Trade Services LLC	5,722	205,305	57	0.03
Banco de Chile	40,763	9,243	46	0.50
Shanghai Securities	100	21	0	0.90
Total	487,120,281	$116,120,060	$211,170	

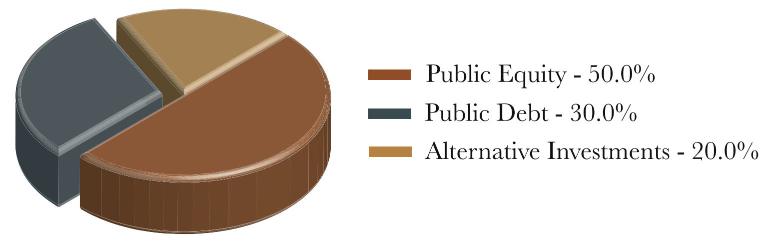
Soft Dollar Expenditures

There was no soft dollar activity within this sub-asset class within FY06.

PUBLIC DEBT ASSET CLASS SUMMARY

As of June 30, 2006, the public debt allocation had a market value of $2 billion, representing 29% of the total fund. Performance for the fiscal year was 3% net of fees and expenses.

PUBLIC DEBT ALLOCATION



Highlights

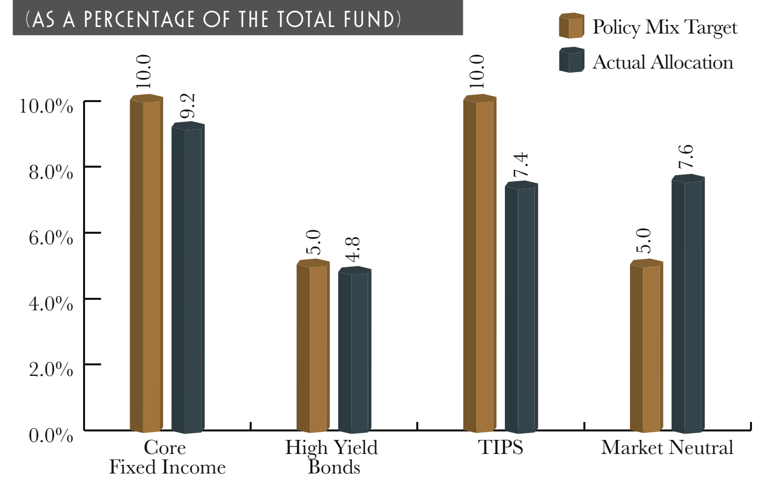
The major theme in the public debt portfolio was the continued expansion of the beta/alpha program within the core fixed income sub-asset class. As beta exposure was obtainable in greater amounts at inexpensive levels, it was viewed as a far more efficient method of gaining core exposure. Additionally, the alpha component is highly likely to generate returns well in excess of the returns from traditional fixed income managers with similar risk.

Near the end of the fiscal year, steps were taken to significantly reposition the high yield portfolio to one that is less sensitive to credit risk and less vulnerable to higher interest rates. The portfolio shift was in its beginning stages at fiscal year end.

Portfolio Structure

The public debt portfolio has a target allocation of 30% of the total fund. This portfolio is comprised of four sub-asset classes, which include core fixed income, high yield bonds, Treasury Inflation Protected Securities (TIPS), and market neutral. The bar graph illustrates the actual sub-asset class allocations relative to the board's policy allocation for each of these sub-asset classes. Differences reflect the CIO's strategic decisions to overweight or underweight sub-asset classes as of June 30, 2006. These decisions are confined to pre-established ranges that have been set by the board. The table below the bar graph summarizes the sub-asset class allocation ranges established by the board.

PUBLIC DEBT POLICY VS. ACTUAL ALLOCATION
(AS A PERCENTAGE OF THE TOTAL FUND)



Strategic Sub-Asset Allocation Ranges
(as a Percentage of the Total Fund)

Sub-Asset Class	Minimum	Maximum	Policy Target
Core fixed income	5.0%	15.0%	10.0%
High yield bonds	0.0	10.0	5.0
TIPS	5.0	15.0	10.0
Market neutral	0.0	10.0	5.0

Market Overview

For the second consecutive fiscal year, the Federal Reserve continued "measured" tightening of the federal funds rate at each of its regularly scheduled meetings. These 25 basis point increases each meeting brought the fund's rate from 3.25% to 5.25% over the course of the fiscal year. Long treasury rates started the fiscal year at about 4.2% and ended the fiscal year at approximately 5.2%, which, in conjunction with short-term rates rising at an even faster pace, contributed to a completely flat yield curve with rates at approximately 5.25% across the full maturity spectrum. With the rise in long-term treasury rates stemming from the dramatic increase in short-term rates as well as heightened inflationary expectations, this took a toll on the return of the Lehman U.S. Treasury 20+ Year Index, which was down -8.3% for the fiscal year. This return would have been more painful had the curve normalized with further escalation of long-term yields. The fact that the yield curve is currently flat reflects investor expectations that interest rates will likely stabilize at these higher levels and that the Fed's aggressive tightening is likely to have staved off the inflationary threat. The price of oil has continued to be a factor affecting the markets. Oil prices rose approximately 30% over the fiscal year. Inflationary implications from higher oil prices tend at times to hurt bond prices but have also been known to have a dampening effect on economic growth, which is usually good for bonds. Clearly, the bond market has shown mixed signals with respect to rising oil prices. An important factor in rates being lower than they otherwise should be, in a Fed tightening environment, is the huge inflow of foreign capital into the U.S. bond market driving prices up and yields lower.

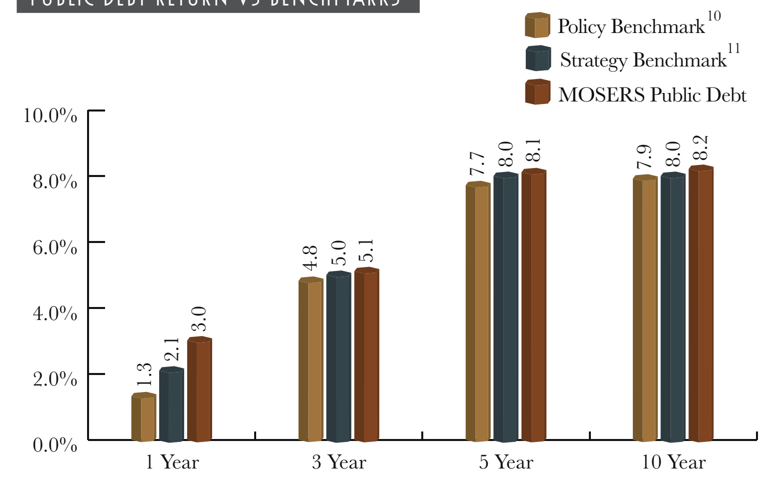
The broad debt market as represented by the Lehman Aggregate Index experienced a return of -0.8% for the fiscal year. The investment grade corporate market lost -2.2% during the fiscal year while the high yield market had a positive return of 4.8%. Credit spreads continued to tighten during this fiscal year, about 50 basis points, mostly due to improved credit quality across the board, decreased issuance, and investors' appetite for incremental yield in a generally low yield environment. High yield spreads have been approximately 200 basis points lower than their long-term average.

Overall, the general theme for FY06 was that the economy grew at a healthy pace and that the Federal Reserve is nearing completion of its tightening mission, offering support for why credit spreads are tight and why interest rates are likely to stabilize at these higher levels.

Performance

The public debt portfolio returned 3% for the fiscal year, exceeding the policy benchmark return of 1.3% and the strategy benchmark return of 2.1%. During the fiscal year, the outperformance over the policy benchmark was attributable primarily to a strategic overweight to market neutral and a strategic underweight to TIPS. Longer-term portfolio returns compare well to the policy and strategy benchmarks. The bar graph illustrates performance over longer periods of time.

PUBLIC DEBT RETURN VS BENCHMARKS



Top Ten Holdings

The top ten holdings within the public debt portfolio as of June 30, 2006, are illustrated in the table below. A complete list of holdings within the public debt portfolio is available upon request.

Ten Largest Holdings as of June 30, 2006	Market Value	Percent of Total MOSERS Public Debt Portfolio
U.S. Treasury Inflation Index Bd - 2.375%, '25	$119,377,452	5.9%
U.S. Treasury Inflation Index Nt - 2.000%, '14	115,280,684	5.7
U.S. Treasury Inflation Index Nt - 4.250%, '10	98,651,089	4.8
U.S. Treasury Inflation Index Nt - 3.000%, '12	78,204,217	3.8
U.S. Treasury Inflation Index Nt - 3.625%, '08	41,214,378	2.0
U.S. Treasury Inflation Index Bd - 2.000%, '26	29,536,873	1.4
U.S. Treasury Inflation Index Nt - 1.875%, '15	18,908,349	0.9
Federal Nat'l Mtg Assn Sf Mtge - 5.000%, '36	17,337,110	0.9
Federal Home Ln Bks Cons Bd - Due 7/3/06	12,294,926	0.6
U.S. Treasury Inflation Index Bd - 3.875%, '29	12,275,061	0.6

[10] As of 6/30/06, the public debt policy benchmark was comprised of 33.3% Lehman Aggregate, 33.3% Lehman U.S. TIPS, 16.7% Lehman High Yield, and 16.7% T-Bills + 4%.

[11] As of 6/30/06, the public debt strategy benchmark was comprised of the following components; 31.7% Lehman Aggregate, 25.5% Lehman U.S. TIPS, 16.5% Lehman High Yield, and 26.3% T-Bills + 4%.

CORE FIXED INCOME

Market Value

The core fixed income allocation was $646.8 million as of June 30, 2006, or 9.2% of the total fund, slightly below its policy target of 10%.

Summary of Portfolio

The core fixed income sub-asset class gives the total fund exposure to high quality fixed income instruments, which, in turn, provide stable cash flows and excellent liquidity to the portfolio. Types of fixed income securities held within this portfolio may include U.S. treasuries, mortgage-backed securities, asset-backed securities, agency securities, and investment grade corporate bonds. The addition of the beta/alpha program, commencing in FY05, to the core segment of the portfolio has proved to be an efficient means of achieving superior risk adjusted returns. Please refer to the section on beta/alpha later in this report for a more complete description of the program and its rationale. While historically fixed income has not outperformed equities, the asset class does provide diversification to the portfolio in a variety of different economic scenarios. Core fixed income performs particularly well in periods of good economic growth and falling inflation. In addition, because of the generally high quality nature of the core segment, one can also expect adequate performance from the core portfolio in periods of modestly falling growth and stable inflation.

Statistics

The table below displays statistical performance data (net of fees) for the core fixed income portfolio as of June 30, 2006, with comparisons shown to the Lehman Aggregate Bond Index.

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized return	0.9%	2.2%	5.1%	6.3%
Annualized standard deviation	2.6%	3.8%	4.1%	3.9%
Sharpe ratio	(1.3)	(0.1)	0.7	0.7
Beta*	0.9	0.9	1.0	1.1
Annualized alpha*	1.6%	0.3%	0.0%	(0.4)%
Correlation*	1.0	1.0	1.0	1.0

* As compared to the MOSERS' Core Bond Index

Investment Advisors

As of June 30, 2006, MOSERS had contracts with two external investment advisors for the management of two separate fixed income portfolios – one for mortgage-backed/asset-backed securities and one for government/corporate securities. Additionally, the core segment participates in the beta/alpha program as mentioned. In the program, beta and alpha are completely separated such that the beta exposure is gained through synthetic replication of the core components (also managed by our government/corporate manager) and the alpha is gained through the manager pool described in the later section.

The table below displays the investment advisors that were under contract with MOSERS during FY06 for management of core fixed income portfolios. Information regarding management fees paid to these managers may be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
BlackRock Financial Management, Inc.	Enhanced mortgage-backed and asset-backed securities index	$154,146,030
NISA Investment Advisors, LLC	Enhanced gov't/corp index	125,242,712
Beta/alpha program	Portable alpha	367,415,497
Total		$646,804,239

Brokerage Activity

In FY06, MOSERS generated the following core fixed income brokerage activity ranked by percentage of total through the purchase and sale of core fixed income assets.

Broker/Dealer Firm	Par Amount Traded	Market Value Traded	Percent of Total Trading Volume by Market Value
Goldman Sachs	$2,443,865,559	$ 2,414,003,574	21.3%
Citigroup	1,680,876,131	1,669,743,785	14.7
Deutsche Bank	1,364,219,347	1,344,939,383	11.9
Bank of America	906,853,046	896,300,799	7.9
UBS Securities	878,375,640	866,077,706	7.7
Credit Suisse	790,760,979	779,865,452	6.9
Morgan Stanley	716,401,605	706,485,382	6.3
Lehman Brothers	684,139,038	675,272,642	6.0
Bear Stearns	451,461,084	447,476,346	4.0
Barclay's	383,381,870	382,846,439	3.4
Merrill Lynch	351,010,000	349,924,786	3.1
Greenwich Capital	350,248,072	345,383,199	3.1
J.P. Morgan Chase	149,082,541	148,681,754	1.3
Other (includes 23, each contributing less than 1%)	273,058,566	276,127,063	2.4
Total	$11,423,733,478	$11,303,128,310	100.0%

HIGH YIELD BONDS

Market Value

The high yield bond allocation was $334.2 million as of June 30, 2006, or 4.8% of the total fund.

Summary of Portfolio

The high yield bond portfolio invests in debt securities whose credit ratings are below investment grade. Relative to the core fixed income portfolio, this sub-asset class provides superior coupon cash flow, as well as some diversification benefit due to a reduced sensitivity to changes in interest rates. MOSERS views this allocation as one that is likely to be changeable and very much dependent upon the particular stage of the economic cycle being experienced at the time of the allocation decision. As of June 30, 2006, MOSERS is slightly under the 5% policy target allocation to high yield bonds.

Statistics

The table below displays the statistical performance data for the high yield bond portfolio as of June 30, 2006, with comparisons shown to the Lehman High Yield Bond Index.

Portfolio Characteristics	1 Year	3 Year	Since Inception*
Annualized return	5.2%	8.8%	11.1%
Annualized standard deviation	2.7%	4.2%	5.3%
Sharpe ratio	0.4	1.5	1.7
Beta**	0.9	0.9	0.7
Annualized alpha**	1.0%	0.7%	4.2%
Correlation**	1.0	1.0	0.9

* Inception date October 2001

** As compared to the Lehman High Yield Bond Index

Investment Advisors

As of June 30, 2006, MOSERS had a contract with one external investment advisor for the management of the high yield bond portfolio. Information related to this manager is included in the table below. For information on management fees paid, consult the table on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
BlackRock Financial Management, Inc.	Active high yield bond	$334,244,487

Brokerage Activity

In FY06, MOSERS generated the following high yield bond brokerage activity ranked by percentage of total through the purchase and sale of high yield assets. Brokerage activity for FY06 is listed in the chart below.

Broker/Dealer Firm	Par Amount Traded	Market Value Traded	Percent of Total Trading Volume by Market Value
Barclay's	$344,100,000	$344,038,396	29.8%
Lehman Brothers	285,857,000	283,277,848	24.6
Credit Suisse	82,371,436	81,573,464	7.1
J.P. Morgan Chase	65,970,373	64,763,903	5.6
Bank of America	59,578,000	57,811,464	5.0
Merrill Lynch	55,401,452	53,686,635	4.7
Morgan Stanley	45,722,274	45,467,716	3.9
Deutsche Bank	43,865,000	41,713,014	3.6
Citigroup	35,275,000	36,889,826	3.2
Goldman Sachs	38,741,692	36,447,532	3.2
Bear Stearns	28,406,000	27,216,054	2.4
Wachovia Securities	22,505,000	21,321,900	1.8
Pershing	17,360,000	16,873,263	1.5
UBS Securities	17,260,000	16,023,111	1.4
Other (includes 15, each contributing less than 1%)	26,380,000	25,763,351	2.2
Total	$1,168,793,227	$1,152,867,477	100.0%

TREASURY INFLATION PROTECTED SECURITIES (TIPS)

Market Value

The TIPS allocation was $520.5 million or 7.4% of the total fund as of June 30, 2006.

Summary of Portfolio

TIPS are fixed income securities issued and guaranteed by the U.S. government. The yield on these securities is specifically tied to inflation, as measured by the CPI, plus a predetermined yield above and beyond inflation. The TIPS allocation provides an excellent match relative to the system's liabilities in terms of its ability to provide inflation protection. As of June 30, 2006, MOSERS is 2.6% under the 10% policy target allocation to TIPS, which can be attributed in part to a strategic shift to an overweight policy target for the market neutral sub-asset class along with a slight bias, in our view, as to the direction of interest rates likely being higher rather than lower. Given those two conditions, TIPS are likely to underperform relative to market neutral.

Statistics

The table below displays the statistical performance data for the TIPS portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception*
Annualized return	(1.7)%	4.8%	8.9%	9.0%
Annualized standard deviation	4.3%	8.0%	9.9%	8.3%
Sharpe ratio	(1.3)	0.3	0.7	0.7
Beta**	1.0	1.0	1.0	1.0
Annualized alpha**	(0.1)%	0.1%	0.1%	0.1%
Correlation**	1.0	1.0	1.0	1.0

*Inception date August 1996

** As compared to the MOSERS' TIPS Policy

Investment Advisors

As of June 30, 2006, the TIPS portfolio was 100% internally managed. The following table summarizes the details.

Investment Advisor	Style	Portfolio Market Value
Internal staff	Passive inflation-indexed bonds	$520,471,380

Brokerage Activity

In FY06, MOSERS generated the following TIPS brokerage activity ranked by percentage of total through the purchase and sale of TIPS.

Broker/Dealer Firm	Par Amount Traded	Market Value Traded	Percent of Total Trading Volume by Market Value
Barclay's	$44,353,094	$44,472,219	87.2%
Citigroup	6,550,000	6,539,172	12.8
Total	$50,903,094	$51,011,391	100.0%

MARKET NEUTRAL

Market Value

As of June 30, 2006, the market neutral allocation was $535.6 million or 7.6% of the total fund.

Summary of Portfolio

The market neutral portfolio consists of a variety of managers who utilize skill-based investment strategies, which allow them to take advantage of periodic inefficiencies that may exist within the market. The expectation for this sub-asset class is to produce consistent absolute returns in various economic environments. More directly, we expect this portfolio to generate returns of 4% in excess of returns on 90-day treasury bills with similar volatility to what we expect from the core fixed income portfolio. Market neutral investments also provide diversification and downside protection to the portfolio. MOSERS utilizes its beta/alpha program described on page 95 to gain exposure to this sub-asset class. This allows MOSERS to invest in an extremely diversified pool comprised of a variety of different types of strategies that provide additional risk protection and alpha that is uncorrelated to both the stock and the bond markets. As of June 30, 2006, MOSERS is 2.6% over the 5% policy target allocation to market neutral.

Statistics

The table below displays the statistical performance data (net of fees) for the market neutral portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	Since Inception*
Annualized return	9.0%	5.8%	6.5%
Annualized standard deviation	2.2%	2.1%	2.2%
Sharpe ratio	2.2	1.6	2.0

*Inception date December 2002

Investment Advisors

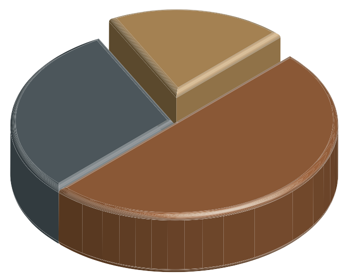
MOSERS' market neutral exposure is captured through the six managers comprising the alpha program, which is detailed on page 96. The table below summarizing MOSERS' market neutral investment within this pool as of June 30, 2006. Information on manager fees paid can be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
Beta/alpha program	Market neutral	$535,560,862

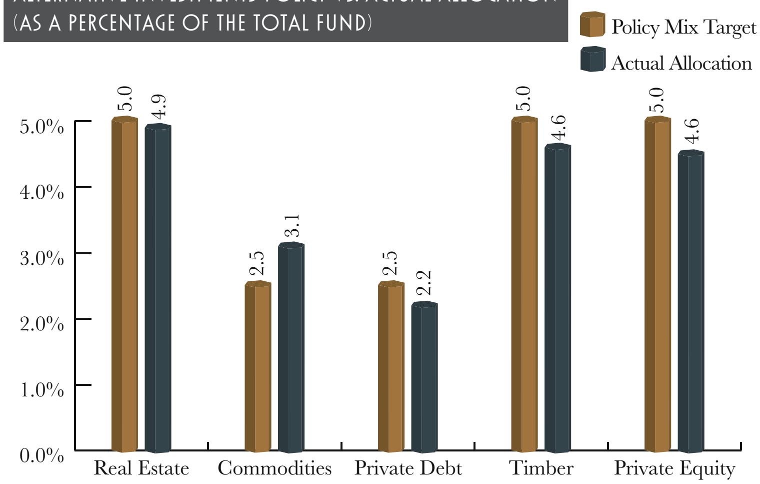
ALTERNATIVE INVESTMENTS ASSET CLASS SUMMARY

As of June 30, 2006, the alternative investment portfolio had a market value of $1.4 billion, representing 19.4% of the total fund. Performance for the fiscal year was 9.5% net of fees and expenses. Although the absolute size of the alternative investment portfolio increased by $375 million over the last twelve months, the relatively stronger public equity allocation returns resulted in a decreased percent of the overall fund from 20.3% to 19.4%.

ALTERNATIVE INVESTMENT ALLOCATION



ALTERNATIVE INVESTMENTS POLICY VS. ACTUAL ALLOCATION (AS A PERCENTAGE OF THE TOTAL FUND)



Highlights

During FY06, MOSERS made its first international timber investment. MOSERS now has a small ownership interest in timber in Chile, Uruguay, and Australia. These assets complement the initial timberland investment in the southeastern U.S., and they further our goal of overall investment diversification. The timber allocation has diversification objectives in several areas including geography, tree species and age, and timber markets served by our holdings.

An opportunistic manager of private debt investments was added to the portfolio at the beginning of FY06. This manager has demonstrated an ability to produce strong absolute returns in any market environment. This manager was funded with a total of $50 million at two different intervals. The portfolio manager has the ability to hedge long positions in private debt by shorting relevant indices or specific debt securities. With the ability to be long and short, this commitment is expected to provide stability to an otherwise cyclical allocation.

MOSERS' overweight to commodities versus the neutral policy target contributed additional dollars to the total fund. The commodities account generated strong returns and diversification benefits over the past 12 months. Demand for energy products and metals continued to push commodity prices higher, fueling investors' fears of increased inflation in the U.S. economy. As crude oil climbed to record levels again this year, the high allocation to energy commodities within the Goldman Sachs Commodities Index (GSCI) portfolio directly translated into significant returns for our portfolio. Commodities have proven to be a good hedge against unexpected inflation and the allocation, while volatile in isolation, also serves as a hedge against event risk in the world economies.

Portfolio Structure

The alternative investments portfolio has a target allocation of 20% of the total fund. Within this broad allocation are five sub-asset classes, which include real estate, commodities, private debt, timber, and private equity. Over the past year, new investments were made in private debt, real estate, private equity, and timber with a portion being invested in temporary placeholders awaiting deployment. It is anticipated that achieving full investment in these sub-asset classes will take several years due to the nature of these strategies.

The bar graph illustrates the board's policy allocation to the sub-asset class mix as of June 30, 2006. Differences reflect strategic decisions to overweight or underweight allocations relative to the policy mix.

The table to the right summarizes the sub-asset class allocation ranges established by the board.

Market Overview
The alternative investment allocation was added to the portfolio mix by the board in June 2002. Alternative investments are expected to provide various benefits to the overall fund. Some of these benefits include enhanced returns, current income, diversification, inflation hedging, and deflation hedging. For example, the real assets in the program are expected to provide a hedge against inflation and diversify the total fund. In addition, many of the sub-asset classes such as private equity and private debt are expected to produce returns greater than those expected from the equity and fixed income markets. Timberland and real estate investments are expected to produce less volatile return streams than traditional assets, due to meaningful cash flows, therefore, lowering the risk of the entire fund.

Despite the fact that the program is not fully implemented, returns produced by the existing alternative investment portfolio in FY06 were strong in nearly every sub-asset class. Although the timber allocation appeared to be the weakest performer with the only negative return in alternatives, this is merely the result of a long-duration bond portfolio that serves as a temporary placeholder account. Timber assets in the portfolio increased in appraised value but the long-dated U.S. treasury securities returned negative 10% as investors were stifled by fears of inflation. The strong returns from the majority of the alternatives allocation can be attributed to a continued rally in the commodities markets, the success of the active real estate and private debt funds, and the persistent strength of REIT securities. Commodities continued to provide double-digit returns as the concerns related to the availability of future oil supplies, and the demand for nonenergy commodities led to strong returns in this sub-asset class. A few large economies, particularly the U.S. and China, remain significant sources of demand for many commodities. Political uncertainty in large oil-producing regions also continues to be a contributing factor to the potential upside in the energy sector. MOSERS currently has an overweight to commodities versus the policy target. Over the long term, the commodities portfolio has exhibited a negative correlation to the equity markets and is expected to provide a hedge against unexpected spikes in inflation.

Strategic Sub -Asset Allocation Ranges (as a Percentage of the Total Fund)

Sub-Asset Class	Minimum	Maximum	Policy Target
Real estate	2.5%	7.5%	5.0%
Commodities	0.0	5.0	2.5
Private debt	0.0	5.0	2.5
Timber	2.5	7.5	5.0
Private equity	2.5	7.5	5.0

The largest contributor to the alternative investment allocation return was the real estate portfolio. The REIT portion of the portfolio outperformed other domestic public equity markets and continued to produce a dividend yield over 4%, which increases the demand for these securities by investors searching for current income. The equity real estate funds also produced substantial returns over the past twelve months as the investment advisors took advantage of easy lending markets that continue to provide low cost financing for opportunities around the world. The demand for real estate assets has led to inflated valuations in many sectors of the market, which essentially increased the profits of funds that were in a position to sell properties over the past year.

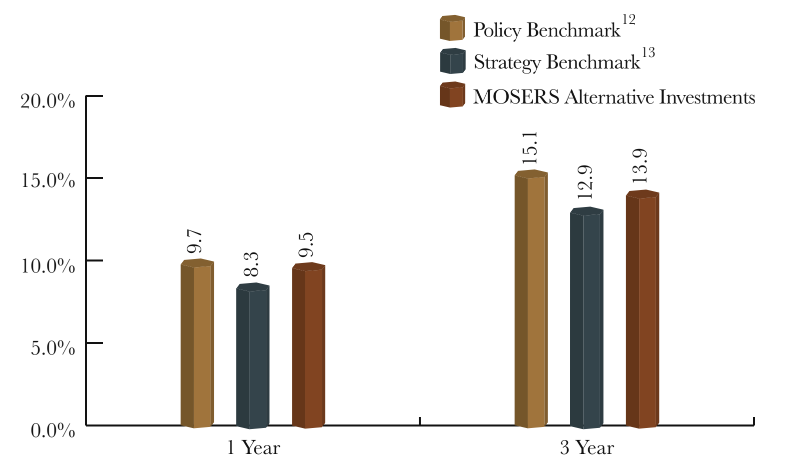
Private debt continued to register strong performance in FY06; a 19.9% return for the allocation. Of particular note were outsized returns generated from specific late stage investments of several control oriented managers who reaped the benefits of a long-term focus and multi-year strategies of guiding troubled portfolio companies out of bankruptcy or severe distress and back into profitability and balance sheet stability. Two of the private debt funds are nearing the end of their life cycles and are almost completely liquidated, while the other two control oriented funds committed to in 2003 will begin the liquidation phase next year. The opportunistic manager referenced in the alternative investment highlights section will enable a certain level of steady exposure to the sub-asset class that offsets the liquidations in 2006 and 2007. Due to the current defensive nature of this manager's strategy, its returns are expected to be solid albeit lower and less volatile than experienced in the private debt allocation to date. The private debt allocation is slightly underweight versus the policy allocation of 2.5%.

Similarly, the long maturity U.S. treasury portfolio, which has been held as a deflation hedge, produced negative returns in FY06.

These returns were driven by prevailing fears of inflation as the Federal Reserve continued raising short-term interest rates throughout the fiscal year. The U.S. treasury portfolio serves as a placeholder in the timber allocation until properties are identified for investment by our existing timber advisors. A diversified group of timber advisors have been retained and multiple properties have been purchased on MOSERS' behalf. The advisors continue their efforts to identify and purchase properties in their respective geographic regions. However, the popularity of this sub-asset class and the ever increasing number of timber investors has led to a highly competitive market making it difficult to buy timber assets at fair prices.

Finally, the private equity program produced a 6.2% return for FY06. This program is still in its infancy and returns of many of the fund managers reflect the J-curve effect, which is prevalent in private investment portfolios. Early in the life of a private equity fund, fees are paid to the fund managers as they search for investment opportunities and acquire portfolio companies. In the first 3 to 5 years of a private equity fund, investments are made intermittently and capital is called to fund these acquisitions. Funds are later distributed to the investor in the final 5 to 7 years of the partnership when the portfolio companies are sold and profits are realized. This outflow of capital with a delayed return of the proceeds leads to negative returns in the early years of such programs. Vintage year diversification will mitigate the J-curve effect, and MOSERS' investment in several private equity styles, including activist equity and special situations, has proved to lessen the effect in our portfolio. Private equity commitments to corporate buyout firms were initiated in 2004 and will continue to be made throughout the life of the program. MOSERS believes that the venture capital market fundamentals, combined with the inability of new investors to access the best funds, are not enticing at this time, and therefore, we have not yet made commitments to these strategies.

ALTERNATIVE INVESTMENTS RETURN VS BENCHMARKS



Performance

MOSERS' alternative investments portfolio returned 9.5% for the fiscal year, falling shy of the 9.7% return for the policy benchmark. The portfolio outperformed the 8.3% return for the strategy benchmark as illustrated in the bar graph.

The underperformance is not significant and can be explained almost entirely by the real estate sub-asset class versus the real estate policy benchmark. In the real estate sub-asset class, the decision to sell a portion of the REIT portfolio in exchange for equity real estate investments hurt the performance, although the move has lowered the risk of the total fund through increased diversification. REITs once again posted a strong return for the fiscal year. With the exception of one real estate investment fund, the REIT benchmark outperformed all of the private real estate investments in the sub-asset class. Strong overall real estate markets have led to nonstop demand for the asset class in general, and many investors bought REITs as an immediate way to gain exposure to the market. REITs are liquid securities that can be purchased on major stock exchanges, while equity real estate requires a private market implementation process (i.e. investments are identified, negotiated, and if successful, purchased throughout a 3- to 5-year investment period). In essence, the institutional demand for REITs continues to be a buoy for high prices. Overwhelming demand for large real estate properties and portfolios has also fueled significant buyouts and takeovers of REITs. These privatizations or mergers have often been at premiums to the current market price, leading to increased profits for REIT investors. As our private real estate advisors scour the marketplace for unique opportunities, it is our continued belief that they are buying real estate assets that will outperform REITs over an extended period of time.

[12] As of 6/30/06, the alternative investments policy benchmark was comprised of the following components: 25% Wilshire REIT, 25% actual return of the timber component, 25% actual return of the private equity component, 12.5% Lehman Brothers CCC + 2%, and 12.5% GSCI).

[13] As of 6/30/06, the alternative investments strategy benchmark was comprised of the following components: 25.1% real estate strategy (composed of the Wilshire REIT, NCREIF - National Council of Real Estate Investment Fiduciaries, Mellon STIF Return, and Atlantic Asset Management MLP Natural Resources Index), 23.6% actual return of the timber component, 23.9% actual return of the private equity component, 11.4% Lehman Brothers CCC + 2%, and 15.96% GSCI.

REAL ESTATE

Market Value

The real estate allocation was $343.4 million or 4.9% of the total fund as of June 30, 2006.

Summary of Portfolio

Investments in the real estate allocation may take the form of publicly-traded REITs, equity real estate through closed-end funds, and other investments that exhibit the beneficial risk/return characteristics of real estate. Investments in real estate provide meaningful cash flows and may act as a hedge against inflation. Opportunistic real estate funds should provide returns in excess of those expected from the public equity markets due to the illiquidity premium associated with owning real assets and the inefficiencies in this market. Manager skill is expected to add value to the performance of these private partnerships. As of fiscal year-end, MOSERS was invested in REITs, closed-end opportunistic real estate funds, a closed-end mezzanine loan fund, a fund that purchases mature oil and gas assets, and publicly-traded Master Limited Partnerships (MLPs). A temporary holding account resides in the real estate allocation in order to invest the assets needed for funding the private portfolios when capital is called for investment. This placeholder account is invested in the internally-managed cash fund.

Statistics

The corresponding table displays the statistical performance data (net of fees) of the real estate portfolio as of June 30, 2006, with comparisons shown to the Wilshire REIT Index.

Portfolio Characteristics	1 Year	3 Year	Since Inception*
Annualized return	15.9%	21.6%	16.7%
Annualized standard deviation	9.6%	10.5%	11.2%
Sharpe ratio	1.2	1.8	1.3
Beta**	0.4	0.6	0.6
Annualized alpha**	6.1%	5.8%	3.2%
Correlation**	0.7	0.9	0.9

*Inception date July 2002

**As compared to the Wilshire REIT Index

Investment Advisors

During FY06, MOSERS committed assets to one additional private real estate fund. This fund was preceded by an earlier fund of which MOSERS is an existing limited partner. Funds were committed to Blackstone Real Estate Partners V in December 2005. Blackstone Real Estate Partners IV has been a strong performer in the real estate allocation, and therefore, a continued relationship with this firm was warranted. The table below summarizes MOSERS' real estate investment advisors at the end of FY06.

Investment Advisor	Style	Portfolio Market Value
Blackstone Real Estate Advisors	Active real estate	$ 69,905,038
Bush O'Donnell Investment Advisors	Passive MLP index	52,371,233
Internal Staff*	Cash	10,708,975
Internal Staff	Passive REIT index	112,569,846
Merit Energy	Oil & gas	3,382,682
Oaktree Capital Management	Active real estate	59,334,001
Trust Company of the West	Mezzanine debt	35,136,000
Total		$343,407,775

*Temporary placeholder for future capital drawdowns to fund real estate managers.

Brokerage Activity

The following brokerage activity occurred within the internally-managed REIT and MLP portfolios during the fiscal year:

			Commissions	
Brokerage Firm	**Shares Traded**	**Dollar Volume of Trades**	**Dollar Amount**	**Value Per Share**
Instinet	2,034,160	$58,613,745	$61,025	$0.03
AG Edwards & Sons	427,400	13,162,101	17,096	0.04
Total	2,461,560	$71,775,846	$78,121	

Soft Dollar Expenditures

There were no soft dollars utilized within the REIT and MLP portfolios in the fiscal year ended June 30, 2006.

COMMODITIES

Market Value

The commodities allocation was $217.8 million as of June 30, 2006, representing 3.1% of the total fund.

Summary of Portfolio

MOSERS gains exposure to commodities through an account managed by NISA Investment Advisors. This sub-asset class benchmark is the GSCI. The commodities portfolio has provided exceptional diversification benefits to MOSERS and continues to provide a hedge against unexpected spikes in inflation. Although volatile at times, the low to negative correlation of commodities to traditional asset classes provides protection to the total fund when financial assets experience periods of poor performance. As the record high energy and oil costs bestow a drag on consumers that could lead to a weaker economy, gains from these and other commodities are exhibited through the strong performance of the commodities allocation.

Statistics

The table below displays the statistical performance data (net of fees) of the commodities portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	5 Year	Since Inception*
Annualized return	13.3%	21.6%	15.6%	16.5%
Annualized standard deviation	24.6%	21.2%	22.3%	22.5%
Sharpe ratio	0.4	0.9	0.6	0.6
Beta**	1.0	1.0	1.0	1.0
Annualized alpha**	(0.1)%	1.2%	1.0%	1.0%
Correlation**	1.0	1.0	1.0	1.0

*Inception date November 1998

** As compared to the GSCI Index

Investment Advisors

MOSERS has had one manager in the commodities allocation since its inception in 1998.

Investment Advisor	Style	Portfolio Market Value
NISA Investment Advisors	Enhanced GSCI	$217,793,403

PRIVATE DEBT

Market Value

The private debt allocation was $154.3 million or 2.2% of the total fund as of June 30, 2006.

Summary of Portfolio

Private debt investments are expected to provide capital appreciation as funds are used in most cases to purchase debt securities to gain controlling interest in a company at a significant discount to fair value. The inefficiency of the private debt market, lack of participants in this sector, and the return premium expected due to the illiquid nature of this strategy are all factors that lead to the possibility of enhanced returns versus traditional assets. Participation as a limited partner in closed-end funds has been the primary method of implementation for this strategy. The fund managers typically buy undervalued debt securities and then pursue active strategies to change the credit profile of the company in an attempt to realize a gain on the investment. More recently, this allocation was diversified in style and strategy with the commitment to the opportunistic manager at the beginning of FY06. The long-term control focus is not as effective in the current low default environment due to the limited supply of severely impaired investment situations. Consequently, it was deemed appropriate to diversify private debt by investing in an open-end fund, offering some liquidity provisions not available in the closed-end funds. Given the trading (opportunistic) orientation of this fund, investment flexibility is the operative word. This manager has positioned the portfolio in instruments that have low price volatility, generally good liquidity and strong income generation. In a significant downturn, this manager has the trading flexibility to rotate the portfolio into the more distressed situations and establish control positions if regarded as inordinately cheap. Over a full market cycle, returns in excess of public debt and, in particular, high yield debt (the more relevant comparison) are expected from private debt investments.

The portfolio's exposure of 2.2% to private debt securities is down slightly from last year's weight of 2.5%. Maintenance of a slight underweight to the policy benchmark is reflective of a view that some amount of caution is warranted given that the sub-asset class has delivered annualized returns in excess of 16% for 3 years. The default rate for corporate debt, although accelerating, continues to be significantly below the 35-year average. In general, corporate credit quality is still strong, so a significant underweighting to private debt is not contemplated at this time.

Statistics

The table below displays the statistical performance data (net of fees) of the private debt portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	3 Year	Since Inception*
Annualized return	19.9%	16.6%	29.2%
Annualized standard deviation	3.8%	7.1%	13.2%
Sharpe ratio	4.1	2.0	2.1
Beta**	0.1	0.5	0.4
Annualized alpha**	17.4%	9.7%	5.8%
Correlation**	0.1	0.4	0.7

* Inception date September 2002

** As compared to the Lehman CCC + 2%

Investment Advisors

During FY06, MOSERS was invested with five external private debt managers, one being in the form of an open-end partnership with stipulations as to liquidity. The other relationships are closed-end limited partnerships. As of June 30, 2006, $283.5 million of the $300 million committed to these managers has been called and invested. MOSERS has also received approximately $292.1 million in distributions since the program's inception.

Investment Advisor	Style	Portfolio Market Value
Blackstone Distressed Securities Advisors	Long/short; trading	$ 53,382,967
DDJ Capital Management	Small-cap; control	42,223,300
MHR Fund Management	Small-cap; control	44,834,174
Oaktree Capital Management	Large/mid-cap; trading/control	6,784,187
Wayzata Investment Partners	Mid/small-cap; trading/control	7,113,654
Total		$154,338,282

TIMBER

Market Value

The market value of assets currently held in the timber allocation is $321.4 million or 4.6% of the total fund. MOSERS has committed assets to three timber managers. To date, two of the managers have purchased timber properties for MOSERS' account. On a temporary basis, the remaining funds in the timber allocation are invested in U.S. treasury securities and a cash account.

Summary of Portfolio

Currently, there is $75 million invested in real timberland assets, while the remaining dollars committed to timber investment managers for future acquisitions are being held in two U.S. treasury portfolios and a cash account. The choice to hold a majority of the timber allocation in long-dated U.S. treasuries is a conscious decision to provide the fund some protection against the risk of deflation. Although deflation has not been a meaningful concern recently, when it does appear to be a threat, there are very few investments that can protect the fund in these periods. In FY06, the long-dated U.S. treasuries portfolio lost 10% as interest rates went up. The managers continue to believe that the inflation fears throughout the market that led to the weakness in U.S. treasury bonds were short term in nature. They continue to see a long-term trend of lower interest rates and strongly opine that short-term inflationary fears are irrelevant. MOSERS is a long-term investor and is well served by the deflationary hedge over long periods of time.

The timber portfolio will continue to be built over time through a diversified approach. MOSERS has committed assets to three timber investment management companies to purchase and manage timber in the northwest U.S., southeast U.S., and outside of the U.S. (focused on the southern hemisphere). The timber allocation will possess geographical, age, tree species, and timber market diversification. These factors are carefully considered to mitigate risks within the timber portfolio. It was originally anticipated that it would take 2 to 3 years to fully invest the funds committed to this sub-asset class; however, increased competition for timber assets has led to an unexpectedly slow investment phase. Timber returns over a full market cycle are expected to be similar to those we expect from the public equity markets but should exhibit lower volatility, similar to public debt investments. An allocation to timber and other real assets also provides a hedge against inflation, additional cash flows, and diversification to the fund that will be beneficial when financial assets are experiencing poor performance.

Statistics

The table below displays the statistical performance data (net of fees) of the timber portfolio as of June 30, 2006. Currently timber is benchmarked to itself; therefore, there is no benchmark correlation at this time.

Portfolio Characteristics	1 Year	3 Year	Since Inception*
Annualized return	(2.5)%	4.0%	3.1%
Annualized standard deviation	7.9%	12.4%	12.3%
Sharpe ratio	(0.8)	0.1	0.1

* Inception date June 2003

Investment Advisors

MOSERS' committed assets to three timber investment managers since the allocation to timber was approved in June 2002. The managers are listed in the table below. One timberland investment manager has not yet made an investment on MOSERS' behalf. Due to the increased competition for timber assets and the small number of institutional-sized deals in the market over the past 12 months, the manager in the northwestern U.S. has found it particularly difficult to make acquisitions at a discount to fair value. Timber investing is a relatively slow process of identifying, evaluating, and purchasing attractive timberland properties, and there has been increased competition to buy timber by institutional investors, private equity firms, and high net worth families. While MOSERS waits for attractive timber opportunities, the funds that have been earmarked for deployment into timber are invested in U.S. treasury securities and a cash account. Information regarding the managers of these portfolios is as follows:

Investment Advisor	Style	Portfolio Market Value
Global Forest Partners	International timber	$ 13,711,397
Hoisington Investment Management Co.*	Active duration treasury securities	114,172,849
Internal Staff*	Active duration treasury securities	56,134,068
Internal Staff*	Cash	76,442,852
Resource Management Service	Southeast U.S. timber	60,945,414
The Campbell Group	Northwest U.S. timber	0
Total		$321,406,580

*Temporary placeholders for future capital drawdowns to fund timber managers.

PRIVATE EQUITY

Market Value

The market value of assets currently being held in the private equity allocation is $318.6 million or 4.6% of the total fund. In FY06, MOSERS made commitments to five private equity managers. Two of the new commitments were to advisors that were already in the private equity portfolio. Follow-on funds were raised by these firms, and new assets were committed to preserve our exposure to these successful investment teams. Nearly 30% of the funds in the private equity allocation are held in accounts, which serve as temporary placeholders until the assets are ready to be both committed and deployed to the private equity advisors. The private equity portfolio is expected to be invested up to the target allocation of 5% over the next several years. Ongoing investments will be made in order to maintain the target allocation when distributions from mature funds become routine.

Private equity investments may be allocated to three primary strategies: corporate buyouts, venture capital, and special situations/activist equity strategies. Each of these strategies has a different level of risk and expected return. Diversification and enhanced returns are the key benefits of the private equity portfolio. Currently, we have not committed assets to venture capital, as it appears to have a less attractive risk/return profile than corporate buyouts and special situations. Additionally, top-tier funds rarely allow new investors to participate in their offerings, making it even less attractive to investors that may have to settle with second-tier investment advisors. The private equity portfolio is expected to produce returns of 3 to 5% in excess of the public equity markets over a full-market cycle.

Statistics

The table below displays the statistical performance data (net of fees) of the private equity portfolio as of June 30, 2006. Currently private equity is benchmarked to itself; therefore, there is no benchmark correlation at this time.

	1 Year	3 Year	Since Inception*
Annualized return	(2.5)%	4.0%	3.1%
Annualized standard deviation	7.9%	12.4%	12.3%
Sharpe ratio	(0.8)	0.1	0.1

*Inception date June 2003

Investment Advisors

Currently, 70% of the assets in this sub-asset class have been called for investment and the remaining 30% reside in temporary placeholder accounts for future private equity funding purposes. Information regarding managers in this sub-asset class is summarized in the table below.

Investment Advisor	Style	Portfolio Market Value
Blackstone Alternative Asset Management*	Long/short equity	$ 79,240,184
Blum Capital Partners	Activist equity	57,120,725
Bridgepoint Capital Partners	Corporate buyout; foreign	1,601,453
Catterton Partners	Corporate buyout	18,991,528
JLL Partners	Corporate buyout	3,310,068
NISA Investment Advisors*	Equity futures	20,929,790
OCM/GFI Power Opportunities	Corporate buyout	7,416,635
Parish Capital Partners	Corp. buyout fund-of-funds	6,694,130
Relational Investors	Activist equity	64,784,815
Silver Creek Management Co.	Special situations	43,168,057
Silver Lake Partners	Corporate buyout	15,313,502
Veritas Capital Partners**	Corporate buyout	0
Total		$318,570,887

*Temporary placeholder for future capital drawdowns to private equity managers. There are no commitments for placeholders.

** No capital called as of June 30, 2006.

BETA/ALPHA PROGRAM

The beta/alpha program consists of two parts, beta and alpha. This program began as a result of our belief that returns from these two components should be separated and managed separately.

The beta portion of the program is managed by NISA Investment Advisors. NISA uses futures and/or total return swaps to gain market exposure to various predefined asset classes.

The alpha program is a group of active managers with little or no systematic beta exposure. The objective of the alpha component is to provide a net of fees alpha return of 4% with similar to slightly higher volatility. This return can then be applied to various asset classes.

The combination of the two components produces an efficient total return and also, provides MOSERS a great deal of flexibility in the management of the fund.

BETA PROGRAM

Market Value

The total notional exposure was $1.1 billion as of June 30, 2006. The beta component contained total return swaps and futures as of June 30, 2006. MOSERS is utilizing the beta component within the domestic equity, hedged equity, and fixed income sub-asset classes.

Summary of Program

The beta component was added to the total fund in FY05. The beta manager seeks market exposure in the most cost efficient manner. The beta manager seeks to produce a market return gross of the financing cost to gain beta exposure. The manager's goal is to provide market exposure.

Statistics

The impact of the exposures is contained in the portfolios where the beta resides. Further information regarding swaps and futures can be found in the *Notes to the Financial Statements* on page 38.

Investment Advisors

NISA Investment Advisors is the only manager in the beta program. The table below summarizes our investments within the beta pool as of June 30, 2006. Management fee information may be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
NISA Investment Advisors	Synthetic beta exposure	$1,097,657,652

ALPHA PROGRAM

Market Value

The alpha program allocation was $1.7 billion or 24.3% of the total fund as of June 30, 2006.

Summary of Portfolio

The alpha program portfolio was added to the total fund in FY05. Alpha program managers utilize skill-based investment strategies, which allow them to take advantage of periodic inefficiencies that may exist within the market. Alpha program managers seek to produce consistent returns in various economic environments. The ultimate goal within the alpha program is to provide consistent alpha with little correlation to other areas of the fund. MOSERS utilizes several different strategies within the alpha program including relative value, arbitrage, and event driven to name a few. This portfolio targets the return of cash plus 4% net of fees over long periods of time.

Statistics

The table below displays the statistical performance data (net of fees) of the alpha program portfolio as of June 30, 2006.

Portfolio Characteristics	1 Year	Since Inception*
Annualized return	6.0%	5.3%
Annualized standard deviation	2.2%	2.4%
Sharpe ratio	0.9	0.8

* Inception date October 2004

Investment Advisors

The alpha program was started in FY05. Blackstone Alternative Asset Management, an existing manager, was transferred into the alpha program. The following five managers were hired and added to the pool: Aetos Capital, AQR Capital Management, Barclays Global Investors, Bridgewater Associates, and Pacific Alternative Asset Management (PAAMCO). The table below summarizes our investments with the managers as of June 30, 2006. Management fee information may be found on page 69 of this report.

Investment Advisor	Style	Portfolio Market Value
Aetos Capital, LLC	Fund-of-funds	$ 338,846,840
AQR Capital Management	Multi-strategy hedge fund	178,480,457
Barclays Global Investors	Multi-strategy hedge fund	221,100,427
Blackstone Alternative Asset Management	Fund-of-funds	290,888,167
Bridgewater Associates	Multi-strategy hedge fund	84,193,680
PAAMCO	Fund-of-funds	330,614,188
Alpha program cash	Short-term cash	270,320,077
Total		$1,714,443,836

SECURITIES LENDING SUMMARY

Summary of Program

In FY06, MOSERS' earned net income of $3,676,741 through its securities lending programs. This incremental income contributed 5.2 basis points to MOSERS' total fund and 14.6 basis points to MOSERS' lendable assets. MOSERS lends its domestic equities, international equities, and domestic fixed income to a borrower that manages an agent-lending program.

In an agent lending program, a large custodial bank or investment banking institution acts on behalf of the beneficial owner to lend its securities. This type of lending program is essentially a "one-stop" shopping process in which all operational aspects of the program are centered exclusively with one entity. The agent lender is responsible for making the loans to various broker/dealers, investing the cash collateral associated with the loaned securities, marking the loans and collateral to market on a daily basis, and, in most cases, indemnifying the lender against the default of a broker/dealer to whom they have loaned securities on behalf of the beneficial owner.

Domestic Equity

MOSERS generated total income from the domestic equity agent-lending program of $1,218,245 in FY06. Revenue from this program was $570,027 more than FY05 stemming from a slight increase in lendable assets, increased collateral reinvestment income and the ability of the agent lender to place more of MOSERS' domestic equity securities on loan with a variety of borrowing brokers. Credit Suisse First Boston (CSFB) is the agent lender of MOSERS' securities for this program.

The table below highlights statistics for the last five fiscal years relating to the domestic equity securities lending program.

Year	Average Lendable	Average on Loan	Average Utilization	Return Added to Lendable Domestic Equities (basis points)	Net Income
FY06	$ 856,712,658	$377,314,359	44.0%	14.2	$1,218,245
FY05	775,821,287	247,175,198	31.9	8.4	648,218
FY04	1,552,186,713	176,626,818	11.4	7.2	1,114,144
FY03	1,420,413,446	234,776,497	16.5	10.6	1,504,152
FY02	2,347,223,937	254,035,429	10.8	8.6	2,027,903

International Equity

MOSERS generated total income from the international equity securities lending program of $605,315 in FY06. The revenue earned increased by $129,089 due to a slight increase in the international equity lendable assets. CSFB manages this program in an agent capacity.

The table below contains the international equity securities lending program statistics from FY02 through FY06.

Year	Average Lendable	Average on Loan	Average Utilization	Return Added to Lendable Domestic Equities (basis points)	Net Income
FY06	$483,512,648	$48,077,237	9.9%	12.9	$ 605,315
FY05	360,790,809	39,881,555	11.1%	13.2	476,226
FY04	462,783,570	53,655,836	11.6	9.7	446,880
FY03	544,976,709	36,820,686	6.8	13.7	744,985
FY02	728,081,371	70,020,289	9.6	15.5	1,130,928

Domestic Fixed Income

MOSERS generated total income from the domestic fixed income securities lending program of $1,853,181 in FY06. Income from this program decreased due to a reduction in lendable treasury securities (attractive assets from a lending standpoint) and lower utilization of the fixed income assets caused a decrease in the cash collateral reinvestment income. CSFB manages this program in an agent capacity.

The table below presents the statistics for the domestic fixed income securities lending program for FY02 through FY06.

Year	Average Lendable	Average on Loan	Average Utilization	Return Added to Lendable Domestic Equities (basis points)	Net Income
FY06	$1,183,366,350	$ 776,959,063	65.7%	15.7	$1,853,181
FY05	1,091,262,589	776,038,981	71.1	19.5	2,126,695
FY04	1,231,730,491	1,043,891,521	84.7	20.1	2,475,630
FY03	969,156,824	757,537,477	78.2	17.6	1,707,400
FY02	899,565,271	720,912,307	80.1	19.5	1,750,764

ACTUARIAL SECTION

ACTUARIAL SECTION

ACTUARY'S CERTIFICATION LETTER

GRS

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September 25, 2006

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, Missouri 65102

Dear Board Members:

The basic financial objective of the Missouri State Employees' Retirement System (MOSERS) is to establish and receive contributions which:

1. when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Missouri citizens, and which
2. (2) when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of MOSERS.

In order to measure progress toward this fundamental objective, MOSERS has annual actuarial valuations performed. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the normal cost and level percent of payroll amortization of unfunded actuarial accrued liabilities over a reasonable period. The latest completed actuarial valuations were based upon data and assumptions as of June 30, 2006. These valuations indicate that the contribution rates for the fiscal year ending June 30, 2008, adopted by the board of trustees for the benefits scheduled to be in effect on July 1, 2006, meet the basic financial objective. These contribution rates are 12.84% of payroll for 54,493 general state employees, and 58.65% of payroll for 394 judges.

The actuarial valuations are based upon financial and participant data which is prepared by retirement system staff, assumptions regarding future rates of investment return and inflation, and assumptions regarding rates of retirement, turnover, death, and disability among MOSERS' members and their beneficiaries. The data is reviewed by us for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The demographic assumptions were adopted by the board of trustees in January, 2004 based upon recommendations made in an experience study covering the period from 1999 to 2003. The economic assumptions were adopted by the board of trustees in September, 2001 and reaffirmed in January, 2004. The assumptions and methods used in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

The current benefit structure is outlined in the actuarial section. Benefit provisions evaluated were unchanged from the previous valuation. We provided the information used in the supporting schedules in the actuarial section and the Schedules of Funding Progress in the financial section, as well as the employer contribution rates shown in the Schedule of Employer Contributions in the financial section.

Based upon the valuation results, it is our opinion that the Missouri State Employees' Retirement System continues in sound financial condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,

Norman L. Jones, F.S.A.
Senior Consultant & Actuary

Brad Lee Armstrong, A.S.A.
Senior Consultant & Actuary

SUMMARY OF ACTUARIAL ASSUMPTIONS

Economic Assumptions

The investment return rate used in the valuations was 8.5% per year, compounded annually (net after investment expenses). This assumption is used to account for the fact that equal amounts of money payable at different points in time in the future do not have the same value presently.

Pay increase assumptions for individual active members are shown for sample ages on page 101. Part of the assumption for each age is for merit and/or seniority increase, and the other 4% recognizes wage inflation. This assumption is used to project a member's current salary to the salary upon which benefits will be based.

The active member payroll is assumed to increase 4% annually, which is the portion of the individual pay increase assumptions attributable to inflation.

The annual COLA is assumed to be 4% per year on a compounded basis when a minimum COLA of 4% is in effect and 2.8% per year on a compounded basis when no minimum COLA is in effect.

The number of active members in the MSEP is assumed to remain constant although certain new hires on or after July 1, 2002, will participate in the College and University Retirement Plan (CURP). The number of active members in the Judicial Plan is assumed to continue at the present number. Active and retired member data is reported as of May 31, 2006. It is assumed for valuation purposes that there is no turnover among members and no new entrants during the month of June.

Noneconomic Assumptions

The mortality table for post-retirement mortality used in evaluating allowances to be paid was the 1971 Group Annuity Mortality Table projected to the year 2000 with a 1-year age setback for men and a 7-year age setback for women. Related values are shown on page 102. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

The probabilities of age and service retirement are shown on page 102. It was assumed that each member will be granted one-half year of service credit for unused leave upon retirement and military service purchases.

The probabilities of withdrawal from service, death-in-service, and disability are shown for sample ages on page 101. For disability retirement, impaired longevity was recognized by use of special mortality tables.

The entry-age normal actuarial cost method of valuation was used in determining liabilities and normal cost. The normal cost was based on the benefit provisions affecting new employees (MSEP 2000). Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll contributions.

Employer contribution dollars were assumed to be paid in equal installments throughout the employer's fiscal year.

Valuation assets recognize assumed investment return fully each year. Differences between actual and assumed investment return are phased in over a closed 5-year period. Valuation assets are not permitted to deviate from the market value by more than 20%.

The data about persons now covered and about present assets was furnished by the system's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

It is assumed that among active members, 80% are married at retirement, 70% of those dying in active service are married, and men are 3 years older than their spouses.

The liabilities for active members hired on or after July 1, 2000, were based on MSEP 2000 benefits. The liabilities for active members hired before July 1, 2000, were based on MSEP 2000 benefits for male general employees with an age at hire of 35 years or less, for female general employees, for contract employees, for elected officials, and for General Assembly members. All others were based on MSEP benefits. The BackDROP was only explicitly valued for those assumed to receive MSEP 2000 benefits.

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

SUMMARY OF ACTUARIAL ASSUMPTIONS

Separations From Active Employment Before Service Retirement
and Individual Pay Increase Assumptions - June 30, 2006

MSEP

Sample Ages	Years of Service	Percent of Active Members Separating Within the Next Year: Withdrawal Men	Withdrawal Women	Death* Men	Death* Women	Disability Men	Disability Women	Pay Increase Assumptions for an Individual Employee: Merit and Seniority**	Base (Economy)	Increase Next Year
	0	23.8%	24.7%							
	1	16.5	17.2							
	2	13.4	13.5							
	3	11.9	10.7							
	4	12.0	10.7							
20	+5	12.0	11.0	.04%	.03%	.16%	.18%	2.7%	4.0%	6.7%
25		12.0	11.0	.05	.04	.16	.18	2.6	4.0	6.6
30		8.8	9.9	.06	.04	.16	.18	2.2	4.0	6.2
35		6.2	6.8	.08	.06	.21	.19	1.9	4.0	5.9
40		4.6	4.9	.12	.08	.26	.32	1.4	4.0	5.4
45		3.5	4.3	.19	.11	.34	.37	1.2	4.0	5.2
50		2.8	3.6	.35	.17	.49	.57	0.7	4.0	4.7
55		2.4	2.9	.59	.31	1.07	.89	0.7	4.0	4.7
60		2.4	2.9	.90	.54	1.50	1.50	0.0	4.0	4.0
65		2.4	2.9	1.44	.83	1.60	1.70	0.0	4.0	4.0

* 2% of the deaths in active service are assumed to be duty-related.
** Does not apply to members of the General Assembly.

Judicial Plan

Sample Ages	Percent of Active Members Separating Within the Next Year: Withdrawal Men	Withdrawal Women	Death Men	Death Women	Disability Men	Disability Women	Pay Increase Assumptions for an Individual Employee: Merit and Seniority	Base (Economy)	Increase Next Year
25	6.2%	4.5%	.05%	.04%	.02%	.02%	1.6%	4.0%	5.6%
30	5.5	3.7	.06	.04	.03	.03	1.2	4.0	5.2
35	3.8	2.6	.08	.06	.03	.07	0.9	4.0	4.9
40	2.7	2.1	.12	.08	.04	.11	0.4	4.0	4.4
45	2.1	1.9	.19	.11	.09	.17	0.3	4.0	4.3
50	2.1	1.7	.35	.17	.12	.35	0.2	4.0	4.2
55	2.1	1.2	.59	.31	.23	.49	0.2	4.0	4.2
60	1.7	0.6	.90	.54	.33	.53	0.0	4.0	4.0
65	1.2	0.4	1.44	.83	.00	.00	0.0	4.0	4.0

SUMMARY OF ACTUARIAL ASSUMPTIONS
Single Life Retirement Values - June 30, 2006

All Plans

Sample Attained Ages	Present Value of $1/Month the First Year Increasing 4%/2.8% Yearly				Future Life Expectancy (Years)			
	Service		Disability		Service		Disability	
	Men	Women	Men	Women	Men	Women	Men	Women
40	$203.29	$213.24	$135.93	$157.34	38.46	44.22	19.70	26.02
45	192.77	205.14	126.72	150.77	33.73	39.41	17.50	23.70
50	180.29	195.04	116.43	143.29	29.17	34.67	15.35	21.39
55	165.93	182.93	106.32	135.58	24.82	30.06	13.43	19.18
60	149.43	168.96	97.83	127.14	20.70	25.67	11.87	17.01
65	130.80	152.92	90.83	117.40	16.82	21.50	10.56	14.82
70	111.02	134.67	82.22	105.26	13.32	17.57	9.13	12.50
75	91.88	114.99	70.84	89.45	10.36	13.99	7.49	10.00
80	73.43	95.64	56.19	71.98	7.83	10.91	5.66	7.62
85	57.86	76.96	42.26	56.19	5.89	8.29	4.08	5.66

SUMMARY OF ACTUARIAL ASSUMPTIONS
Percent of Eligible Active Members Retiring Next Year - June 30, 2006

MSEP

Retirement Ages	Year of Eligibility 1st Year	2nd Year	3rd Year
48	20.0%	10.0%	8.0%
49	20.0	10.0	8.0
50	20.0	10.0	8.0
51	20.0	10.0	8.0
52	20.0	10.0	8.0
53	20.0	10.0	8.0
54	20.0	10.0	8.0
55	25.0	10.0	12.0
56	20.0	10.0	12.0
57	20.0	10.0	12.0
58	20.0	10.0	12.0
59	20.0	10.0	12.0
60	25.0	10.0	12.0
61	20.0	10.0	12.0
62	30.0	15.0	30.0
63	20.0	12.0	20.0
64	20.0	12.0	20.0
65	30.0	15.0	30.0
66	20.0	12.0	20.0
67	20.0	12.0	20.0
68	20.0	12.0	20.0
69	20.0	12.0	20.0
70	20.0	12.0	20.0
71	20.0	12.0	20.0
72	20.0	12.0	20.0
73	20.0	12.0	20.0
74	20.0	12.0	20.0
75 & over	20.0	12.0	100.0

Early retirement rates were assumed to be 5.0% from ages 57-61.

Judicial Plan

Retirement Ages	Percent Men	Percent Women
55	5.0%	8.0%
56	5.0	8.0
57	5.0	8.0
58	5.0	8.0
59	5.0	8.0
60	15.0	15.0
61	10.0	10.0
62	15.0	15.0
63	10.0	10.0
64	10.0	10.0
65	25.0	40.0
66	20.0	25.0
67	20.0	25.0
68	20.0	25.0
69	30.0	50.0
70	100.0	100.0

SUMMARY OF ACTUARIAL ASSUMPTIONS

Miscellaneous and Technical Assumptions - June 30, 2006

Pay Increase Timing
Beginning of fiscal year for judges.
Middle of fiscal year for MSEP.

Decrement Timing
Decrements of all types are assumed to occur mid-year.

Eligibility Testing
Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Benefit Service
Exact fractional service is used to determine the amount of benefit payable.

Decrement Relativity
Decrement rates are used directly from the experience study without adjustments for multiple decrement table effects.

Decrement Operation
Disability and mortality decrements do not operate during the first 5 years of service. Disability and withdrawal do not operate during normal retirement eligibility.

Normal Form of Benefit
The assumed normal form of benefit is the straight life form for the MSEP 2000 with 50% continuing to an eligible surviving spouse for the MSEP. No adjustment has been made for post-retirement option election changes. For judges, the assumed normal form of benefit is the straight-life form with 50% continuing to an eligible surviving spouse.

Other Liability Adjustments
None.

Incidence of Contributions
Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report and the actual payroll payable at the time contributions are made. New entrant normal cost contributions are applied to the funding of new entrant benefits.

Active and retired member data was reported as of May 31, 2006. It was brought forward to June 30, 2006, by adding one month of service for all active members and the June COLA for certain retired members. It is expected that this procedure resulted in a slight overstatement of total liabilities as of June 30, 2006. Financial information continues to be reported as of June 30. This procedure was instituted to provide sufficient time for the board of trustees to certify the appropriate contribution rate prior to the October 1 statutory deadline.

SUMMARY OF MEMBER DATA INCLUDED IN VALUATIONS

Pension Trust Funds - June 30, 2006

Active Members

Valuation Group	Number	Payroll	Group Averages Salary	Group Averages Age (Yrs)	Group Averages Service (Yrs)
MSEP					
Regular state employees	50,265	$1,569,510,651	$ 31,225	44.5	10.3
Elected officials	6	593,965	98,994	47.4	6.8
Legislative clerks	61	1,744,797	28,603	57.8	17.3
Legislators	195	6,125,605	31,413	49.9	2.1
Uniformed water patrol	87	3,462,086	39,794	38.5	13.4
Conservation department	1,566	59,926,339	38,267	43.1	13.0
School-term salaried employees	2,271	132,301,172	58,257	52.9	17.0
Administrative law judges	42	3,612,523	86,012	51.4	12.1
Total MSEP group	54,493	$1,777,277,138	32,615	44.8	10.6
Judicial Plan	394	$ 40,270,535	$102,209	54.8	12.5

Retired Members

Type of Benefit Payment	Number	Annual Benefits	Group Averages Benefit	Group Averages Age (Yrs)
MSEP				
Retirement	23,804	$345,721,268	$14,524	69.2
Disability	17	59,928	3,525	57.8
Survivor of active member	1,264	10,290,448	8,141	59.5
Survivor of retired member	1,967	17,517,498	8,906	73.9
Total MSEP group	27,052	$373,589,142	13,810	69.1
Judicial Plan	398	$ 19,407,666	$48,763	76.1

Others

Group	Terminated Vested	Leave of Absence	Long-Term Disability
MSEP	15,764	370	1,092
Judicial Plan	65	0	0

ACTIVE MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

June 30, 2006

MSEP

	Years of Service to Valuation Date							Totals	
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 Plus**	**No.**	**Valuation Payroll**
15-19	40							40	$ 708,111
20-24	1,600	17						1,617	35,457,116
25-29	3,763	808	10					4,581	122,090,980
30-34	2,528	2,312	469	7				5,316	155,339,829
35-39	2,096	2,240	1,618	448	28			6,430	200,516,915
40-44	1,970	1,911	1,413	1,269	622	51		7,236	235,444,114
45-49	1,848	1,946	1,320	1,355	1,157	842	61	8,529	287,162,931
50-54	1,633	1,820	1,303	1,407	1,093	1,130	465	8,851	311,978,623
55-59	1,396	1,443	1,173	1,197	936	638	488	7,271	257,563,200
60	186	225	188	211	131	83	65	1,089	38,765,594
61	134	163	145	123	93	50	39	747	27,509,509
62	114	138	117	124	73	36	45	647	23,271,809
63	87	127	109	91	63	42	38	557	21,151,485
64	80	103	87	76	35	19	41	441	16,623,186
65	35	84	56	58	29	16	37	315	11,505,681
66	26	52	33	36	19	5	17	188	7,462,102
67	24	29	20	28	6	5	32	144	6,062,062
68	17	21	28	19	12	7	22	126	5,332,961
69	9	15	21	13	4	7	18	87	3,339,935
70 & Over	49	54	53	58	25	13	29	281	9,990,995
Totals	17,635	13,508	8,163	6,520	4,326	2,944	1,397	54,493	$1,777,277,138

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages:

Age	44.8 years
Service	10.6 years
Annual pay	$32,615

ACTIVE MEMBERS BY ATTAINED AGE AND YEARS OF SERVICE

June 30, 2006

Judicial Plan

	Years of Service to Valuation Date							Totals	
Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
35-39	11	3						14	$ 1,344,000
40-44	11	8	3					22	2,148,000
45-49	10	27	13	3				53	5,382,997
50-54	11	20	25	17	8	3		84	8,611,534
55-59	13	32	23	18	9	12	3	110	11,264,013
60	1	7	6	4	2	1	2	23	2,341,998
61	2	1	4	5	4	3		19	2,030,288
62	1	2	5	4	2			14	1,416,000
63		2	2		1	1		6	612,000
64	1	3	2	4	2			12	1,244,708
65		2	3	4	4	1		14	1,458,999
66		2	2		1	3	2	10	1,039,000
67	1			1	1		1	4	414,999
68			1	4				5	535,000
69		1		1	1		1	4	426,999
Totals	62	110	89	65	35	24	9	394	$ 40,270,535

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Group Averages:

Age	54.8 years
Service	12.5 years
Annual pay	$102,209

SCHEDULES OF ACTIVE MEMBER VALUATION DATA
Six Years Ended June 30, 2006

MSEP

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2001	58,431	$1,758,190,268	$30,090	3.25%
June 30, 2002	58,616	1,773,283,484	30,253	0.54
June 30, 2003	57,558	1,739,895,364	30,229	(0.08)
June 30, 2004	55,914	1,737,454,454	31,074	2.80
June 30, 2005	55,944	1,806,600,560	32,293	3.92
June 30, 2006	54,493	1,777,277,138	32,615	1.00

*ALJLAP**

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2001	57	$4,661,020	$81,772	4.40%
June 30, 2002	58	4,779,504	82,405	0.77
June 30, 2003	57	4,657,896	81,717	(0.83)
June 30, 2004	57	4,655,340	81,673	(0.05)

* Transferred to the MSEP during the year ended 6/30/2005

Judicial Plan

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
June 30, 2001	381	$38,687,793	$101,543	2.62%
June 30, 2002	392	40,068,744	102,216	0.66
June 30, 2003	392	40,052,952	102,176	(0.04)
June 30, 2004	391	39,878,499	101,991	(0.18)
June 30, 2005	392	40,016,098	102,082	0.09
June 30, 2006	394	40,270,535	102,209	0.12

RETIREES AND BENEFICIARIES ADDED AND REMOVED

Six Years Ended June 30, 2006

MSEP

Fiscal Year Ended	Classification	Benefit Type	Added to Rolls Number	Added to Rolls Annual Allowances
June 30, 2001	General employee	Retirement	2,580	$55,234,780
		Survivor of active	84	814,517
		Survivor of retired	197	1,832,029
		Disability	0	3,518
		Occupational disability	0	0
	Lincoln University - vested	Retirement	1	1,841
		Survivor of active	0	0
	Legislators	Retirement	14	436,356
		Survivor of active	0	2,468
		Survivor of retired	7	89,399
	Elected officials	Retirement	6	230,136
		Survivor of active	1	56,938
		Survivor of retired	0	931
	Administrative law judges and legal advisors	Retirement	1	57,621
		Survivor of active	0	0
		Survivor of retired	1	25,674
June 30, 2002	General employee	Retirement	1,840	32,360,047
		Survivor of active	84	842,611
		Survivor of retired	209	1,805,486
		Disability	0	3,474
		Occupational disability	0	0
	Lincoln University - vested	Retirement	2	6,061
		Survivor of active	0	0
	Legislators	Retirement	8	238,058
		Survivor of active	1	6,950
		Survivor of retired	4	59,947
	Elected officials	Retirement	0	304
		Survivor of active	0	2,277
		Survivor of retired	0	968
	Administrative law judges and legal advisors	Retirement	1	67,877
		Survivor of active	0	0
		Survivor of retired	0	5,582
June 30, 2003	General employee	Retirement	1,819	33,654,082
		Survivor of active	76	808,507
		Survivor of retired	206	1,944,744
		Disability	0	2,109
		Occupational disability	0	0
	Lincoln University - vested	Retirement	0	0
		Survivor of active	0	0
	Legislators	Retirement	45	880,632
		Survivor of active	1	27,031
		Survivor of retired	4	65,987
	Elected officials	Retirement	0	(13,546)
		Survivor of active	0	2,369
		Survivor of retired	0	1,007
	Administrative law judges and legal advisors	Retirement	3	166,161
		Survivor of active	0	0
		Survivor of retired	0	5,601

Source of data: MOSERS benefit payment data base as of June 30, 2006.

Removed From Rolls		Rolls at End of Year				
Number	Annual Allowances	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowance	Percentage Increase in Average Annual Allowance
670	$5,935,443	17,775	$210,083,343	30.66%	$11,819	16.62%
27	173,754	1,040	6,557,400	10.83	6,305	4.75
67	328,785	1,314	9,118,239	19.74	6,939	7.88
14	55,684	38	138,186	(27.41)	3,636	(0.68)
0	0	1	17,448	0.00	17,448	0.00
0	0	8	38,844	4.98	4,856	(8.13)
0	0	1	2,624	0.00	2,624	0.00
9	156,423	171	3,227,654	9.50	18,875	6.30
0	0	8	72,504	3.52	9,063	3.52
1	11,056	36	311,757	33.56	8,660	11.31
0	0	9	373,403	160.63	41,489	(13.12)
0	0	1	56,938	0.00	56,938	0.00
0	0	1	24,199	4.00	24,199	4.00
1	39,647	16	639,577	2.89	39,974	2.89
0	0	0	0	0.00	0	0.00
0	0	8	152,109	20.31	19,014	5.27
685	6,249,943	18,930	236,193,447	12.43	12,477	5.57
30	137,619	1,094	7,262,392	10.75	6,638	5.28
67	378,545	1,456	10,545,180	15.65	7,243	4.38
7	32,754	31	108,906	(21.19)	3,513	(3.38)
0	0	1	17,448	0.00	17,448	0.00
0	0	10	44,905	15.60	4,491	(7.52)
0	0	1	2,624	0.00	2,624	0.00
4	80,340	175	3,385,372	4.89	19,345	2.49
0	0	9	79,454	9.59	8,828	(2.59)
1	4,195	39	367,509	17.88	9,423	8.81
0	0	9	373,707	0.08	41,523	0.08
0	0	1	59,215	4.00	59,215	4.00
0	0	1	25,167	4.00	25,167	4.00
1	46,580	16	660,874	3.33	41,305	3.33
0	0	0	0	0.00	0	0.00
0	0	8	157,691	3.67	19,711	3.67
734	6,798,563	20,015	263,048,966	11.37	13,143	5.34
28	97,740	1,142	7,973,159	9.79	6,982	5.18
71	368,959	1,591	12,120,965	14.94	7,618	5.18
3	15,849	28	95,166	(12.62)	3,399	(3.25)
0	0	1	17,448	0.00	17,448	0.00
1	1,051	9	43,854	(2.34)	4,873	8.51
0	0	1	2,624	0.00	2,624	0.00
4	71,803	216	4,194,201	23.89	19,418	0.38
0	0	10	106,485	34.02	10,649	20.63
3	20,943	40	412,553	12.26	10,314	9.46
0	0	9	360,161	(3.62)	40,018	(3.62)
0	0	1	61,584	4.00	61,584	4.00
0	0	1	26,174	4.00	26,174	4.00
0	0	19	827,035	25.14	43,528	5.38
0	0	0	0	0.00	0	0.00
0	0	8	163,292	3.55	20,412	3.56

MSEP continued on pages 110-111.

RETIREES AND BENEFICIARIES ADDED AND REMOVED
Six Years Ended June 30, 2006

MSEP continued from pages 108-109

Fiscal Year Ended	Classification	Benefit Type	Added to Rolls Number	Added to Rolls Annual Allowances
June 30, 2004	General employee	Retirement	2,454	$42,366,392
		Survivor of active	91	926,617
		Survivor of retired	171	1,965,930
		Disability	1	6,657
		Occupational disability	0	0
	Lincoln University - vested	Retirement	0	0
		Survivor of active	0	0
	Legislators	Retirement	10	182,124
		Survivor of active	1	16,311
		Survivor of retired	3	73,196
	Elected officials	Retirement	0	0
		Survivor of active	0	2,464
		Survivor of retired	0	1,045
	Administrative law judges and legal advisors	Retirement	1	62,331
		Survivor of active	0	0
		Survivor of retired	2	58,362
June 30, 2005	General employee	Retirement	1,719	27,796,807
		Survivor of active	78	891,051
		Survivor of retired	206	2,036,085
		Disability	0	1,409
		Occupational disability	0	0
	Lincoln University - vested	Retirement	1	3,086
		Survivor of active	0	0
	Legislators	Retirement	31	606,743
		Survivor of active	2	15,361
		Survivor of retired	3	47,695
	Elected officials	Retirement	2	92,916
		Survivor of active	0	2,562
		Survivor of retired	0	1,089
	Administrative law judges and legal advisors	Retirement	4	203,829
		Survivor of active	0	0
		Survivor of retired	0	4,987
June 30, 2006	General employee	Retirement	1,853	30,323,860
		Survivor of active	76	997,296
		Survivor of retired	214	2,460,805
		Disability	0	1,356
		Occupational disability	0	0
	Lincoln University - vested	Retirement	1	3,535
		Survivor of active	0	0
	Legislators	Retirement	6	141,548
		Survivor of active	0	4,398
		Survivor of retired	5	53,788
	Elected officials	Retirement	1	24,113
		Survivor of active	0	2,664
		Survivor of retired	0	1,132
	Administrative law judges and legal advisors	Retirement	6	219,793
		Survivor of active	0	0
		Survivor of retired	1	30,686

Source of data: MOSERS benefit payment data base as of June 30, 2006.

Removed From Rolls		Rolls at End of Year				
Number	Annual Allowances	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowance	Percentage Increase in Average Annual Allowance
733	$7,302,918	21,736	$298,112,440	13.33%	$13,715	4.35%
38	197,250	1,195	8,702,526	9.15	7,282	4.30
96	623,128	1,666	13,463,767	11.08	8,081	6.08
5	21,761	24	80,062	(15.87)	3,336	(1.85)
0	0	1	17,448	0.00	17,448	0.00
0	0	9	43,854	0.00	4,873	0.00
0	0	1	2,624	0.00	2,624	0.00
5	116,367	221	4,259,958	1.57	19,276	(0.73)
0	0	11	122,796	15.32	11,163	4.83
1	20,633	42	465,116	12.74	11,074	7.37
0	0	9	360,161	0.00	40,018	0.00
0	0	1	64,048	4.00	64,048	4.00
0	0	1	27,219	3.99	27,219	3.99
3	152,311	17	737,055	(10.88)	43,356	(0.40)
0	0	0	0	0.00	0	0.00
2	48,306	8	173,348	6.16	21,669	6.16
737	6,879,542	22,718	319,029,705	7.02	14,043	2.39
47	227,380	1,226	9,366,197	7.63	7,640	4.92
92	632,735	1,780	14,867,117	10.42	8,352	3.35
3	12,123	21	69,348	(13.38)	3,302	(1.02)
1	17,448	0	0	(100.00)	0	(100.00)
0	0	10	46,940	7.04	4,694	(3.67)
0	0	1	2,624	0.00	2,624	0.00
14	274,590	238	4,592,111	7.80	19,295	0.10
0	0	13	138,157	12.51	10,627	(4.80)
1	4,156	44	508,655	9.36	11,560	4.39
0	0	11	453,077	25.80	41,189	2.93
0	0	1	66,610	4.00	66,610	4.00
0	0	1	28,308	4.00	28,308	4.00
0	0	21	940,884	27.65	44,804	3.34
0	0	0	0	0.00	0	0.00
0	0	8	178,335	2.88	22,292	2.88
749	7,656,047	23,822	341,697,518	7.11	14,344	2.14
48	201,958	1,254	10,161,535	8.49	8,103	6.06
80	658,501	1,914	16,669,421	12.12	8,709	4.27
5	13,560	16	57,144	(17.60)	3,572	8.18
0	0	0	0	0.00	0	0.00
0	0	11	50,475	7.53	4,589	(2.24)
0	0	1	2,624	0.00	2,624	0.00
6	124,079	238	4,609,580	0.38	19,368	0.38
0	0	13	142,555	3.18	10,966	3.19
2	39,490	47	522,953	2.81	11,127	(3.75)
0	0	12	477,190	5.32	39,766	(3.45)
0	0	1	69,274	4.00	69,274	4.00
0	0	1	29,440	4.00	29,440	4.00
2	105,777	25	1,054,900	12.12	42,196	(5.82)
0	0	0	0	0.00	0	0.00
0	0	9	209,021	17.21	23,225	4.19

RETIREES AND BENEFICIARIES ADDED AND REMOVED

Six Years Ended June 30, 2006

Judicial Plan

		Added to Rolls		Removed From Rolls	
Fiscal Year Ended	**Benefit Type**	**Number**	**Annual Allowances**	**Number**	**Annual Allowances**
June 30, 2001	Retirement	25	$2,241,337	8	$354,861
	Survivor of active	2	83,627	2	34,642
	Survivor of retired	1	76,395	4	42,983
	Disability	0	1,500	0	0
June 30, 2002	Retirement	11	984,612	9	455,021
	Survivor of active	1	57,051	1	28,541
	Survivor of retired	5	195,971	5	84,932
	Disability	0	0	1	48,000
June 30, 2003	Retirement	23	1,445,716	10	560,588
	Survivor of active	0	34,820	0	0
	Survivor of retired	6	214,029	7	101,944
	Disability	0	0	0	0
June 30, 2004	Retirement	12	1,076,421	11	652,803
	Survivor of active	0	36,471	2	56,802
	Survivor of retired	7	269,344	4	86,633
	Disability	0	0	0	0
June 30, 2005	Retirement	12	1,159,324	8	402,329
	Survivor of active	0	35,224	1	14,247
	Survivor of retired	6	211,269	6	75,799
	Disability	0	0	0	0
June 30, 2006	Retirement	11	952,792	11	583,695
	Survivor of active	2	89,661	2	33,794
	Survivor of retired	6	219,711	4	79,701
	Disability	1	54,000	0	0

Source of data: MOSERS benefit payment data base as of June 30, 2006.

Rolls at End of Year				
Number	Annual Allowances	Percentage Increase in Annual Allowance	Average Annual Allowance	Percentage Increase in Average Annual Allowance
255	$13,253,129	16.60%	$51,973	8.82%
44	875,396	5.93	19,895	5.93
80	1,461,725	2.34	18,272	6.18
1	48,000	3.23	48,000	3.23
257	13,782,720	4.00	53,629	3.19
44	903,906	3.26	20,543	3.26
80	1,572,764	7.60	19,660	7.60
0	0	(100.00)	0	(100.00)
270	14,667,848	6.42	54,325	1.30
44	938,726	3.85	21,335	3.86
79	1,684,849	7.13	21,327	8.48
0	0	0.00	0	0.00
271	15,091,466	2.89	55,688	2.51
42	918,395	(2.17)	21,867	2.49
82	1,867,560	10.84	22,775	6.79
0	0	0.00	0	0.00
275	15,848,461	5.02	57,631	3.49
41	939,372	2.28	22,912	4.78
82	2,003,030	7.25	24,427	7.25
0	0	0.00	0	0.00
275	16,217,558	2.33	58,973	2.33
41	995,239	5.95	24,274	5.94
84	2,143,040	6.99	25,512	4.44
1	54,000	0.00	54,000	0.00

SHORT-TERM SOLVENCY TEST

Pension Trust Funds - Ten Years Ended June 30, 2006

MSEP

Fiscal Year	Actuarial Accrued Liabilities for: Member Contributions (1)	Retirees and Beneficiaries (2)	Members, Employer Financed Portion (3)	Actuarial Value of Assets Available for Benefits	Percentage of Actuarial Liabilities Coverage by Assets Available for (1)	(2)	(3)
1997	$448,501	$1,552,966,747	$2,930,632,553	$3,580,974,502	100.0%	100.0%	69.2%
1998	447,716	1,688,502,950	3,229,936,517	4,210,635,094	100.0	100.0	78.1
1999	0	1,970,504,367	3,535,464,262	4,908,820,033	100.0	100.0	83.1
2000	0	2,142,487,495	3,778,196,697	5,511,714,616	100.0	100.0	89.2
2001	0	2,496,277,500	3,568,889,216	5,881,232,850	100.0	100.0	94.8
2002	0	2,716,457,033	3,577,815,242	6,033,133,598	100.0	100.0	92.7
2003	0	3,016,029,050	3,646,262,356	6,057,329,072	100.0	100.0	83.4
2004	0	3,405,053,804	3,824,957,124	6,118,214,495	100.0	100.0	70.9
2005	0	3,629,506,014	3,948,522,003	6,435,344,102	100.0	100.0	71.1
2006	0	3,876,349,145	4,136,856,269	6,836,567,188	100.0	100.0	71.6

*ALJLAP**

Fiscal Year	Actuarial Accrued Liabilities for: Member Contributions (1)	Retirees and Beneficiaries (2)	Members, Employer Financed Portion (3)	Actuarial Value of Assets Available for Benefits	Percentage of Actuarial Liabilities Coverage by Assets Available for (1)	(2)	(3)
1997	$0	$6,569,957	$4,857,224	$ 8,864,395	100.0%	100.0%	47.2%
1998	0	7,415,852	5,471,056	10,285,233	100.0	100.0	52.4
1999	0	7,883,988	6,890,537	11,763,737	100.0	100.0	56.3
2000	0	7,526,118	8,995,625	13,191,825	100.0	100.0	63.0
2001	0	7,534,368	9,275,594	14,410,199	100.0	100.0	74.1
2002	0	8,268,650	9,906,692	15,172,619	100.0	100.0	69.7
2003	0	9,709,096	10,237,391	15,626,461	100.0	100.0	57.8
2004	0	9,188,086	11,196,127	16,238,804	100.0	100.0	63.0

*Assets and liabilities transferred to the MSEP during FY05.

Judicial Plan

Fiscal Year	Actuarial Accrued Liabilities for: Member Contributions (1)	Retirees and Beneficiaries (2)	Members, Employer Financed Portion (3)	Actuarial Value of Assets Available for Benefits	Percentage of Actuarial Liabilities Coverage by Assets Available for (1)	(2)	(3)
1997	$0	$ 99,662,179	$97,810,394	$ 0	100.0%	0.0%	0.0%
1998	0	108,392,273	99,187,524	0	100.0	0.0	0.0
1999	0	120,543,611	107,258,730	6,067,305	100.0	5.0	0.0
2000	0	131,199,867	110,597,474	13,861,769	100.0	10.6	0.0
2001	0	143,163,718	104,815,186	22,613,050	100.0	15.8	0.0
2002	0	149,135,989	106,979,463	29,651,113	100.0	19.9	0.0
2003	0	157,923,805	109,126,052	34,566,516	100.0	21.9	0.0
2004	0	162,539,486	117,857,978	39,120,142	100.0	24.1	0.0
2005	0	168,703,822	123,600,064	44,223,509	100.0	26.2	0.0
2006	0	171,677,032	137,325,720	51,652,867	100.0	30.1	0.0

DERIVATION OF EXPERIENCE GAIN (LOSS)

MSEP

Actual experience will never coincide exactly with assumed experience (except by coincidence). Gains and losses may offset each other over a period of years but sizeable year-to-year variations from assumed experience are common. Detail on the derivation of the experience gain (loss) is shown below.

		$ Millions
(1)	Unfunded actuarial accrued liability (UAAL) at beginning of year	1,142.7
(2)	Normal cost from last valuation	159.7
(3)	Actual employer contributions	227.2
(4)	Interest accrual: (1) x .085 + [(2) - (3)] x (.085 ÷ 2)	94.3
(5)	Expected UAAL before changes: (1) + (2) - (3) + (4)	1,169.5
(6)	Change from any changes in benefits, assumptions, or methods	0.0
(7)	Expected UAAL after changes: (5) + (6)	1,169.5
(8)	Actual UAAL at end of year	1,176.6
(9)	Gain (loss) (7) - (8)	(7.1)
(10)	Gain (loss) as a percent of actuarial accrued liabilities at start of year	(0.1)%

Actuarial Gain (Loss) as a % of Beginning Accrued Liabilities (Valuation Date as of June 30)	
1997	5.5
1998	5.5
1999	4.7
2000	2.7
2001	(4.4)
2002	(3.8)
2003	(6.4)
2004	(6.0)
2005	(3.4)
2006	(0.1)

Judicial Plan

The actuarial gains or losses realized in the operation of the retirement system provide an experience test. Gains and losses are expected to cancel each other over a period of years but sizable year-to-year fluctuations are common. Detail on the derivation of the actuarial gain (loss) is shown below, along with a year-by-year comparative schedule.

		$ Millions
(1)	Unfunded actuarial accrued liability (UAAL) at beginning of year	248.1
(2)	Employer normal cost middle of year	7.9
(3)	Employer contributions	22.4
(4)	Interest	
	a. on (1)	21.1
	b. on (2)	0.4
	c. on (3)	1.0
	d. total [a + b - c)]	20.5
(5)	Expected UAAL end of year before changes	254.1
(6)	Change in UAAL end of year	
	a. amendments	0.0
	b. assumptions	0.0
	c. methods	0.0
	d. total	0.0
(7)	Expected UAAL after changes: (5) + (6d.)	254.1
(8)	Actual UAAL at end of year	257.3
(9)	Gain (loss) (7)- (8)	(3.2)
(10)	Gain (loss) as a percent of actuarial accrued liabilities at start of year	(1.1)

Actuarial Gain (Loss) as a % of Beginning Accrued Liabilities (Valuation Date as of June 30)	
2000	(1.7)
2001	(3.2)
2002	(0.2)
2003	(1.6)
2004	(1.0)
2005	(0.1)
2006	(1.1)

SUMMARY OF PLAN PROVISIONS*

MSEP and MSEP 2000 - Comparison of Plans for General State Employees - June 30, 2006

Plan Provision	MSEP	MSEP 2000
Membership eligibility	Members who work in a position normally requiring at least 1,000 hours of work a year.	Members hired for the first time on or after July 1, 2000, in a position normally requiring at least 1,000 hours of work a year. Members who left state employment prior to becoming vested and return to work on or after July 1, 2000, in a position normally requiring at least 1,000 hours of work a year.
Normal retirement eligibility	Age 65 and active with 4 years of service, Age 65 with 5 years of service, Age 60 with 15 years of service, or "Rule of 80" - minimum age 48.	Age 62 with 5 years of service or "Rule of 80" - minimum age 48.
Early retirement eligibility	Age 55 with 10 years of service.	Age 57 with 5 years of service.
Benefit Life benefit Temporary benefit	 1.6% x final average pay (FAP) x service. Not available.	 1.7% x FAP x service. 0.8% x FAP x service (until age 62 - only if retiring under "Rule of 80").
Vesting	5 years of service.	5 years of service.
In-service cost-of-living adjustment (COLA)	COLA given for service beyond age 65. COLA provisions are determined by employment date.	Not available.
COLA	If hired before August 28, 1997, annual COLA is equal to 80% of the change in the consumer price index (CPI) with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	Annual COLA is equal to 80% of the change in the CPI with a minimum rate of 5%.
Survivor benefit (Death before retirement) Non duty-related death Duty-related death	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the members' Life Income Annuity paid to eligible children. Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment (Death after retirement)	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Unreduced Joint & 50% Survivor • Joint & 100% Survivor • 60 or 120 Guaranteed Payments • BackDROP	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Joint & 50% Survivor • Joint & 100% Survivor • 120 or 180 Guaranteed Payments • BackDROP

* This summary describes the plan provisions of the Revised Statutes of Missouri (RSMo), as amended, that governed the programs, which MOSERS administered during the period covered by this report. It does not overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule would apply. The MSEP 2000 became effective July 1, 2000.

SUMMARY OF PLAN PROVISIONS

MSEP and MSEP 2000 - Comparison of Plans for Uniformed Member of the Water Patrol - June 30, 2006

Plan Provision	**MSEP**	**MSEP 2000**
Membership eligibility	Members who work in a position normally requiring at least 1,000 hours of work a year.	Members hired for the first time on or after July 1, 2000, in a position normally requiring at least 1,000 hours of work a year. Members who left state employment prior to becoming vested and return to work on or after July 1, 2000, in a position normally requiring at least 1,000 hours of work a year.
Normal retirement eligibility	Age 55 and active with 4 years of service, Age 55 with 5 years of service, or "Rule of 80" - minimum age 48.	Age 62 with 5 years of service or "Rule of 80" - minimum age 48.
Early retirement eligibility	Not available.	Age 57 with 5 years of service.
Benefit Life benefit Temporary benefit	 1.6% x FAP x service increased by 33.3%. Not available.	 1.7% x FAP x service. 0.8% x FAP x service (until age 62 - only if retiring under "Rule of 80").
Vesting	5 years of service.	5 years of service.
In-service COLA	COLA given for service beyond age 65. COLA provisions are determined by employment date.	Not available.
COLA	If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	Annual COLA is equal to 80% of the change in the CPI with a minimum rate of 5%.
Survivor benefit (Death before retirement) Non duty-related death Duty-related death	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment (Death after retirement)	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Unreduced Joint & 50% Survivor • Joint & 100% Survivor • 60 or 120 Guaranteed Payments • BackDROP	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Joint & 50% Survivor • Joint & 100% Survivor • 120 or 180 Guaranteed Payments • BackDROP

SUMMARY OF PLAN PROVISIONS*

MSEP and MSEP 2000 - Comparison of Plans for Legislators - June 30, 2006

Plan Provision	MSEP	MSEP 2000
Membership eligibility	Elected to the General Assembly.	Elected to the General Assembly on or after July 1, 2000.
Normal retirement eligibility	Age 55 with 3 full-biennial assemblies.	Age 55 with 3 full-biennial assemblies or "Rule of 80" - minimum age 50.
Early retirement eligibility	Not available.	Not available.
Benefit Life benefit Temporary benefit	 $150 per month per biennial assembly. Not available.	 (Monthly base pay ÷ 24) x service capped at 100% of pay. Not available.
Vesting	3 full-biennial assemblies.	3 full-biennial assemblies.
In-service COLA	COLA given for service beyond age 65. COLA provisions are determined by employment date.	Not available.
COLA	If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	Benefit adjusted each year based on the percentage increase in the current pay for an active member of the General Assembly.
Survivor benefit (Death before retirement) Non duty-related death Duty-related death	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children. Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment (Death after retirement)	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Unreduced Joint & 50% Survivor • Joint & 100% Survivor • 60 or 120 Guaranteed Payments	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Joint & 50% Survivor • Joint & 100% Survivor • 120 or 180 Guaranteed Payments

SUMMARY OF PLAN PROVISIONS

MSEP and MSEP 2000 - Comparison of Plans for Elected Officials - June 30, 2006

Plan Provision	MSEP	MSEP 2000
Membership eligibility	Elected to state office.	Elected to state office on or after July 1, 2000.
Normal retirement eligibility	Age 65 with 4 years of service, Age 60 with 15 years of service, or "Rule of 80" - minimum age 48.	Age 55 with 4 years of service or "Rule of 80" - minimum age 50.
Early retirement eligibility	Age 55 with 10 years of service.	Not available.
Benefit		
Life benefit	12 or more years of service 50% or current pay for highest position held. Less than 12 years of service 1.6% x FAP x service.	(Monthly base pay ÷ 24) x service capped at 12 years or 50% of pay.
Temporary benefit	Not available.	Not available.
Vesting	4 years of service.	4 years of service.
In-service COLA	COLA provisions determined by amount of service relative to 12 years and date of employment.	Not available.
COLA	12 or more years of service COLA is equal to the percentage increase in the current pay of an active elected state official in the highest position held. Less than 12 years of service If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.	Benefit adjusted each year based on the percentage increase in the current pay for an active elected state official in the highest position held.
Survivor benefit (Death before retirement) Non duty-related death	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children.	Survivor benefit to eligible spouse calculated using the Joint & 100% Survivor Option or 80% of the member's Life Income Annuity paid to eligible children.
Duty-related death	Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).	Survivor benefit to eligible spouse or children no less than 50% of current pay (no service requirement).
Optional forms of payment (Death after retirement)	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Unreduced Joint & 50% Survivor • Joint & 100% Survivor • 60 or 120 Guaranteed Payments	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: • Life Income Annuity • Joint & 50% Survivor • Joint & 100% Survivor • 120 or 180 Guaranteed Payments

SUMMARY OF PLAN PROVISIONS*

MSEP and MSEP 2000 - Administrative Law Judges and Legal Advisors* - June 30, 2006

Plan Provision	Requirement
Membership eligibility	Administrative law judge or legal advisor in the Division of Workers' Compensation, a member or legal counsel of the Labor and Industrial Relations Commission, chairperson of the State Board of Mediation, or an administrative hearing commissioner hired prior to April 26, 2005.
Normal retirement eligibility	Age 62 with 12 years of service, Age 60 with 15 year of service, or Age 55 with 20 years of service.
Reduced retirement eligibility	Age 65 with less than 12 years of service with reduced benefit, based upon years of service relative to 12 years.
Benefit formula	<u>12 or more years of service</u> 50% of the average highest 12 consecutive months of salary.
Vesting	Immediate.
In-service COLA	Not available.
COLA	If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.
Survivor benefit (Death before retirement)	Survivor benefit to eligible spouse equal to 50% of the benefit the member would have received based on service at age 70.
Survivor benefit (Death after retirement)	Survivor benefit to eligible spouse equal to 50% of the member's annuity at the time of death.

* All new administrative law judges and legal advisors hired on or after April 26, 2005, who had not been previously covered by a retirement system under Chapter 287, RSMo, participate in the MSEP, which is covered under Chapter 104, RSMo.

SUMMARY OF PLAN PROVISIONS

MSEP and MSEP 2000 - Judicial Plan - June 30, 2006

Plan Provision	Requirement
Membership eligibility	Must be a judge or commissioner of the supreme court or of the court of appeals; a judge of any circuit court, probate court, magistrate court, court of common pleas, or court of criminal corrections; a justice of the peace; or a commissioner or deputy commissioner of the circuit court appointed after February 29, 1972.
Normal retirement eligibility	Age 62 with 12 years of service, Age 60 with 15 year of service, or Age 55 with 20 years of service.
Reduced retirement eligibility	Age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit based on years of service relative to 12 or 15 years.
Benefit formula	<u>12 or 15 more years of service</u> 50% of the FAP. <u>Less than 12 or 15 years of service</u> *If between ate 60 and 62* (years of service ÷ 15) x 50% of compensation on the highest court served. *If age 62* (years of service ÷ 12) x 50% of compensation on the highest court served.
Vesting	Immediate.
In-service COLA	Judges who are at least age 60 and work beyond the date first eligible for unreduced benefits will receive COLAs for each year worked beyond normal retirement eligibility. COLA provisions are determined by date of employment.
COLA	If hired before August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a minimum of 4% and a maximum of 5% until reaching 65% cap. Thereafter, the rate is based on 80% of the change in the CPI with maximum rate of 5%. If hired on or after August 28, 1997, annual COLA is equal to 80% of the change in the CPI with a maximum rate of 5%.
Survivor benefit (Death before retirement)	Survivor benefit to eligible spouse equal to 50% of the benefit the member would have received based on service at age 70.
Survivor benefit (Death after retirement)	Survivor benefit to eligible spouse equal to 50% of the member's annuity at the time of death.

SUMMARY OF PLAN PROVISIONS

Life Insurance Plans - June 30, 2006

MOSERS administers basic and optional term life insurance plans for eligible state employees and retirees.

Active Members*	Requirement
Basic life insurance An amount equal to one times annual salary (with a minimum of $15,000) while actively employed.	Actively employed in an eligible state position resulting in membership in MOSERS.
Duty-related death benefit Duty-related death benefit equivalent to two times the annual salary the member was earning at the time of death in addition to the basic life insurance amount of one times annual salary.	Actively employed in an eligible state position resulting in membership in MOSERS.
Optional life insurance Additional life insurance may be purchased in a flat amount in multiples of $10,000 not to exceed the maximum (lesser of six times annual salary or $800,000). Spouse coverage may be purchased in multiples of $10,000 up to a maximum of $100,000; however, the amount of spouse coverage cannot exceed the amount of optional life insurance coverage the member has purchased. Coverage for children is available in a flat amount of $10,000 per child.	Actively employed in an eligible state position resulting in membership in MOSERS.
* Terminating employees may convert coverage up to the amount they had as an active employee at individual rates.	

Retired Members	Requirement
Basic life insurance at retirement $5,000 basic life insurance during retirement.	Must retire directly from active employment.
Optional life insurance at retirement (MSEP) An employee may retain up to the lesser of $60,000 or the amount of optional life insurance coverage held at the time of retirement at the group rate and may convert any remaining basic and optional life insurance at individual rates.	Must retire directly from active employment.
Optional life insurance at retirement (MSEP 2000) Under "Rule of 80" an employee may retain the current amount of coverage prior to retirement until age 62 at which time coverage is reduced to $60,000, and may convert any remaining basic and optional life insurance at individual rates. Coverage for spouse and/or children ends at member's retirement and may be converted at individual rates.	Must retire directly from active employment.

SUMMARY OF PLAN PROVISIONS

Long-Term Disability (LTD) Plans - June 30, 2006

MOSERS administers the LTD Plan for eligible state employees who become disabled during active employment.

Active Members	Requirement
General State Employees, Legislators, and Elected State Officials Members of MOSERS in a position normally requiring 1,000 hours of work a year are covered under the LTD plan, unless they work for a state agency, which has its own LTD plan.	**Long-term disability -** Eligible participants receive 60% of their compensation minus primary social security, workers' compensation, and employer provided income. Benefits commence after 90 days of disability or after sick leave expires, whichever occurs last. LTD benefits cease upon the earliest of (i) when disability ends, (ii) when the member is first eligible for normal retirement benefits or is receiving early retirement benefits, (iii) when the member returns to work, or (iv) upon a member's death.
Water Patrol	Uniformed members who are eligible for statutory occupational disability receive benefits equal to 50% of compensation with no offset for social security at the time of disability. For nonoccupational disabilities, eligible participants receive the same benefit as general employees.
Judges	In addition to the disability benefits provided to general employees, judges also receive benefits under the state constitution. Participants receive 50% of salary until the current term expires.

CHANGES IN PLAN PROVISIONS

There were no plan provision changes during FY06.

ACTUARIAL PRESENT VALUES
As of June 30, 2006

MSEP

Actuarial Present Value as of June 30, 2006	**Actuarial Present Value**	**Portion Covered by Future Normal Cost Contributions**	**Actuarial Accrued liabilities**
Active members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	$4,053,266,115	$ 800,361,495	$3,252,904,620
Disability benefits likely to be paid to present active members who become totally and permanently disabled	125,485,969	53,431,659	72,054,310
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	178,804,688	42,098,670	136,706,018
Separation benefits likely to be paid to present active members	409,193,532	201,520,834	207,672,698
Active member totals	$4,766,750,304	$1,097,412,658	3,669,337,646
Members on leave of absence & LTD			
Service retirement benefits based on service rendered before the valuation date			99,633,265
Terminated-vested members			
Service retirement benefits based on service rendered before the valuation date			367,885,358
Retired lives			3,875,909,058
BackDROP installment payments incurred, but not yet paid			440,087
Total actuarial accrued liability			8,013,205,414
Actuarial value of assets			6,836,567,188
Unfunded actuarial accrued liability			$1,176,638,226

ACTUARIAL PRESENT VALUES

As of June 30, 2006

Judicial Plan

Actuarial Present Value as of June 30, 2006	**Actuarial Present Value**	**Portion Covered by Future Normal Cost Contributions**	**Actuarial Accrued liabilities**
Active members			
Service retirement benefits based on services rendered before and likely to be rendered after valuation date	$167,977,304	$47,753,229	$120,224,075
Disability benefits likely to be paid to present active members who become totally and permanently disabled	1,572,681	1,296,973	275,708
Survivor benefits likely to be paid to widows and children of present active members who die before retiring	5,615,178	2,990,888	2,624,290
Active member totals	$175,165,163	$52,041,090	123,124,073
Terminated-vested members			
Service retirement benefits based on service rendered before the valuation date			14,201,647
Retired lives			171,677,032
Total actuarial accrued liability			309,002,752
Actuarial value of assets			51,652,867
Unfunded actuarial accrued liability			$257,349,885

STATISTICAL SECTION

STATISTICAL SECTION

SUMMARY

Plan Membership
Membership in the pension trusts administered by MOSERS increased by 864. Active members decreased by 1,449, retired members and their beneficiaries increased by 1,273, and terminated-vested members increased by 1,040. Membership data for the last ten years ended June 30, 2006, can be found on page 137. Page 140 depicts the location of benefit recipients, showing that the majority remain in the state of Missouri after retirement.

Net Assets vs. Liabilities
The charts on page 132-135 graphically represent the funding progress of the pension plans for the ten years ended June 30, 2006. The area charts in the middle of the pages show the portion of the pension liabilities that are unfunded compared to the portion covered by assets in the trust funds. The charts on the bottom of the pages illustrates the funded ratio of the plans for the ten years ended June 30, 2006.

The existence of the unfunded actuarial accrued liabilities is not necessarily an indication of financial problems, but the fluctuations are important and must be monitored and controlled.

The remainder of this section contains various statistical and historical data considered useful in evaluating the condition of the plans.

All nonaccounting data is taken from MOSERS' internal sources except for that information which is derived from the actuarial valuations (pages 132-137, 141, and 150-151).

CHANGES IN NET ASSETS
Last Ten Fiscal Years

Fiscal Year	1997	1998	1999	2000
MSEP				
Additions				
Employer contributions	$146,383,371	$152,090,687	$197,909,834	$202,330,547
Member service purchases	640,590	1,035,738	1,151,328	1,991,206
Service transfers in	2,238,691	36,908	147,315	3,468,697
Investment income (net of expense)	653,958,265	661,480,958	504,026,290	402,878,683
Other	235,279	14,925	659,215	629,924
Total additions to plan net assets	803,456,196	814,659,216	703,893,982	611,299,057
Deductions				
Benefits	126,941,341	149,261,681	155,299,924	179,690,822
Refunds	102	1,514	0	889
Service transfers out	2,091,233	0	0	18,609
Administrative expenses	3,563,018	4,500,944	5,763,229	5,487,531
Legal settlements	0	18,998	0	0
Total deductions from plan net assets	132,595,694	153,783,137	161,063,153	185,197,851
Transfer from ALJLAP plan	0	0	0	0
Change in net assets	$670,860,502	$660,876,079	$542,830,829	$426,101,206
ALJLAP Plan				
Additions				
Employer contributions	$ 652,709	$ 564,295	$ 639,285	$ 807,022
Investment income (net of expense)	1,614,183	1,613,972	1,205,813	961,336
Other	34	36	1,577	1,503
Total additions to plan net assets	2,266,926	2,178,303	1,846,675	1,769,861
Deductions				
Benefits	616,859	677,213	747,663	755,574
Administrative expenses	8,795	10,981	13,788	13,094
Legal settlements	0	46	0	0
Total deductions from plan net assets	625,654	688,240	761,451	768,668
Transfer to MSEP	0	0	0	0
Change in net assets	$ 1,641,272	$ 1,490,063	$ 1,085,224	$ 1,001,193
Judicial Plan				
Additions				
Employer contributions	$ 10,450,270	$ 11,433,457	$ 17,862,353	$ 19,988,676
Investment income (net of expense)	0	0	452,499	869,566
Other	0	0	592	1,360
Total additions to plan net assets	10,450,270	11,433,457	18,315,444	20,859,602
Deductions				
Benefits	10,450,270	11,433,457	12,229,325	13,292,188
Administrative expenses	0	0	5,174	11,844
Total deductions from plan net assets	10,450,270	11,433,457	12,234,499	13,304,032
Change in net assets	$ 0	$ 0	$ 6,080,945	$ 7,555,570
Internal Service Fund				
Operating revenues				
Premium receipts	$ 16,255,848	$ 16,720,199	$ 18,942,592	$ 20,119,784
Miscellaneous income	379,684	423,419	444,617	436,488
Total operating revenues	16,635,532	17,143,618	19,387,209	20,556,272
Operating expenses				
Premium disbursements	16,200,297	16,653,714	18,877,414	20,049,507
Premium refunds	55,550	66,485	65,177	70,277
Administrative expenses	363,276	470,791	622,545	519,271
Other	0	0	5,000	0
Total operating expenses	16,619,123	17,190,990	19,570,136	20,639,055
Nonoperating revenues				
Investment income	50,608	58,889	55,323	68,349
Change in net assets	$ 67,017	$ 11,517	$ (127,604)	$ (14,434)

2001	2002	2003	2004	2005	2006
$ 215,750,128	$ 209,515,026	$156,576,150	$ 164,691,836	$194,524,059	$227,233,195
1,918,572	3,913,426	3,690,820	3,426,367	4,122,001	3,072,315
167,640	48,840	53,119	166,510	29,397	161,613
(112,164,123)	(348,106,057)	332,901,027	873,793,645	727,341,314	728,526,971
418,663	447,462	437,574	469,959	1,231,658	501,512
106,090,880	(134,181,303)	493,658,690	1,042,548,317	927,248,429	959,495,606
217,862,853	268,480,982	319,607,447	367,248,099	367,431,297	400,169,563
0	0	4,019	8,585	0	1,341
31,482	27,970	2,191,487	529,177	199,201	133,866
5,749,965	5,753,812	5,954,365	5,694,082	6,228,609	6,486,597
0	0	0	0	0	0
223,644,300	274,262,764	327,757,318	373,479,943	373,859,107	406,791,367
0	0	0	0	18,157,148	0
$(117,553,420)	$(408,444,067)	$165,901,372	$ 669,068,374	$571,546,470	$552,704,239
$ 1,074,946	$ 1,072,562	$ 951,023	$ 945,950	$ 1,124,924	$ 0
(273,380)	(874,249)	862,381	2,344,262	2,057,375	0
1,020	1,124	1,134	1,261	3,484	0
802,586	199,437	1,814,538	3,291,473	3,185,783	0
776,422	836,615	969,918	1,003,355	749,197	0
14,015	14,450	15,425	15,276	17,618	0
0	0	0	0	0	0
790,437	851,065	985,343	1,018,631	766,815	0
0	0	0	0	(18,157,148)	0
$ 12,149	$ (651,628)	$ 829,195	$ 2,272,842	$(15,738,180)	$ 0
$ 22,473,913	$ 22,088,485	$ 20,802,140	$ 20,636,314	$ 21,852,985	$ 22,401,569
(391,124)	(1,680,566)	1,932,815	5,800,076	5,409,107	5,933,531
1,460	2,160	2,541	3,119	9,160	4,085
22,084,249	20,410,079	22,737,496	26,439,509	27,271,252	28,339,185
15,010,098	15,943,642	16,870,011	17,658,269	18,396,397	19,091,587
20,051	27,778	34,571	37,796	46,321	52,830
15,030,149	15,971,420	16,904,582	17,696,065	18,442,718	19,144,417
$ 7,054,100	$ 4,438,659	$ 5,832,914	$ 8,743,444	$ 8,828,534	$ 9,194,768
$ 23,185,529	$ 24,753,708	$ 25,223,043	$ 25,771,703	$ 27,305,305	$ 26,415,236
464,351	436,489	436,494	436,489	436,489	436,501
23,649,880	25,190,197	25,659,537	26,208,192	27,741,794	26,851,737
22,480,704	24,675,520	25,169,883	25,736,083	27,271,948	26,379,919
704,825	78,188	53,160	35,620	33,357	35,317
410,906	439,232	421,507	474,040	466,531	487,699
0	0	0	0	0	0
23,596,435	25,192,940	25,644,550	26,245,743	27,771,836	26,902,935
81,717	47,767	31,179	24,353	49,326	85,124
$ 135,162	$ 45,024	$ 46,166	$ (13,198)	$ 19,284	$ 33,926

DEDUCTIONS FROM NET ASSETS FOR BENEFITS AND REFUNDS BY TYPE

Ten Years Ended June 30, 2006

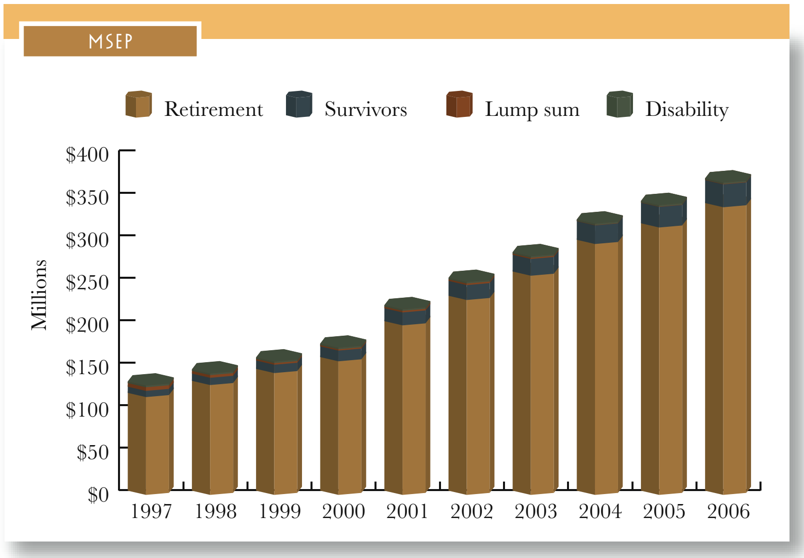
Fiscal Year	1997	1998	1999	2000	2001
MSEP					
Type of benefit					
Retirement	$115,074,410	$129,252,252	$143,330,197	$157,184,011	$199,479,082
Survivors	7,265,874	8,498,948	9,812,877	12,602,200	15,184,214
Disability	310,485	279,617	245,284	219,550	178,337
Lump sum	4,290,572	3,178,164	1,871,798	1,522,312	1,886,958
Benefit adjustments & backDROPs	0	8,052,700	39,768	8,162,749	1,134,262
Total benefits	$126,941,341	$149,261,681	$155,299,924	$179,690,822	$217,862,853
Refunds	$ 102	$ 1,514	$ 0	$ 889	$ 0
ALJLAP*					
Type of benefit					
Retirement	$ 523,264	$ 564,230	$ 630,161	$ 627,865	$ 629,094
Survivors	93,595	112,983	117,502	127,709	147,328
Total benefits	$ 616,859	$ 677,213	$ 747,663	$ 755,574	$ 776,422
Judicial Plan					
Type of benefit					
Retirement	$ 8,607,999	$ 9,499,727	$ 10,202,222	$ 11,054,218	$ 12,621,473
Survivors	1,767,232	1,850,701	1,969,206	2,192,748	2,340,625
Disability	75,039	83,029	57,897	45,222	48,000
Total benefits	$ 10,450,270	$ 11,433,457	$ 12,229,325	$ 13,292,188	$ 15,010,098

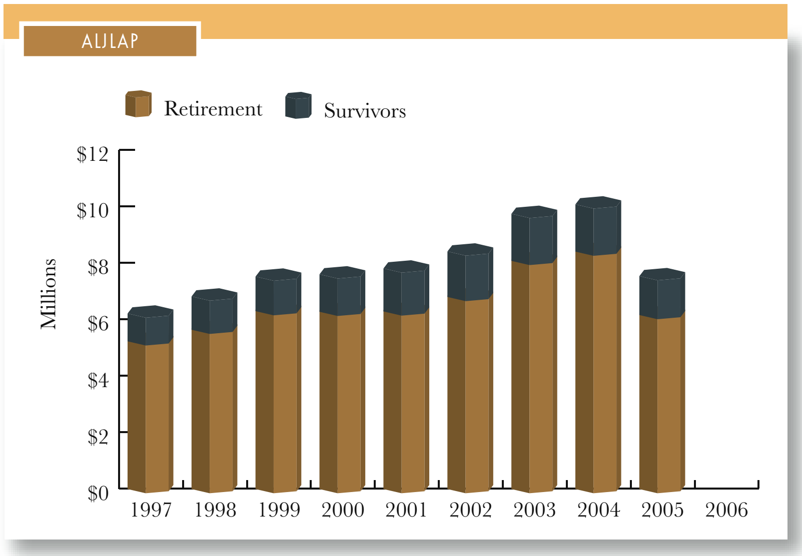
Fiscal Year	2002	2003	2004	2005	2006
MSEP					
Type of benefit					
Retirement	$229,333,190	$257,883,204	$295,200,938	$314,623,851	$338,449,307
Survivors	17,482,292	19,689,766	21,930,438	24,251,854	26,944,984
Disability	145,856	118,279	102,696	82,246	62,324
Lump sum	1,893,194	1,384,599	320,267	342,720	459,398
Benefit adjustments & backDROPs	19,626,450	40,531,599	49,693,761	28,130,626	34,253,550
Total benefits	$268,480,982	$319,607,447	$367,248,100	$367,431,297	$400,169,563
Refunds	$ 0	$ 4,019	$ 8,585	$ 0	$ 1,341
ALJLAP*					
Type of benefit					
Retirement	$ 680,391	$ 808,124	$ 840,963	$ 616,370	$ 0
Survivors	156,224	161,794	162,392	132,827	0
Total benefits	$ 836,615	$ 969,918	$ 1,003,355	$ 749,197	$ 0
Judicial Plan					
Type of benefit					
Retirement	$ 13,525,249	$ 14,256,361	$ 14,913,678	$ 15,513,182	$ 15,989,341
Survivors	2,379,860	2,613,650	2,744,591	2,883,215	3,070,746
Disability	38,533	0	0	0	31,500
Total benefits	$ 15,943,642	$ 16,870,011	$ 17,658,269	$ 18,396,397	$ 19,091,587

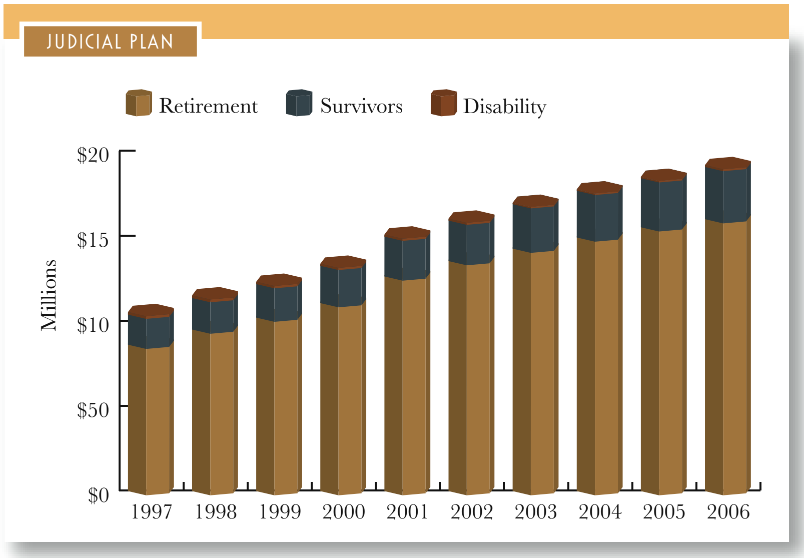
*ALJLAP transitioned to the MSEP in FY05.

DEDUCTIONS FROM NET ASSETS FOR BENEFITS AND REFUNDS BY TYPE

Ten Years Ended June 30, 2006







Pension Trust Funds - All plans Combined

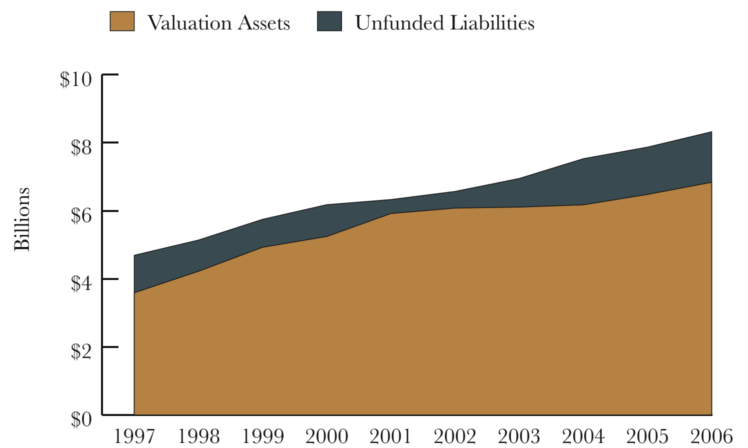
VALUATION ASSETS VS. PENSION LIABILITIES

Ten Years Ended June 30, 2006

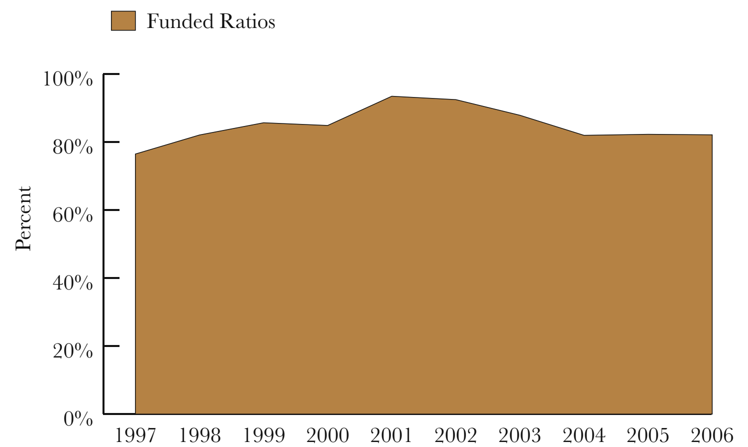
Valuation Assets (at market) vs. Pension Liabilities

	Dollars in Billions			
Fiscal Year	**Valuation Assets**	**Unfunded Liabilities**	**Accrued Liabilities**	**Funded Ratios**
1997	$3.5899	$1.1030	$4.6929	76.5%
1998	4.2209	0.9185	5.1394	82.1
1999	4.9267	0.8219	5.7486	85.7
2000	5.5388	0.6402	6.1790	89.6
2001	5.9182	0.4118	6.3300	93.5
2002	6.0780	0.4906	6.5686	92.5
2003	6.1075	0.8418	6.9493	87.9
2004	6.1736	1.3572	7.5308	82.0
2005	6.4796	1.3907	7.8703	82.3
2006	6.8882	1.4340	8.3222	82.8

ACTUARIAL ACCRUED LIABILITIES - ALL PLANS COMBINED



VALUATION ASSETS AS PERCENTS OF PENSION LIABILITIES - ALL PLANS COMBINED



Pension Trust Funds - MSEP

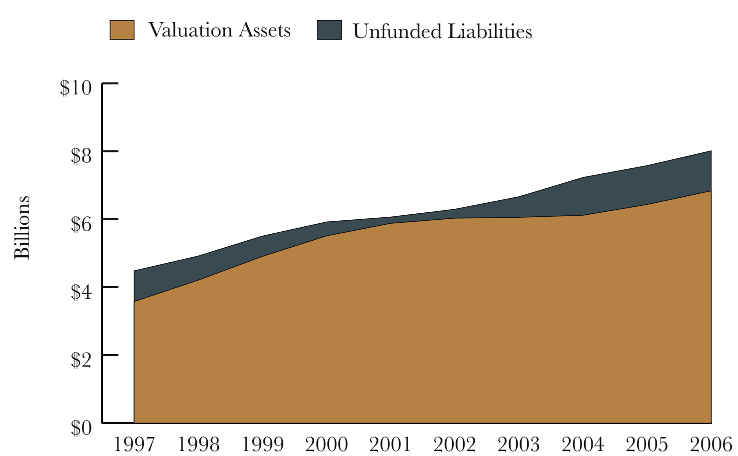
VALUATION ASSETS VS. PENSION LIABILITIES

Ten Years Ended June 30, 2006

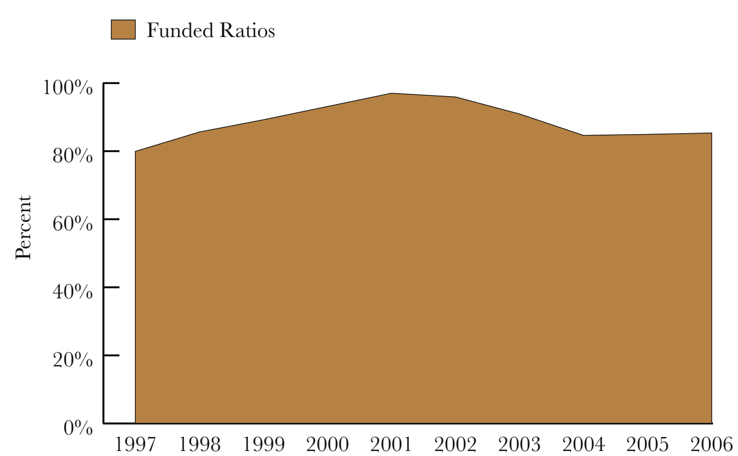
Valuation Assets (at market) vs. Pension Liabilities

	Dollars in Billions			
Fiscal Year	**Valuation Assets**	**Unfunded Liabilities**	**Accrued Liabilities**	**Funded Ratios**
1997	$3.5810	$0.9030	$4.4840	79.9%
1998	4.2106	0.7083	4.9189	85.6
1999	4.9088	0.5972	5.5060	89.2
2000	5.5117	0.4090	5.9207	93.1
2001	5.8812	0.1840	6.0652	97.0
2002	6.0331	0.2612	6.2943	95.9
2003	6.0573	0.6050	6.6623	90.9
2004	6.1182	1.1118	7.2300	84.6
2005	6.4353	1.1427	7.5780	84.9
2006	6.8366	1.1766	8.0132	85.3

ACTUARIAL ACCRUED LIABILITIES - MSEP



VALUATION ASSETS AS PERCENTS OF PENSION LIABILITIES - MSEP



*Pension Trust Funds - ALJLAP**

VALUATION ASSETS VS. PENSION LIABILITIES

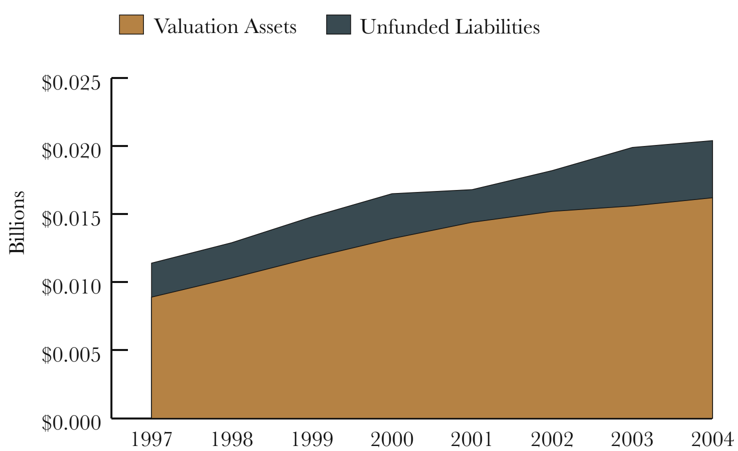
Ten Years Ended June 30, 2006

Valuation Assets (at market) vs. Pension Liabilities

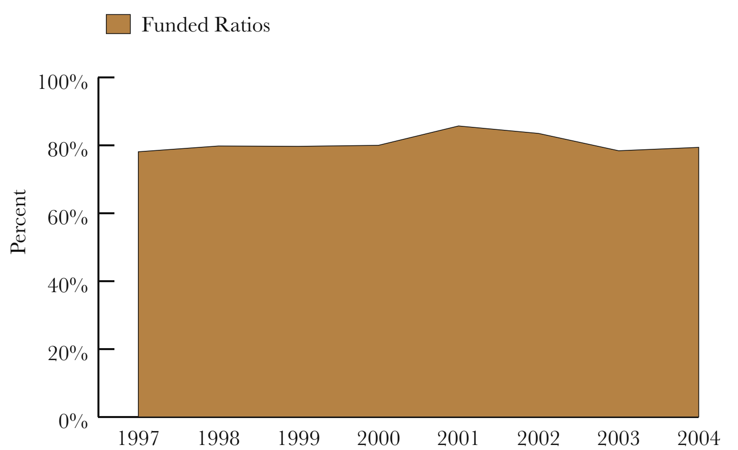
Fiscal Year	Dollars in Billions: Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratios
1997	$0.0089	$0.0025	$0.0114	78.1%
1998	0.0103	0.0026	0.0129	79.8
1999	0.0118	0.0030	0.0148	79.7
2000	0.0132	0.0033	0.0165	80.0
2001	0.0144	0.0024	0.0168	85.7
2002	0.0152	0.0030	0.0182	83.5
2003	0.0156	0.0043	0.0199	78.4
2004	0.0162	0.0042	0.0204	79.4

*Assets and liabilities transferred to MSEP during FY05.

ACTUARIAL ACCRUED LIABILITIES - ALJLAP



VALUATION ASSETS AS PERCENTS OF PENSION LIABILITIES - ALJLAP



Pension Trust Funds - Judicial Plan

VALUATION ASSETS VS. PENSION LIABILITIES

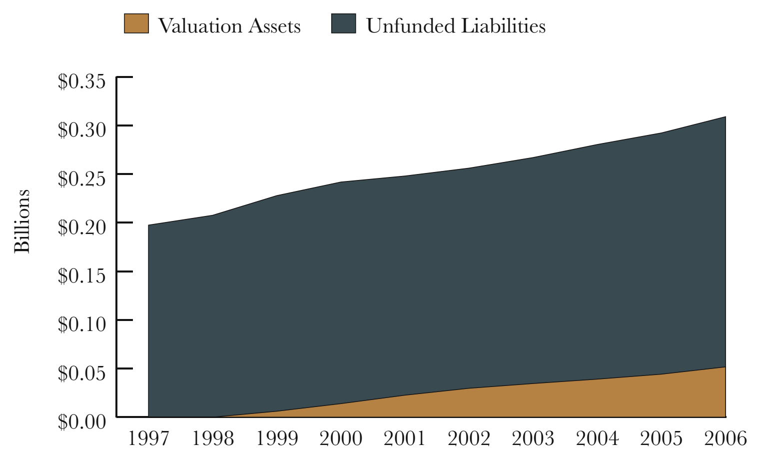
Ten Years Ended June 30, 2006

Valuation Assets (at market) vs. Pension Liabilities

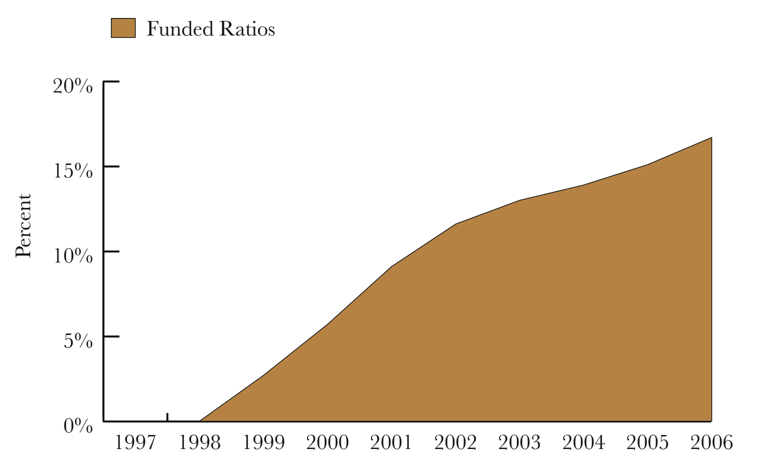
	Dollars in Billions			
Fiscal Year	Valuation Assets	Unfunded Liabilities	Accrued Liabilities	Funded Ratios
1997	$0.0000	$0.1975	$0.1975	0.0%
1998	0.0000	0.2076	0.2076	0.0
1999	0.0061	0.2217	0.2278	2.7
2000	0.0139	0.2279	0.2418	5.7
2001	0.0226	0.2254	0.2480	9.1
2002	0.0297	0.2264	0.2561	11.6
2003	0.0346	0.2324	0.2670	13.0
2004	0.0391	0.2413	0.2804	13.9
2005	0.0442	0.2481	0.2923	15.1
2006	0.0517	0.2573	0.3090	16.7

Prior to FY 1999 the Judicial Plan was on a pay-as-you-go basis

ACTUARIAL ACCRUED LIABILITIES - JUDICIAL PLAN



VALUATION ASSETS AS PERCENTS OF PENSION LIABILITIES - JUDICIAL PLAN

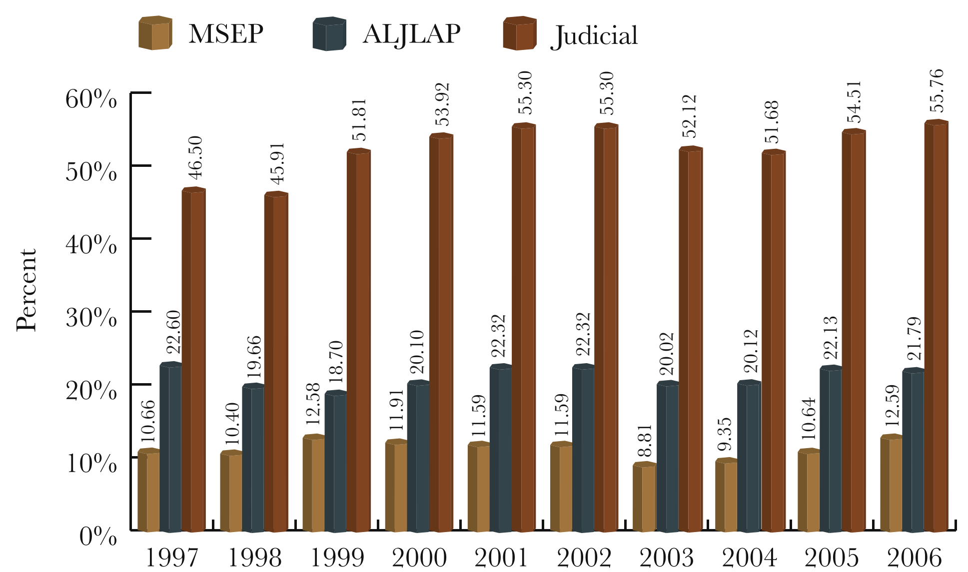


CONTRIBUTION RATES

Last Ten Fiscal Years

Fiscal Year	Percent of Payroll MSEP	ALJLAP	Judicial Plan
1997	10.66%	22.60%	46.50%
1998	10.40	19.66	45.91
1999	12.58	18.70	51.81
2000	11.91	20.10	53.92
2001	11.59	22.32	55.30
2002	11.59	22.32	55.30
2003	8.81	20.02	52.12
2004	9.35	20.12	51.68
2005	10.64	22.13	54.51
2006	12.59	21.79	55.76

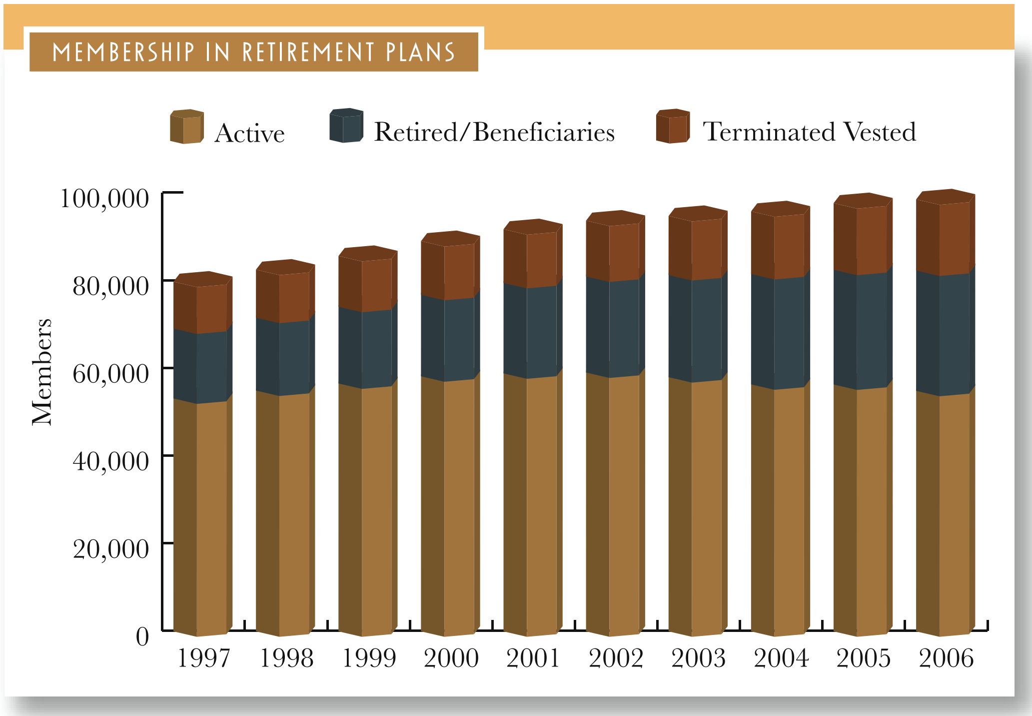
CONTRIBUTION RATES



MEMBERSHIP IN RETIREMENT PLANS

Last Ten Fiscal Years

Fiscal Year	Active	Retired/Beneficiaries	Terminated-Vested	Totals
1997	53,147	15,963	10,273	79,383
1998	54,951	16,616	10,561	82,128
1999	56,571	17,495	11,181	85,247
2000	58,201	18,582	11,858	88,641
2001	58,869	20,642	11,837	91,348
2002	59,066	21,910	12,339	93,315
2003	58,007	23,292	13,073	94,372
2004	56,362	25,179	13,898	95,439
2005	56,336	26,177	14,789	97,302
2006	54,887	27,450	15,829	98,166



BENEFIT RECIPIENTS BY TYPE OF RETIREMENT AND OPTION SELECTED

As of June 30, 2006

MSEP

Amount of Monthly Benefit	Number of Benefit Recipients	Type of Retirement A	B	C	D	E	F	G
$1 - $250	3,528	1,434	1,285	326	452	7	0	24
251 - 500	5,011	2,647	1,439	364	521	7	0	33
501 - 750	4,078	2,863	618	218	354	2	0	23
751 - 1,000	3,009	2,466	235	101	199	0	0	8
1,001 - 1,250	2,277	1,963	91	92	131	0	0	0
1,251 - 1,500	1,859	1,684	41	54	79	0	0	1
1,501 - 1,750	1,581	1,460	27	30	61	0	0	3
1,751 - 2,000	1,364	1,287	14	20	42	0	0	1
Over 2,000	4,657	4,434	27	64	132	0	0	0
Total	27,364	20,238	3,777	1,269	1,971	16	0	93

Judicial Plan

Amount of Monthly Benefit	Number of Benefit Recipients	Type of Retirement A	B	C	D	E	F	G
$1 - $250	1	0	0	0	1	0	0	0
251 - 500	8	0	5	0	3	0	0	0
501 - 750	6	0	0	2	4	0	0	0
751 - 1,000	12	0	3	2	7	0	0	0
1,001 - 1,250	7	0	2	3	2	0	0	0
1,251 - 1,500	6	0	4	1	1	0	0	0
1,501 - 1,750	14	1	5	3	5	0	0	0
1,751 - 2,000	13	0	2	4	6	0	0	1
Over 2,000	334	222	30	26	55	1	0	0
Total	401	223	51	41	84	1	0	1

Type of Retirement

A Normal retirement
B Early retirement
C Survivor of active
D Survivor of retired
E Disability
F Occupational disability (Water Patrol)
G Ex-spouse

BENEFIT RECIPIENTS BY TYPE OF RETIREMENT AND OPTION SELECTED

As of June 30, 2006

				Option Selected					
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
0	29	102	67	165	1	659	706	52	1,747
10	38	116	40	130	5	999	1,095	17	2,561
8	38	72	36	121	7	808	1,080	6	1,902
6	22	53	15	158	3	532	844	1	1,375
15	19	37	12	160	1	443	539	1	1,050
16	8	28	9	166	1	324	424	1	882
9	7	15	7	218	0	304	268	0	753
10	9	26	8	213	1	281	170	1	645
61	15	43	20	650	2	1,225	755	0	1,886
135	185	492	214	1,981	21	5,575	5,881	79	12,801

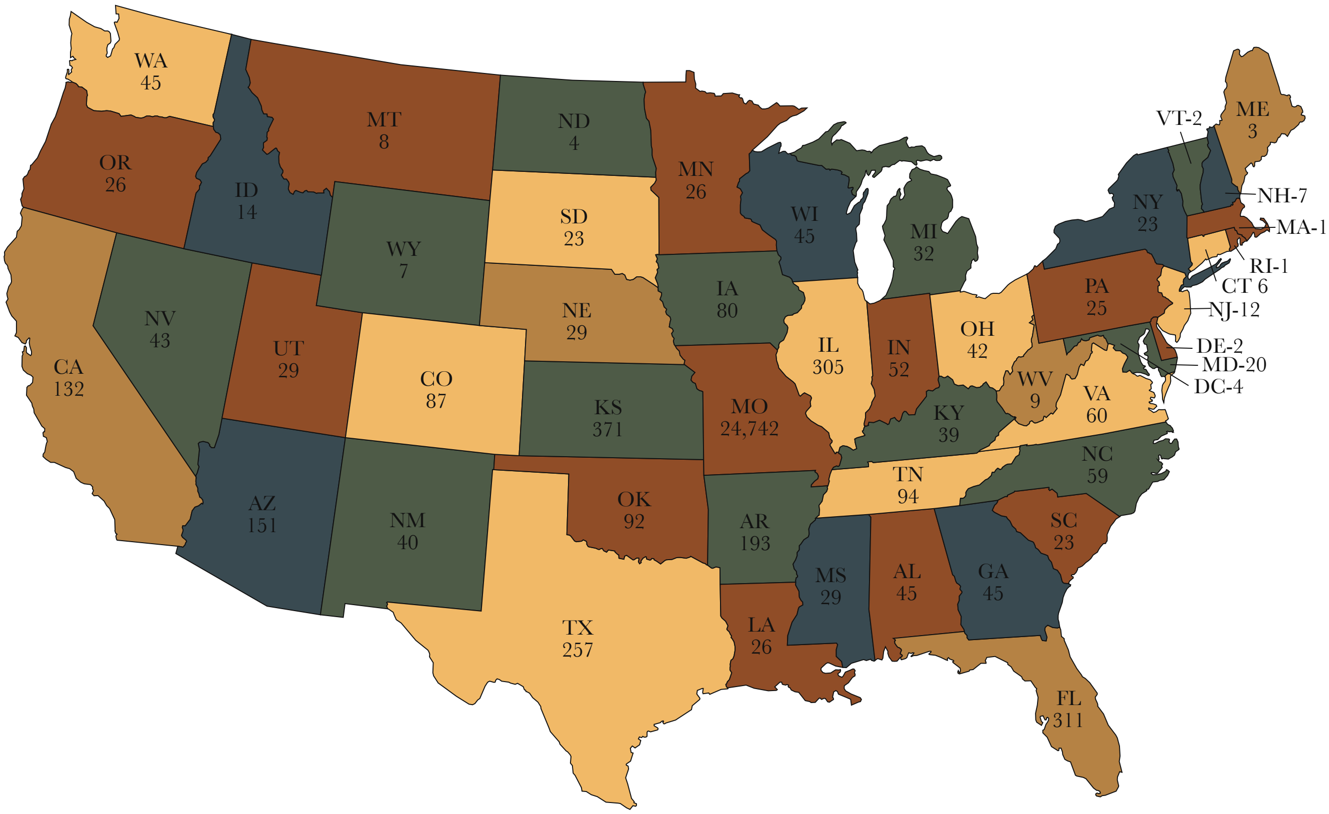
				Option Selected					
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	0	0	0	0	0	0	0	0	0
6	0	0	0	1	0	0	0	0	1
0	0	0	0	4	0	0	0	0	2
4	0	0	0	3	0	0	0	0	5
2	0	0	0	0	0	0	0	0	5
4	0	0	0	1	0	0	0	0	1
7	0	0	0	2	0	0	0	0	5
4	0	0	0	5	0	0	0	0	4
291	0	0	0	33	0	0	0	0	10
319	0	0	0	49	0	0	0	0	33

Option Selected

1 Automatic 50% joint & survivor
2 60-month guaranteed
3 120-month guaranteed
4 180-month guaranteed
5 50% joint & survivor
6 75% joint & survivor
7 100% joint & survivor
8 Automatic minor survivor
10 No survivor option (includes pop-ups)

DISTRIBUTION OF BENEFIT RECIPIENTS BY LOCATION

June 30, 2006



Benefit Recipients Outside the Continental United States

9 - Alaska
2 - APO
1 - Argentina
1 - Australia
4 - Canada
1 - Colombia, South America
1 - Germany
1 - Guam
4 - Hawaii
1 - Ireland
1 - Israel
1 - Mexico
1 - Panama
1 - Puerto Rico
1 - South Korea
1 - Sweden
1 - The Netherlands
2 - United Kingdom

BENEFITS PAYABLE JUNE 30, 2006

Tabulated by Option and Type of Benefit

*MSEP **

Type of Benefit	Number	Annual Funded Benefits	Average Annual Benefits
Service retirement			
Life annuity	4,671	$ 47,533,408	$10,176
50% joint and survivor	5,096	71,784,737	14,086
75% joint and survivor	6	64,428	10,738
100% joint and survivor	2,301	38,434,393	16,703
5-year certain and life	125	1,143,525	9,148
10-year certain and life	107	818,404	7,649
Survivor beneficiary	1,778	15,680,822	8,819
Total	14,084	175,459,717	12,458
Disability retirement	17	59,928	3,525
Death-in-service	1,257	10,273,526	8,173
Grand totals	15,358	$185,793,171	12,097

* Count includes 11 Lincoln University members and 34 members of the ALJLAP.

MSEP 2000

Type of Benefit	Number	Annual Funded Benefits	Average Annual Benefits
Service retirement			
Life annuity	7,691	$114,205,249	$14,849
50% joint and survivor	1,745	37,831,779	21,680
100% joint and survivor	1,502	27,808,960	18,515
5-year certain and life	55	746,300	13,569
10-year certain and life	310	3,573,523	11,527
15-year certain and life	195	1,776,562	9,111
Survivor beneficiary	189	1,836,676	9,718
Total	11,687	187,779,049	16,067
Death-in-service	7	16,922	2,417
Grand totals	11,694	$187,795,971	16,059

Judicial Plan

Type of Benefit	Number	Annual Funded Benefits	Average Annual Benefits
Service retirement			
Life annuity	7	$ 417,412	$59,630
50% joint and survivor	268	15,899,549	59,327
Survivor beneficiary	83	2,115,003	25,482
Total	358	18,431,964	51,486
Death-in-service	40	975,702	24,393
Grand totals	398	$19,407,666	48,763

AVERAGE MONTHLY BENEFIT AMOUNTS

Ten Years Ended June 30, 2006

MSEP

		Years Credited Service by Category							
Member Retiring During Fiscal Year:		**<5**	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	**All Members**
1997	Average monthly benefit	$ 119	$ 281	$ 302	$ 562	$ 848	$1,258	$1,706	$ 921
	Average final average salary	$1,962	$2,035	$1,627	$2,001	$2,235	$2,595	$2,940	$2,303
	Number of retirees	4	94	147	141	141	181	197	905
1998	Average monthly benefit	$ 154	$ 245	$ 381	$ 555	$ 856	$1,280	$1,675	$ 927
	Average final average salary	$2,179	$1,907	$2,026	$1,983	$2,316	$2,661	$2,918	$2,374
	Number of retirees	7	118	170	158	167	190	243	1,053
1999	Average monthly benefit	$ 126	$ 232	$ 373	$ 609	$ 860	$1,254	$1,888	$1,000
	Average final average salary	$1,870	$1,993	$2,087	$2,251	$2,356	$2,646	$3,294	$2,537
	Number of retirees	4	105	175	180	176	230	260	1,130
2000	Average monthly benefit	$ 175	$ 240	$ 366	$ 644	$ 843	$1,359	$1,903	$1,038
	Average final average salary	$2,700	$1,974	$2,031	$2,328	$2,318	$2,897	$3,305	$2,599
	Number of retirees	7	117	183	169	185	250	283	1,194
2001	Average monthly benefit	$ 222	$ 254	$ 431	$ 679	$ 976	$1,387	$1,746	$1,080
	Average final average salary	$2,258	$2,071	$2,116	$2,434	$2,534	$2,910	$3,065	$2,634
	Number of retirees	13	367	337	210	263	475	749	2,414
2002	Average monthly benefit	$ 97	$ 260	$ 425	$ 651	$1,002	$1,443	$1,881	$ 970
	Average final average salary	$1,373	$2,243	$2,166	$2,419	$2,618	$3,039	$3,291	$2,650
	Number of retirees	6	243	293	250	264	373	255	1,684
2003	Average monthly benefit	$ 113	$ 288	$ 499	$ 763	$1,060	$1,447	$1,818	$1,047
	Average final average salary	$1,574	$2,202	$2,398	$2,607	$2,729	$3,046	$3,285	$2,757
	Number of retirees	6	221	261	245	304	455	260	1,752
2004	Average monthly benefit	$ 134	$ 281	$ 425	$ 686	$1,035	$1,443	$1,648	$ 999
	Average final average salary	$1,945	$2,380	$2,269	$2,549	$2,695	$3,040	$3,030	$2,713
	Number of retirees	7	313	319	327	410	610	356	2,342
2005	Average monthly benefit	$ 281	$ 285	$ 460	$ 674	$1,182	$1,569	$1,960	$ 935
	Average final average salary	$3,990	$2,361	$2,234	$2,549	$3,060	$3,359	$3,480	$2,791
	Number of retirees	4	324	284	294	284	347	132	1,669
2006	Average monthly benefit	$ 426	$ 280	$ 438	$ 708	$1,038	$1,565	$1,836	$ 899
	Average final average salary	$3,520	$2,385	$2,336	$2,722	$2,750	$3,313	$3,410	$2,770
	Number of retirees	3	367	323	305	306	362	163	1,829
Ten years ended June 30, 2006									
	Average monthly benefit	$ 177	$269	$ 421	$ 665	$ 996	$1,424	$1,787	$ 989
	Average final average salary	$2,240	$2,218	$2,170	$2,440	$2,619	$3,003	$3,164	$2,647
	Number of retirees	61	2,269	2,492	2,279	2,500	3,473	2,898	15,972

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS
Ten Years Ended June 30, 2006

General Employees in the MSEP

Member Retiring During Fiscal Year:		Years Credited Service by Category							
		<5	5-10	10-15	15-20	20-25	25-30	30+	All Members
1997	Average monthly benefit	$ 119	$ 243	$ 277	$ 526	$ 803	$1,248	$1,693	$ 901
	Average final average salary	$1,962	$2,015	$1,606	$1,953	$2,208	$2,593	$2,941	$2,289
	Number of retirees	4	88	144	139	137	179	195	886
1998	Average monthly benefit	$ 154	$ 212	$ 354	$ 537	$ 832	$1,277	$1,671	$ 916
	Average final average salary	$2,179	$1,869	$2,008	$1,975	$2,274	$2,659	$2,921	$2,363
	Number of retirees	7	112	166	156	165	189	242	1,037
1999	Average monthly benefit	$ 126	$ 223	$ 347	$ 596	$ 860	$1,240	$1,880	$ 990
	Average final average salary	$1,870	$1,983	$2,050	$2,247	$2,356	$2,646	$3,296	$2,531
	Number of retirees	4	103	173	178	176	228	258	1,120
2000	Average monthly benefit	$ 175	$ 222	$ 360	$ 638	$ 843	$1,359	$1,898	$1,036
	Average final average salary	$2,700	$1,951	$2,028	$2,326	$2,318	$2,897	$3,302	$2,598
	Number of retirees	7	113	182	168	185	250	282	1,187
2001	Average monthly benefit	$ 101	$ 239	$ 395	$ 637	$ 968	$1,381	$1,744	$1,070
	Average final average salary	$1,612	$2,049	$2,054	$2,394	$2,521	$2,911	$3,063	$2,616
	Number of retirees	12	362	332	205	262	472	748	2,393
2002	Average monthly benefit	$ 97	$ 257	$ 414	$ 640	$ 992	$1,439	$1,875	$ 963
	Average final average salary	$1,373	$2,241	$2,162	$2,417	$2,600	$3,040	$3,317	$2,647
	Number of retirees	6	242	290	248	263	372	253	1,674
2003	Average monthly benefit	$ 113	$ 246	$ 467	$ 671	$1,036	$1,443	$1,815	$1,029
	Average final average salary	$1,574	$2,178	$2,390	$2,546	$2,731	$3,047	$3,288	$2,752
	Number of retirees	6	209	252	230	299	454	259	1,709
2004	Average monthly benefit	$ 134	$ 271	$ 425	$ 674	$1,035	$1,443	$1,648	$ 998
	Average final average salary	$1,945	$2,375	$2,269	$2,548	$2,695	$3,039	$3,030	$2,713
	Number of retirees	7	307	319	324	410	609	356	2,332
2005	Average monthly benefit	$ 229	$ 262	$ 408	$ 665	$1,130	$1,569	$1,915	$ 912
	Average final average salary	$4,449	$2,351	$2,160	$2,546	$3,009	$3,359	$3,528	$2,775
	Number of retirees	3	312	277	291	276	347	128	1,634
2006	Average monthly benefit	$ 95	$ 265	$ 428	$ 708	$1,038	$1,552	$1,819	$ 891
	Average final average salary	$1,362	$2,358	$2,333	$2,722	$2,750	$3,291	$3,382	$2,755
	Number of retirees	2	362	320	305	306	359	161	1,815
Ten years ended June 30, 2006									
	Average monthly benefit	$ 131	$ 251	$ 399	$ 642	$ 981	$1,419	$1,779	$ 979
	Average final average salary	$2,003	$2,202	$2,146	$2,425	$2,605	$3,001	$3,164	$2,638
	Number of retirees	58	2,210	2,455	2,244	2,479	3,459	2,882	15,787

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

Ten Years Ended June 30, 2006

Uniformed Members of the Water Patrol in the MSEP

Member Retiring During Fiscal Year:		Years Credited Service by Category <5	5-10	10-15	15-20	20-25	25-30	30+	All Members
1997	Average monthly benefit	$0	$0	$ 0	$ 0	$0	$1,976	$2,168	$2,072
	Average final average salary	$0	$0	$ 0	$ 0	$0	$3,327	$3,088	$3,208
	Number of retirees	0	0	0	0	0	1	1	2
1998	Average monthly benefit	$0	$0	$ 0	$ 0	$0	$1,782	$ 0	$1,782
	Average final average salary	$0	$0	$ 0	$ 0	$0	$3,001	$ 0	$3,001
	Number of retirees	0	0	0	0	0	1	0	1
1999	Average monthly benefit	$0	$0	$ 0	$ 0	$0	$ 0	$2,567	$2,567
	Average final average salary	$0	$0	$ 0	$ 0	$0	$ 0	$3,767	$3,767
	Number of retirees	0	0	0	0	0	0	1	1
2000	Average monthly benefit	$0	$0	$ 0	$0	$0	$ 0	$3,297	$3,297
	Average final average salary	$0	$0	$ 0	$0	$0	$ 0	$4,014	$4,014
	Number of retirees	0	0	0	0	0	0	1	1
2001	Average monthly benefit	$0	$0	$1,664	$ 0	$0	$1,923	$3,236	$2,274
	Average final average salary	$0	$0	$5,833	$ 0	$0	$3,172	$4,274	$4,426
	Number of retirees	0	0	1	0	0	1	1	3
2002	Average monthly benefit	$0	$0	$ 0	$ 0	$0	$ 0	$1,843	$1,843
	Average final average salary	$0	$0	$ 0	$ 0	$0	$ 0	$3,432	$3,432
	Number of retirees	0	0	0	0	0	0	1	1
2003	Average monthly benefit	$0	$0	$ 0	$ 0	$0	$ 0	$ 0	$ 0
	Average final average salary	$0	$0	$ 0	$ 0	$0	$ 0	$ 0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2004	Average monthly benefit	$0	$0	$ 0	$ 0	$0	$1,743	$ 0	$1,743
	Average final average salary	$0	$0	$ 0	$ 0	$0	$3,628	$ 0	$3,628
	Number of retirees	0	0	0	0	0	1	0	1
2005	Average monthly benefit	$0	$0	$ 0	$1,267	$0	$ 0	$ 0	$1,267
	Average final average salary	$0	$0	$ 0	$3,254	$0	$ 0	$ 0	$3,254
	Number of retirees	0	0	0	1	0	0	0	1
2006	Average monthly benefit	$0	$0	$0	$0	$0	$2,848	$3,090	$2,969
	Average final average salary	$0	$0	$0	$0	$0	$4,657	$4,710	$4,684
	Number of retirees	0	0	0	0	0	1	1	2
Ten years ended June 30, 2006									
	Average monthly benefit	$0	$0	$1,664	$1,267	$0	$2,054	$2,700	$2,262
	Average final average salary	$0	$0	$5,833	$3,254	$0	$3,557	$3,881	$3,858
	Number of retirees	0	0	1	1	0	5	6	13

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS
Ten Years Ended June 30, 2006

Legislators in the MSEP

Member Retiring During Fiscal Year:		Years Credited Service by Category: <5	5-10	10-15	15-20	20-25	25-30	30+	All Members
1997	Average monthly benefit	$ 0	$ 845	$1,519	$2,163	$2,336	$2,250	$3,689	$1,649
	Average final average salary	$ 0	$2,334	$2,613	$2,613	$2,486	$2,234	$2,613	$2,451
	Number of retirees	0	6	3	1	3	1	1	15
1998	Average monthly benefit	$ 0	$ 868	$1,054	$1,953	$ 0	$ 0	$2,700	$1,248
	Average final average salary	$ 0	$2,613	$1,739	$2,613	$ 0	$ 0	$2,298	$2,368
	Number of retirees	0	6	3	2	0	0	1	12
1999	Average monthly benefit	$ 0	$ 700	$1,302	$1,736	$ 0	$2,821	$3,150	$1,871
	Average final average salary	$ 0	$2,518	$2,613	$2,613	$ 0	$2,613	$2,423	$2,566
	Number of retirees	0	2	1	2	0	2	1	8
2000	Average monthly benefit	$ 0	$ 759	$1,519	$1,736	$ 0	$ 0	$ 0	$1,049
	Average final average salary	$ 0	$2,613	$2,613	$2,613	$ 0	$ 0	$ 0	$2,613
	Number of retirees	0	4	1	1	0	0	0	6
2001	Average monthly benefit	$ 0	$ 925	$1,302	$1,750	$ 0	$2,649	$ 0	$1,550
	Average final average salary	$ 0	$2,613	$2,613	$2,608	$ 0	$2,604	$ 0	$2,610
	Number of retirees	0	4	2	4	0	2	0	12
2002	Average monthly benefit	$ 0	$ 871	$1,451	$2,068	$ 0	$2,830	$3,365	$1,944
	Average final average salary	$ 0	$2,613	$2,550	$2,613	$ 0	$2,613	$2,613	$2,589
	Number of retirees	0	1	3	2	0	1	1	8
2003	Average monthly benefit	$ 0	$1,016	$1,403	$1,816	$2,482	$3,048	$2,700	$1,619
	Average final average salary	$ 0	$2,613	$2,613	$2,613	$2,613	$2,613	$2,613	$2,613
	Number of retirees	0	12	9	12	5	1	1	40
2004	Average monthly benefit	$ 0	$ 797	$ 0	$1,959	$ 0	$ 0	$ 0	$1,184
	Average final average salary	$ 0	$2,613	$ 0	$2,613	$ 0	$ 0	$ 0	$2,613
	Number of retirees	0	6	0	3	0	0	0	9
2005	Average monthly benefit	$ 435	$ 889	$1,361	$1,742	$2,409	$ 0	$3,411	$1,604
	Average final average salary	$2,613	$2,613	$2,613	$2,613	$2,613	$ 0	$1,959	$2,516
	Number of retirees	1	12	4	2	4	0	4	27
2006	Average monthly benefit	$ 0	$1,043	$1,524	$ 0	$ 0	$ 0	$ 0	$ 1,284
	Average final average salary	$ 0	$2,613	$2,613	$ 0	$ 0	$ 0	$ 0	$ 2,613
	Number of retirees	0	3	3	0	0	0	0	6
Ten years ended June 30, 2006									
	Average monthly benefit	$ 435	$ 894	$1,384	$1,847	$2,421	$2,724	$3,250	$1,549
	Average final average salary	$2,613	$2,580	$2,516	$2,612	$2,581	$2,556	$2,266	$2,553
	Number of retirees	1	56	29	29	12	7	9	143

Note: COLA increases and temporary benefits payable under MSEP 2000 until age 62 are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS
Ten Years Ended June 30, 2006

Elected Officials in the MSEP

		Years Credited Service by Category							
Member Retiring During Fiscal Year:		**<5**	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**	**All Members**
1997	Average monthly benefit	$0	$ 0	$ 0	$4,019	$0	$0	$0	$4,019
	Average final average salary	$0	$ 0	$ 0	$8,038	$0	$0	$0	$8,038
	Number of retirees	0	0	0	1	0	0	0	1
1998	Average monthly benefit	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Average final average salary	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
1999	Average monthly benefit	$0	$ 0	$4,019	$ 0	$0	$0	$0	$4,019
	Average final average salary	$0	$ 0	$8,038	$ 0	$0	$0	$0	$8,038
	Number of retirees	0	0	1	0	0	0	0	1
2000	Average monthly benefit	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Average final average salary	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2001	Average monthly benefit	$ 1,668	$3,154	$4,882	$5,004	$0	$0	$0	$3,918
	Average final average salary	$10,007	$8,038	$10,007	$10,007	$0	$0	$0	$9,613
	Number of retirees	1	1	2	1	0	0	0	5
2002	Average monthly benefit	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Average final average salary	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2003	Average monthly benefit	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Average final average salary	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2004	Average monthly benefit	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Average final average salary	$0	$ 0	$ 0	$ 0	$0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2005	Average monthly benefit	$0	$ 0	$4,218	$ 0	$0	$0	$0	$4,218
	Average final average salary	$0	$ 0	$9,023	$ 0	$0	$0	$0	$9,023
	Number of retirees	0	0	2	0	0	0	0	2
2006	Average monthly benefit	$0	$ $2,009	$4,218	$ 0	$0	$0	$0	$2,009
	Average final average salary	$0	$ 8,038	$9,023	$ 0	$0	$0	$0	$8,038
	Number of retirees	0	1	2	0	0	0	0	1
Ten years ended June 30, 2005									
	Average monthly benefit	$ 1,668	$2,582	$4,444	$4,512	$0	$0	$0	$3,808
	Average final average salary	$10,007	$8,038	$9,220	$9,023	$0	$0	$0	$9,023
	Number of retirees	1	2	5	2	0	0	0	10

Note: COLA increases are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS
Ten Years Ended June 30, 2006

Administrative Law Judges and Legal Advisors in the MSEP

Member Retiring During Fiscal Year:		<5	5-10	10-15	15-20	20-25	25-30	30+	All Members
		Years Credited Service by Category							
1997	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$2,578	$0	$0	$2,578
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$5,156	$0	$0	$5,156
	Number of retirees	0	0	0	0	1	0	0	1
1998	Average monthly benefit	$ 0	$ 0	$2,927	$ 0	$2,875	$0	$0	$2,892
	Average final average salary	$ 0	$ 0	$5,854	$ 0	$5,749	$0	$0	$5,784
	Number of retirees	0	0	1	0	2	0	0	3
1999	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2000	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0	$ 0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0	$ 0
	Number of retirees	0	0	0	0	0	0	0	0
2001	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$2,982	$0	$0	$2,982
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$5,965	$0	$0	$5,965
	Number of retirees	0	0	0	0	1	0	0	1
2002	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$3,739	$0	$0	$3,739
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$7,478	$0	$0	$7,478
	Number of retirees	0	0	0	0	1	0	0	1
2003	Average monthly benefit	$ 0	$ 0	$ 0	$3,615	$ 0	$0	$0	$3,615
	Average final average salary	$ 0	$ 0	$ 0	$7,231	$ 0	$0	$0	$7,231
	Number of retirees	0	0	0	3	0	0	0	3
2004	Average monthly benefit	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0	$0
	Average final average salary	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0
	Number of retirees	0	0	0	0	0	0	0	0
2005	Average monthly benefit	$ 0	$ 0	$3,750	$ 0	$3,522	$ 0	$0	$3,568
	Average final average salary	$ 0	$ 0	$7,500	$ 0	$7,043	$ 0	$0	$7,134
	Number of retirees	0	0	1	0	4	0	0	5
2006	Average monthly benefit	$1,088	$1,669	$ 0	$ 0	$0	$3,333	$3,333	$2,551
	Average final average salary	$7,836	$5,933	$ 0	$ 0	$0	$6,667	$6,667	$6,754
	Number of retirees	1	1	0	0	0	2	1	5
Ten years ended June 30, 2006									
	Average monthly benefit	$1,088	$1,669	$3,339	$3,615	$3,237	$3,333	$3,333	$3,127
	Average final average salary	$7,836	$5,933	$6,677	$7,231	$6,474	$6,667	$6,667	$6,689
	Number of retirees	1	1	2	3	9	2	1	19

Note: COLA increases are excluded from the above for comparison purposes.

AVERAGE MONTHLY BENEFIT AMOUNTS

Ten Years Ended June 30, 2006

Judicial Plan

Member Retiring During Fiscal Year:		Years Credited Service by Category <5	5-10	10-15	15-20	20-25	25-30	30+	All Members
1997	Average monthly benefit	$1,120	$0	$0	$3,490	$0	$0	$0	$2,898
	Average final average salary	$6,719	$0	$0	$6,979	$0	$0	$0	$6,914
	Number of retirees	1	0	0	3	0	0	0	4
1998	Average monthly benefit	$243	$1,567	$3,689	$3,484	$3,624	$3,999	$3,921	$3,420
	Average final average salary	$5,824	$5,129	$7,378	$6,969	$7,247	$7,999	$7,843	$7,208
	Number of retirees	1	1	2	4	7	4	1	20
1999	Average monthly benefit	$564	$2,429	$3,649	$3,759	$0	$4,450	$4,123	$3,284
	Average final average salary	$6,598	$7,108	$7,432	$7,517	$0	$8,900	$8,246	$7,447
	Number of retirees	2	3	6	8	0	1	1	21
2000	Average monthly benefit	$0	$1,282	$3,368	$4,116	$3,991	$4,139	$4,375	$3,763
	Average final average salary	$0	$5,129	$6,735	$8,232	$7,982	$8,278	$8,750	$7,677
	Number of retirees	0	1	4	4	4	3	1	17
2001	Average monthly benefit	$0	$2,044	$4,216	$3,849	$4,500	$4,597	$4,250	$4,198
	Average final average salary	$0	$8,000	$8,519	$7,698	$9,000	$9,194	$8,500	$8,614
	Number of retirees	0	1	5	3	6	3	2	20
2002	Average monthly benefit	$0	$1,337	$3,606	$4,093	$4,000	$4,576	$0	$3,877
	Average final average salary	$0	$6,095	$7,405	$8,186	$8,000	$9,153	$0	$8,101
	Number of retirees	0	1	2	4	1	3	0	11
2003	Average monthly benefit	$756	$1,946	$4,042	$3,849	$4,000	$4,250	$4,167	$3,435
	Average final average salary	$8,000	$6,317	$8,333	$7,697	$8,000	$8,500	$8,333	$7,824
	Number of retirees	2	3	3	6	3	2	3	22
2004	Average monthly benefit	$855	$3,028	$4,500	$4,061	$4,597	$0	$4,500	$3,952
	Average final average salary	$5,129	$8,000	$9,000	$8,121	$9,194	$0	$9,000	$8,350
	Number of retirees	1	1	2	4	3	0	1	12
2005	Average monthly benefit	$0	$0	$3,935	$4,500	$4,142	$4,300	$4,396	$4,216
	Average final average salary	$0	$0	$8,423	$9,000	$8,284	$8,600	$8,792	$8,550
	Number of retirees	0	0	3	1	3	5	2	14
2006	Average monthly benefit	$592	$1,946	$4,500	$4,000	$0	$4,396	$0	$2,930
	Average final average salary	$5,875	$6,564	$9,000	$8,000	$0	$8,792	$0	$7,496
	Number of retirees	2	2	1	2	0	2	0	9
Ten years ended June 30, 2006									
	Average monthly benefit	$671	$2,021	$3,874	$3,864	$4,094	$4,312	$4,247	$3,653
	Average final average salary	$6,513	$6,597	$7,891	$7,728	$8,189	$8,624	$8,493	$7,864
	Number of retirees	9	13	28	39	27	23	11	150

Note: COLA increases are excluded from the above for comparison purposes.

RETIREES AND BENEFICIARIES

Tabulated by Fiscal Year of Retirement

MSEP

Fiscal Year of Retirement	Number	Total Annual Benefits	Average Monthly Benefit
1966 & prior	1	$ 7,884	$ 657
1967	1	5,547	462
1968	1	5,202	434
1969	3	18,651	518
1970	4	36,177	754
1971	3	19,338	537
1972	12	91,624	636
1973	20	131,632	548
1974	31	182,175	490
1975	51	337,565	552
1976	65	440,515	565
1977	92	601,166	545
1978	94	580,336	514
1979	87	645,925	619
1980	109	837,894	641
1981	148	1,200,744	676
1982	222	1,803,396	677
1983	236	2,137,683	755
1984	261	2,036,300	650
1985	279	2,681,471	801
1986	363	2,866,747	658
1987	406	3,890,977	799
1988	474	5,369,230	944
1989	529	6,578,425	1,036
1990	544	6,598,813	1,011
1991	642	8,958,972	1,163
1992	711	9,467,745	1,110
1993	804	10,431,280	1,081
1994	801	10,325,823	1,074
1995	1,044	13,998,577	1,117
1996	1,022	14,113,418	1,151
1997	1,048	14,878,916	1,183
1998	1,219	17,130,148	1,171
1999	1,335	19,338,991	1,207
2000	1,402	21,458,769	1,275
2001	2,665	43,581,644	1,363
2002	1,951	27,839,452	1,189
2003	2,008	30,949,035	1,284
2004	2,601	40,170,632	1,287
2005	1,961	26,204,945	1,114
2006	2,114	27,799,866	1,096
Total	27,364	$375,753,630	1,144

Judicial Plan

Fiscal Year of Retirement	Number	Total Annual Benefits	Average Monthly Benefit
1976 & prior	4	$ 34,582	$ 720
1977	1	12,008	1,001
1978	1	13,209	1,101
1979	2	52,335	2,181
1980	2	29,219	1,217
1981	3	126,542	3,515
1982	2	79,263	3,303
1983	7	256,940	3,059
1984	2	29,175	1,216
1985	4	170,110	3,544
1986	6	192,143	2,669
1987	21	858,983	3,409
1988	12	541,526	3,761
1989	16	776,286	4,043
1990	8	371,367	3,868
1991	23	1,156,055	4,189
1992	13	669,026	4,289
1993	15	680,174	3,779
1994	11	489,045	3,705
1995	25	1,513,872	5,046
1996	13	634,613	4,068
1997	7	323,050	3,846
1998	27	1,513,628	4,672
1999	28	1,380,566	4,109
2000	28	1,449,536	4,314
2001	21	1,408,692	5,590
2002	16	805,194	4,194
2003	27	1,288,984	3,978
2004	19	948,717	4,161
2005	19	982,161	4,308
2006	18	622,836	2,884
	401	$19,409,837	4,034

TOTAL BENEFITS PAYABLE

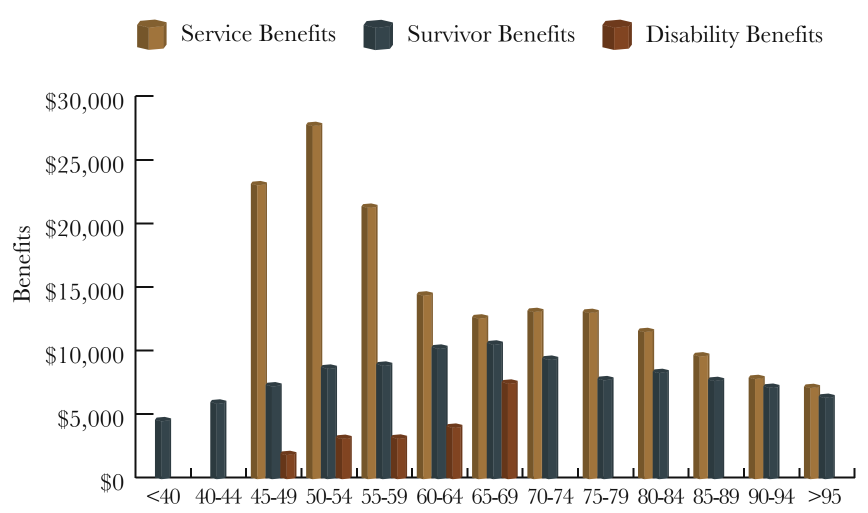
Tabulated by Attained Ages of Benefit Recipients as of June 30, 2006

MSEP

Attained Ages	Service Retirement No.	Service Retirement Annual Benefits	Disability Retirement No.	Disability Retirement Annual Benefits	Survivors and Beneficiaries No.	Survivors and Beneficiaries Annual Benefits	Totals No.	Totals Annual Benefits
Under 20					78	$ 279,685	78	$ 279,685
20-24					20	66,421	20	66,421
25-29					11	96,094	11	96,094
30-34					16	84,742	16	84,742
35-39					31	178,179	31	178,179
40-44					53	313,067	53	313,067
45-49	12	$ 276,960	1	$ 1,860	96	697,117	109	975,937
50-54	787	21,832,609	4	12,516	193	1,670,066	984	23,515,191
55-59	3,400	72,458,667	7	22,044	295	2,622,416	3,702	75,103,127
60-64	4,696	67,657,113	4	16,032	315	3,221,443	5,015	70,894,588
65-69	4,764	60,019,721	1	7,476	411	4,336,210	5,176	64,363,407
70-74	3,811	49,957,912			515	4,817,837	4,326	54,775,749
75-79	2,865	37,344,259			505	3,911,168	3,370	41,255,427
80-84	1,944	22,420,963			405	3,366,303	2,349	25,787,266
85-89	1,049	10,086,847			203	1,559,452	1,252	11,646,299
90-94	385	3,017,360			68	486,055	453	3,503,415
95	27	213,845			5	55,537	32	269,382
96	25	200,585			4	29,268	29	229,853
97	19	97,651			2	5,712	21	103,363
98	11	80,196			2	5,978	13	86,174
99	3	17,772			1	2,700	4	20,472
101	3	16,512					3	16,512
102	3	22,296			1	792	4	23,088
106					1	1,704	1	1,704
Totals	23,804	$345,721,268	17	$59,928	3,231	$27,807,946	27,052	$373,589,142

Includes 34 administrative law judges
Average age at retirement 60.4 years
Average age now 69.1 years

AVERAGE BENEFITS - MSEP



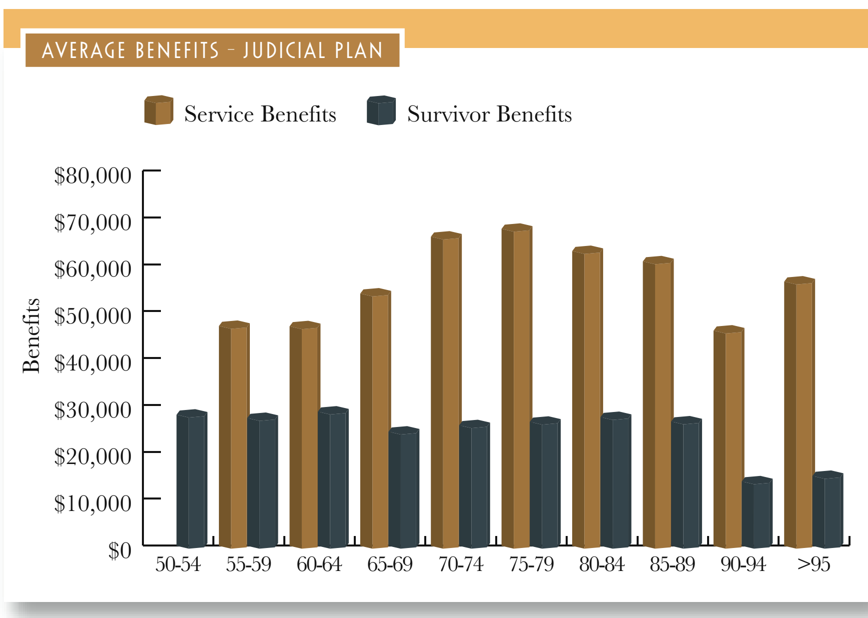
TOTAL BENEFITS PAYABLE

Tabulated by Attained Ages of Benefit Recipients as of June 30, 2006

Judicial Plan

	Service Retirement		Disability Retirement		Survivors and Beneficiaries		Totals	
Attained Ages	**No.**	**Annual Benefits**	**No.**	**Annual Benefits**	**No.**	**Annual Benefits**	**No.**	**Annual Benefits**
50-54					4	$ 111,096	4	$ 111,096
55-59	14	$ 653,850			7	189,449	21	843,299
60-64	31	1,445,631			13	369,589	44	1,815,220
65-69	48	2,573,559			6	144,936	54	2,718,495
70-74	57	3,748,233			11	280,728	68	4,028,961
75-79	55	3,708,395			20	525,180	75	4,233,575
80-84	48	3,008,748			25	681,703	73	3,690,451
85-89	11	665,268			22	579,092	33	1,244,360
90-94	10	457,105			10	135,408	20	592,513
95 and over	1	56,172			5	73,524	6	129,696
Totals	275	$16,316,961	0	$0	123	$3,090,705	398	$19,407,666

Average age at retirement 65.4 years
Average age now 76.1 years



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