MISSOURI STATE EMPLOYEES'
RETIREMENT SYSTEM
THREE YEARS ENDED JUNE 30, 2000

From The Office Of State Auditor
Claire McCaskill

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AUDIT REPORT

Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2001

www.auditor.state.mo.us

The following report is our review of the Missouri State Employees Retirement System.

The Missouri State Employees' Retirement System Board of Trustees has not formally solicited proposals for the actuarial consulting service or the investment consulting service contracts in recent years. The Board spends approximately $150,000 and $200,000, respectively, for these services annually. The Board has not solicited proposals for the actuarial consulting services since 1992 and the investment consulting services since 1993. Without requesting proposals for such services periodically, the Board of Trustees has not ensured it will receive these services at a fair price.

In its response to the finding, the Executive Director of the retirement system, on behalf of the Board, indicated that soliciting proposals was not applicable to these types of professional services and might, instead, work against the best interest of the plan and its participants. The response also indicated that the Board had documented the steps it had taken, including the use of independent firms to review the work of the consultants, to ensure that the services provided by the two firms were of high quality and were obtained at a fair price. The full response is included in the audit report.

The Missouri State Employees Retirement System was created September 1, 1957, under an act of the General Assembly to provide retirement benefits to most full-time state employees not covered under other retirement plans of the state, including members of the Water Patrol, members of the General Assembly, elected state officials, administrative law judges and legal advisors, and judges. The system provides retirement, survivor and disability benefits, and life insurance to its members. The Missouri State Employees' Retirement System administers three retirement plans and an insurance plan: Missouri State Employees' Plan, Administrative Law Judges and Legal Advisors' Plan, Judicial Plan, and Missouri State Insurance Plan.

All three retirement plans administered by the Missouri State Employees' Retirement System are non-contributory, with the entire cost paid by the State of Missouri. Service retirement benefits, retirement ages and service requirements, and payment options vary for the different employee classes within the three plans. Details regarding each plan are discussed in the Statistical Section of the report.

YELLOW SHEET

MISSOURI STATE EMPLOYEES'
RETIREMENT SYSTEM

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Board of Trustees
and
Gary Findlay, Executive Director
Missouri State Employees' Retirement System
Jefferson City, MO 65102

The State Auditor is required by Section 104.480.4, RSMo 2000, to review the audits of the Missouri State Employees' Retirement System. The Board had engaged KPMG, LLP, Certified Public Accountants (CPA) to perform the annual financial audits of the system for the years ended June 30, 2000, 1999, and 1998. We reviewed the reports and the substantiating workpapers of the CPA firm. The scope of this review included, but was not necessarily limited to, the period of July 1, 1997 to June 30, 2000. The objectives of this review were to:

1. Review certain financial activity and related procedures, and examine compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions.

2. Examine certain management practices.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the system's board minutes, various contracts, and other pertinent policies, and discussed various system procedures with applicable personnel.

As a part of our review, we assessed the system's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

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Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention, which would have been included in this report.

The accompanying Statistical Section is presented for informational purposes. This background information was obtained from the system's management and was not subjected to the procedures applied in our review of the Missouri State Employees' Retirement System.

The accompanying Management Advisory Report presents our finding arising from our review of the Missouri State Employees' Retirement System.

Claire McCaskill
State Auditor

February 26, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
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In-Charge Auditor:	Heather M. Thompson

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Findings

MISSOURI STATE EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT ADVISORY REPORT-
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In addition to our review of the reports and substantiating working papers of KPMG, LLP, we included those procedures which we considered necessary in the circumstances.

We reviewed probable compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions, as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. Nevertheless, our review disclosed no conditions that represent violations.

During our review, we identified a certain management practice which we believe could be improved. Our review was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the finding presented in our report should not be considered as all-inclusive of areas where improvements may be needed.

Professional Services Contracts

The Missouri State Employees' Retirement System (MOSERS) Board of Trustees has not formally solicited proposals for the actuarial consulting service or the investment consulting service contracts in recent years. The Board spends approximately $150,000 and $200,000, respectively, for these services annually. The Board has not solicited proposals for the actuarial consulting services since 1992 and the investment consulting services since 1993. Without requesting proposals for such services periodically, the MOSERS Board of Trustees has not ensured it will receive these services at a fair price.

WE RECOMMEND the MOSERS Board of Trustees periodically solicit proposals for all professional services.

AUDITEE'S RESPONSE

The Executive Director provided the following response on behalf of the Board of Trustees:

This is actually the type of recommendation I anticipated, given that similar recommendations were made for the other Missouri public retirement systems your office also reviewed. While this recommendation appears to have theoretical merit, I do not believe it is applicable to these types of services.

First, with regard to the recommendation, the statement is made that ". . .the MOSERS Board of Trustees has not ensured it will receive these services at a fair price." (That is clearly a matter of opinion but it has been characterized in your report as being a matter of fact.) Your opinion appears to be predicated on the assumption that the only method for ensuring fair pricing is through the bid process. We agree with you as to the necessity of ensuring fair pricing but do *not agree that the Request for Proposal process is the best approach in all cases. As will be described later, the MOSERS Board of Trustees HAS gone to considerable lengths to assure that it is receiving these services at fair prices by using methods which we believe are superior to the RFP process. The implication to the contrary misrepresents the exceptional diligence the members of the MOSERS Board of Trustees have exercised in these matters.*

*The second part of the recommendation is that ". . .the MOSERS Board of Trustees periodically request proposals for **all** professional services." (Emphasis added.) There are clearly cases where it does make sense to periodically go out to bid for services, such as for the work of the external auditor. There are other cases, such as for services provided by money managers, the custodian bank, the outside legal counsel, the investment consultant, and the actuary, that bidding services periodically, ostensibly to ensure fairness in fees, can actually be counterproductive, resulting in fees that are higher than would otherwise have been the case. One reason for this is the cost service providers incur in preparing proposals – a cost which they must be positioned to recover over the life of the contract and which typically includes a risk component not seen by the purchaser. The risk is that the cost of proposal preparation will not result in any revenue for the unsuccessful bidders and thus an amount must be built into the proposed fee structure to cover unsuccessful attempts. In an open bidding situation, where the criteria for selection is "lowest and best bid," the incumbent typically has the inside track with regard to submitting the "best bid" because of experience with the purchaser. Consequently, a bid process actually gives an incumbent service provider an opportunity to increase fees more than would have been the case had an open ended contract simply been continued with some type of adjustment for inflation. (Service providers who are good at the bidding game typically have a very good sense for what the traffic will bear and, when bidding for business where they are the incumbent, will take the chance of ratcheting fees up to cover their bidding costs and the risk element mentioned earlier.)*

The trustees have a fiduciary obligation to administer the system in the best interest of the participants and must have the flexibility to exercise sound judgement regarding how to best carry out that legal fiduciary obligation. That includes judgements regarding the best methods for assuring that services are being received at fair prices. In some cases that will involve a bid process for the acquisition of services and in other cases it will not.

Regarding the specific service providers you mentioned, a good deal of the value they add stems from their institutional memory and in-depth knowledge of the complexities of MOSERS. A fee-related focus on acquisition of these services would, in my opinion, not be in the best interest of the plan or its participants. An example of the type of problem which can result from lack of in-depth knowledge is discussed later. (In brief, an actuarial firm with a good national reputation but limited knowledge of another retirement system here in Missouri made a billion dollar error in the calculation of that plan's liabilities.)

Bidding out the investment consulting work is particularly problematic because many of the service providers in that industry have multiple lines of business that result in blatant conflicts of interest. By having those other conflicting lines of business and multiple sources of revenue, they are able to low-ball the fees charged to systems such as MOSERS and make it appear that *our present fees are high. With all of this being said, however, it does not mean that systems like MOSERS can simply ignore fees for the sake of eliminating turnover in service providers.*

How the Fee Issue Has Been Addressed at MOSERS

Investment Consultant:

Last year, the Board retained the services of Cooper Consultants, a firm which specializes in the review and evaluation of investment consultants, to examine all aspects of the services being provided the system by Summit Strategies (the system's investment consultant). A copy of the Cooper report was provided to the In-Charge Auditor from your office. The following is a quote from that report:

> *"We find the annual fees currently paid to Summit Strategies are low for the services provided to a system the size and sophistication of the Missouri State Employees' Retirement System."*

In all respects, the observations and findings in the Cooper report with respect to the services being provided MOSERS by Summit Strategies were very favorable.

Actuarial Consultant:

In 1997, the Board retained the services of Milliman & Robertson (M&R), a nationally recognized actuarial consulting firm, to review all aspects of the services being provided by the system's retained actuary, Gabriel, Roeder, Smith & Company (GRS). In the report issued by M&R as a result of their review, the work of GRS was given very high marks. (A copy of that report was also provided to the In-Charge Auditor.) While not specifically addressed in their report, I did discuss fees with M&R personnel and they indicated that the fees were not out of line with what they would expect to see for a system of our size and complexity.

Beyond that, it is worth noting that shortly after the M&R review was completed, it was discovered that an actuary for another major retirement system in Missouri had made an error which understated their liabilities by over $1 billion. By being proactive in this area we are confident that the work of our system's actuary is accurate and reliable – for the most part, this confidence stems from the reputation of GRS in the public fund universe and the extensive experience GRS has with MOSERS. (It's probably worth noting that the other statewide retirement systems in Missouri also presently use GRS for actuarial consulting services.)

Based upon these independent reviews by reputable third parties, I believe the MOSERS Board of Trustees has, contrary to the opinion expressed in your report, ensured that the services of these firms are being provided at a fair price.

Fiduciary Responsibility

As mentioned earlier, the Board members (and senior staff) at MOSERS have a legal obligation to assure that the system is being administered in the best interest of the plan participants. In *light of this obligation, we constantly challenge our own practices internally to determine whether or not there are things we should be doing differently. The end result of these challenges is either documented defense of present practice or a change in practice. I believe we have adequately examined and defended the present practices, which your report calls into question, and justified their continuation.*

This report is intended for the information of the system's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

MISSOURI STATE EMPLOYEES' RETIREMENT SYSTEM
HISTORY, ORGANIZATION, AND STATISTICAL SECTION

The Missouri State Employees' Retirement System (MOSERS) was created September 1, 1957, under an act of the General Assembly to provide retirement benefits to most full-time state employees not covered under other retirement plans of the state, including members of the Water Patrol, members of the General Assembly, elected state officials, administrative law judges and legal advisors, and judges. The system provides retirement, survivor and disability benefits, and life insurance to its members. MOSERS administers three retirement plans and an insurance plan: Missouri State Employees' Plan, Administrative Law Judges and Legal Advisors' Plan, Judicial Plan, and Missouri State Insurance Plan.

The Missouri State Employees' Plan (MSEP) is a single employer, public employee, defined benefit retirement plan administered in accordance with Chapter 104, RSMo 2000. As of June 30, 2000, there were 57,774 active, 11,774 terminated vested, and 18,196 retired members and beneficiaries of the Missouri State Employees' Plan.

The Administrative Law Judges and Legal Advisors' Plan (ALJLAP) is a single employer, public employee, defined benefit retirement plan administered in accordance with Chapter 287, RSMo 2000. As of June 30, 2000, there were 52 active, 20 terminated vested, and 23 retired members and beneficiaries of the ALJLAP.

The Judicial Plan is a single-employer, public employee, defined benefit retirement benefit plan administered in accordance with Chapter 476, RSMo 2000. As of June 30, 2000, there were 375 active, 64 terminated vested, and 363 retired members and beneficiaries of the Judicial Plan.

The Missouri State 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 for eligible members of the MSEP (except employees of the Missouri Department of Conservation, and the state colleges and universities), members of the Judicial Plan, members of the ALJLAP, and certain members of the Public School Retirement System; a duty-related death benefit, optional life insurance for active employees and retirees who are eligible for basic coverage; and a long-term disability plan for certain eligible members.

MOSERS has been a noncontributory plan since September 1, 1972, except for members of the General Assembly and elected state officials who became noncontributory effective September 1, 1976.

The responsibility for the operation and administration of the retirement system is vested in an eleven-member Board of Trustees. This Board consists of the State Treasurer, the Commissioner of Administration, two members of the Senate appointed by the President Pro Tem, two members of the House of Representatives appointed by the Speaker of the House, two members appointed by the Governor, and three members of the retirement system, one of whom must be retired, who are elected by a plurality vote of the membership to four-year terms. The members of the Board of Trustees as of June 30, 2000, were as follows:

Name	Position	Membership	Term Expires
Thomas Hodges	Chairman	Elected Member	December 2002
Jacquelyn White	Vice-Chairman	Governor's Appointee	***
Richard Hanson	Ex-Officio Member	Commissioner of Administration	*
Richard Franklin	Member	Representative	**
Joseph Bednar	Member	Governor's Appointee	***
Bill Skaggs	Member	Representative	**
John Russell	Member	Senator	****
John Scott	Member	Senator	****
Bob Holden	Ex-Officio Member	State Treasurer	*
Ben Russell	Member	Elected Member	December 2002
Steve Price	Member	Elected Member	December 2002

* Term expires with expiration of office held. Richard Hanson retired in January 2001, and the position is now filled by Michael Hartmann. Bob Holden was replaced by Nancy Farmer as State Treasurer in January 2001.

** Appointed by the Speaker of the House.

*** Appointed by the Governor, appointed for the term of the Governor. Joe Bednar was replaced by Carol Gilstrap in January 2001.

**** Appointed by the President Pro Tem of the Senate.

Gary Findlay has served as the Executive Director since his appointment on August 1, 1994. The Executive Director is responsible for employment of the retirement staff, routine operation of the system, and advising the board on all matters pertaining to the system.

The Board of Trustees has appointed Gabriel, Roeder, Smith & Co., of Southfield, Michigan as actuarial consultants. As of June 30, 2000, the following firms managed external investments for the MOSERS: AmeriCap Advisors, of New York, New York; Capital Guardian Trust, of Los Angeles, California; Dimensional Fund Advisors, of Santa Monica, California; Mastholm Asset Management, of Bellevue, Washington; Merrill Lynch Asset Management Group, of New York, New York; Oak Associates, Ltd., of Akron, Ohio; Silchester International Advisors, of London, England; Zak Capital, Inc., of Minneapolis, Minnesota; BlackRock Financial Management, Inc., of New York, New York; Hoisington Investment Management Company, of Austin, Texas; and NISA Investment Advisors, of St. Louis, Missouri. A portion of MOSERS investment portfolio is managed in-house by MOSERS staff. Credit Suisse First Boston Corporation, of New York, New York; and Goldman Sachs & Co., of New York, New York serve as securities lending program advisors. Deutsche Bank Bankers Trust Company of the Southwest, of Dallas, Texas serves as the system's master trustee/custodian. Summit Strategies, Inc. of St. Louis, Missouri serves as the system's investment consultant. Charlesworth & Associates, of Overland Park, Kansas serves as the system's risk management consultant. Thompson Coburn, of St. Louis, Missouri serves as the system's external general counsel.

Membership, required contributions, and benefits provided under the MSEP, ALJLAP, and the Judicial Plan are generally as follows:

Missouri State Employees' Plan

Eligibility

All employees of the state whose position normally requires at least one thousand hours of work per year and who are not simultaneously accumulating creditable service under another retirement program supported by state contributions (other than social security) are eligible and required to participate in the MSEP.

Contributions

MOSERS is a non-contributory plan, with the entire cost paid by the State of Missouri. The contribution rate paid by the State for fiscal years 2000, 1999, and 1998 was 11.91, 12.58, and 10.40 percent, respectively, of the MSEP membership payroll. Prior to September 1, 1972, contributions by members were required.

Service Retirement Benefits

Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements. All service retirement benefits for members in the general employee plan are the greater of an amount based on a formula which multiplies the average monthly pay of the highest thirty-six consecutive months of salary, by the applicable formula factor, by the years of creditable service, and in the case of early retirement, an age reduction factor, or $15 times the full years of creditable service. General Assembly members receive $150 times the number of biennial assemblies (three or more).

Elected officials with less than twelve years of service as an elected official receive a benefit based on a formula which multiplies the average monthly pay of their highest thirty-six consecutive months of salary, by the applicable formula factor, by the years of creditable service. Elected officials with twelve or more years of service receive 50 percent of the current statutory salary paid to the elected official in the highest position which the retiree previously held.

Creditable service is a combination of the creditable prior service a member has accrued before becoming a member of MOSERS and the years and full months of service the member has as a member of MOSERS. A regular member is fully vested upon completion of five years of service; a General Assembly member is fully vested upon completion of three full biennial assemblies; and a Statewide Elected Official member is fully vested upon completion of four years of service.

NORMAL RETIREMENT

A member may retire under the standard (.016) formula factor with full benefits at age sixty-five with five years of service (four years if he/she is retiring directly from active employment), or at age sixty with fifteen years of service. A member may retire at age fifty or later with full benefits if their combined age and service equal eighty (Rule of 80).

A uniformed Water Patrol member may retire at age fifty five with five years of service (four years of service if he/she is retiring directly from active employment). A uniformed Water Patrol member may also retire at age fifty or later with full benefits under the Rule of 80. A Water Patrol member's base benefit is calculated under the standard (.016) formula factor and this amount is then increased by 33-1/3 percent to determine their normal retirement annuity.

EARLY RETIREMENT

A member may retire with reduced benefits at age fifty five with ten years of service. There are no early retirement provisions for General Assembly members and uniformed members of the Water Patrol.

PAYMENT OPTIONS

General Employees, Uniformed Members of the Water Patrol, Elected Officials (less than twelve years of service):

A retiring member may elect to receive an unreduced benefit with a life income annuity or a 50 percent joint-and-survivor option, or the member may elect to receive a reduced benefit with a 100 percent joint-and-survivor option. The survivor options provide survivor benefit coverage in varying degrees after the retiree's death.

Under the Joint & 100 Percent Survivor Option, if the designated surviving spouse dies before the retiree, the retiree's benefit will "pop-up" or revert to the life income annuity amount effective the first of the month following the spouse's death.

These members may also choose an annuity with either 60 or 120 guaranteed monthly payments. The member receives a reduced monthly benefit for life and if the member dies before receiving the designated number of payments, the beneficiary receives the remaining payments.

General Assembly Members:

A retiring member of the General Assembly may elect to receive a life income annuity with no survivor option or an unreduced joint benefit with a 50 percent survivor option or may elect to distribute 50 percent of the member's life income annuity to eligible children, provided there is no surviving spouse.

Elected State Officials (more than twelve years of service):

A retiring state official with more than twelve years of service may elect to receive a life income annuity with no survivor option or an unreduced joint benefit with a 50 percent survivor option.

Cost-of-Living Adjustments (COLA)

For members hired prior to August 28, 1997, a COLA to the benefit amount is provided annually based on 80 percent of the previous year's change in the Consumer Price Index (CPI) with a minimum of 4 percent and a maximum of 5 percent until the total of such COLA increases reaches a cap of 65 percent of the member's base benefit. After reaching this 65 percent cap, those members' annual COLA will be the same as for members who were hired after August 28, 1997, as discussed below.

For a member hired after August 28, 1997, a COLA is based strictly on 80 percent of the increase in the CPI, with no cumulative cap, no annual minimum, and a 5 percent annual maximum.

For elected state officials with 12 or more years of service, the COLA is equal to the increase in the current pay of an active elected state official in the highest position held.

Termination Benefit

If a member ceases to be a state employee, or if the membership is otherwise terminated, after vesting in the system, an accrued pension will commence upon application at the date first eligible for full accrual benefit. Under certain conditions, qualified terminated vested members may make a one time election to receive the present value of their benefit in a lump sum payment. A member terminating state employment on or after August 27, 1997, will not be eligible for the lump sum option if the present value of the benefit exceeds $10,000 on the date of application.

Death and Survivor Benefits

If a member is fully vested, dies prior to retirement, and the death is nonduty-related, a joint-and-100 percent survivor benefit, based on the member's accrued benefit, will be paid to the eligible surviving spouse (except for general assembly members for whom the benefit would be based on the joint-and-50 percent survivor benefit). With no surviving spouse, the member's minor children will receive 50 percent of the fully vested member's accrued benefit. Survivors are eligible to receive COLAs.

If the death is duty-related, the eligible surviving spouse or children receive a benefit equal to 50 percent of the member's current pay.

Administrative Law Judges' and Legal Advisors' Plan (ALJLAP)

Eligibility

Individuals appointed or employed as administrative law judges or legal advisors of the Division of Workers' Compensation or Office of Administration, members of the Labor and Industrial Relations Commission and their attorney or legal counsel, the chairperson of the State Board of Mediation, and administrative hearing commissioners are eligible for membership.

Contributions

ALJLAP is a non-contributory plan, with the entire cost paid by the State of Missouri. The benefits provided to ALJLAP members are actuarially funded by the state. The contribution rate paid by the State for fiscal years 2000, 1999, and 1998 was 20.1, 18.7, and 19.66 percent, respectively, of the ALJLAP membership payroll.

Service Retirement Benefits

Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements. ALJLAP members at least age sixty-two with twelve or more years of creditable service, at least age sixty with fifteen years of creditable service, or at least age fifty-five with twenty or more years of creditable service receive a monthly benefit of one-half of their average monthly salary based on their highest twelve consecutive months salary. ALJLAP members age sixty-five with less than twelve years of service receive a reduced benefit based upon the years of service relative to twelve years.

Creditable service is a combination of the creditable prior service accrued before becoming a member and the years and full months of service ALJLAP members have as a member of the retirement plan.

Cost-of Living Adjustments

For members hired prior to August 28, 1997, a COLA to the benefit amount is provided annually based on 80 percent of the previous year's change in the Consumer Price Index (CPI) with a minimum of 4 percent and a maximum of 5 percent until the total of such COLA increases reaches a cap of 65 percent of the member's base benefit. After reaching this 65 percent cap, those members' annual COLA will be the same as for members who were hired after August 28, 1997, as discussed below.

For a member hired after August 28, 1997, a COLA is based strictly on 80 percent of the increase in the CPI, with no cumulative cap, no annual minimum, and a 5 percent annual maximum.

Termination Benefit

An employee who terminates employment with twelve or more years of creditable service can receive his accrued benefit at age sixty-five. As of August 28, 1997, qualified vested members of the ALJLAP who have terminated all employment with the State for a period of six months or longer may make a one time election to receive the present value of their benefit in a lump sum payment, provided the value is less than $10,000.

Death and Survivor Benefits

The surviving spouse of an ALJLAP member who dies before retirement receives up to 50 percent of the benefit the member would have received based on service relative to twelve years. The benefit payable to the surviving spouse of a retired ALJLAP member who dies is 50 percent of the member's accrued benefit. Survivors are eligible to receive COLAs.

Judicial Plan

Eligibility

Individuals appointed or elected as 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 after February 29,1972 are eligible for membership.

Contributions

The Judicial Plan is a non-contributory plan, with the entire cost paid by the State of Missouri. The benefits provided to the Judicial Plan members are actuarially funded by the state. The contribution rate paid by the State for fiscal years 2000, and 1999, was 53.92, and 51.81 percent, respectively, of the Judicial Plan membership payroll. Prior to the Judicial Plan becoming funded on an actuarial basis in fiscal year 1999, the plan was funded on a pay-as-you-go basis.

Service Retirement Benefits

Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements. Judicial Plan members at least age sixty-two with twelve or more years of creditable service, at least age sixty with fifteen years of creditable service, or at least age fifty-five with twenty or more years of creditable service receive a monthly benefit of one-half of their average monthly salary based on the compensation from the highest court served. Judicial Plan members at least age sixty-two with less than twelve years of creditable service or at least age sixty with less than fifteen years of creditable service may retire early and receive a reduced benefit based upon the years of service relative to twelve or fifteen years, respectively.

Creditable service is a combination of the creditable prior service accrued before becoming a member and the years and full months of service the Judicial Plan members have as a member of the retirement plan.

Cost-of-Living Adjustments

For members hired prior to August 28, 1997, a COLA to the benefit amount is provided annually based on 80 percent of the previous year's change in the Consumer Price Index (CPI) with a minimum of 4 percent and a maximum of 5 percent until the total of such COLA increases reaches a cap of 65 percent of the member's base benefit. After reaching this 65 percent cap, those members' annual COLA will be the same as for members who were hired after August 28, 1997, as discussed below.

For a member hired after August 28, 1997, a COLA is based strictly on 80 percent of the increase in the CPI, with no cumulative cap, no annual minimum, and a 5 percent annual maximum.

Death and Survivor Benefits

The surviving spouse of a Judicial Plan member who dies before retirement receives up to 50 percent of the benefit the member would have received based on service to age 70. The benefit payable to the surviving spouse of a retired Judicial Plan member who dies is 50 percent of the member's accrued benefit. Survivors are eligible to receive COLAs.

Insurance Plans

Long-Term Disability

Members of MOSERS in a position normally requiring one thousand hours of work a year are covered under the Long-Term Disability Plan, unless they work for a state agency which has its own long-term disability plan. Eligible participants receive 60 percent of their compensation minus primary Social Security, Worker's Compensation, and any employer-provided income. The benefit commences after 90 days of disability or after sick leave expires, whichever occurs last. Long-term disability benefits cease when the disability ends, when retirement benefits begin, when the member returns to work, or upon the member's death.

Uniformed Water Patrol members who are eligible for statutory occupational disability receive benefits equal to 50 percent of compensation at the time of disability. For nonoccupational disabilities, eligible participants receive the same benefit as general employees.

Judges who become disabled receive one-half of their salary on the date of disability. This is a constitutionally-provided disability benefit paid until his/her term expires. Judges are also eligible for the above noted Long-Term Disability Plan.

Basic Life Insurance

All active employees covered under the MOSERS life insurance plan receive $15,000 of Basic Life Insurance on the first month coinciding with or following the date of employment. The cost of the Basic Life Insurance is paid by the State. Eligible members, who immediately retire from active employment, are provided $5,000 of Basic Life Insurance by the State at no cost to the member. Terminating employees may convert Basic Life Insurance to an individual policy, subject to certain restrictions.

Duty-Related Death Benefit

Active employees covered under the MOSERS' life insurance plan receive an amount equal to three times the basic life insurance amount payable to the beneficiaries of the members whose death is determined to be duty related.

Optional Life Insurance

Members working for an agency covered under MOSERS' life insurance plan are eligible for Optional Life Insurance on the first of the month coinciding with or following their date of employment. Members are responsible for paying the entire cost of their Optional Life Insurance.

The maximum amount of Optional Life Insurance coverage available to active employees is six times annual salary, up to a maximum of $800,000. The law also enables MOSERS to make dependent spouse and children coverage available to eligible members.

MSEP members who immediately retire from active employment 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 Optional Life Insurance at individual rates. Terminating employees may convert Optional Life Insurance and Dependent Insurance to an individual policy, subject to certain restrictions.

Subsequent Events

The MOSERS adopted the "Year 2000" Plan pursuant to Sections 104.1006 to 104.1093, RSMo 2000 on August 28, 1999. The Year 2000 Plan affects all people hired on or after July 1, 2000, as well as MOSERS active members, vested former members, and retirees and survivors who elect to transfer to the MSEP 2000 Plan within established guidelines. The Year 2000 Plan is available to all state employees excluding members of the ALJLAP and Judicial Plan; therefore, the plan has been commonly referred to as the Missouri State Employees' Plan 2000 (MSEP 2000). Under the MSEP 2000 Plan, each general state employee and Water Patrol member's life annuity is equal to one and seven tenths percent of the final average pay of the member multiplied by the member's years of credited service. Under the MSEP 2000 Plan, members of the General Assembly receive a benefit equal to the member's monthly base pay divided by twenty-four and multiplied by the member's years of credited service. The benefit for members of the General Assembly is capped at 100 percent of the member's final salary. Under the MSEP

2000, elected state officials receive a benefit equal to the member's monthly base pay divided by twenty-four and multiplied by the member's years of credited service. The benefit for elected state officials is capped at twelve years of service or 50 percent of the member's final salary. The MSEP 2000 Plan also changes the eligibility for normal and early retirement for most member classes, changes some survivor options, and establishes an additional temporary benefit until eligibility for Social Security benefits for general state employee and Water Patrol members retiring under the Rule of 80 provision.

Effective January 1, 2001, the basic life insurance benefit increased from $15,000 to one-times the employee's annual salary with a minimum of $15,000.

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