

MINNESOTA STATE RETIREMENT SYSTEM

Pension Trust Funds of the State of Minnesota



MSRS

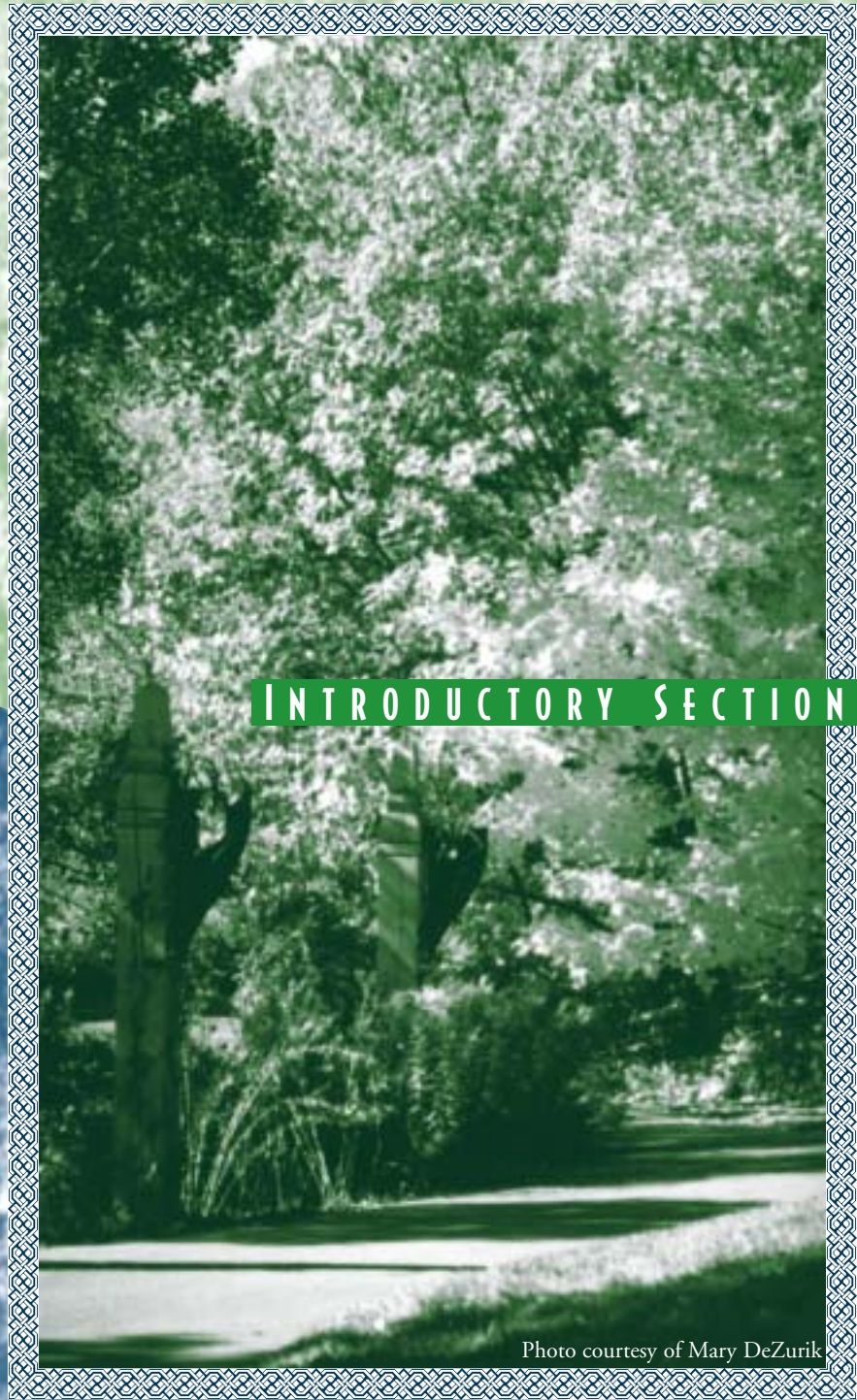
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2002

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

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INTRODUCTORY SECTION

1

Photo courtesy of Mary DeZurik

The Minnesota Landscape Arboretum plays host to many plants that are well adapted to life in northern gardens.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minnesota State Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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



William Patrick Pate
President

Jeffrey L. Esser
Executive Director

BOARD CHAIRPERSON'S REPORT

December 31, 2002

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

Dear Board Members, Benefit Recipients and Employers:

As the Chair of the Minnesota State Retirement System Board of Directors, it is with great honor that I present the Comprehensive Annual Financial Report for the fiscal year that ended June 30, 2002. Despite the steep decline in the markets over the last two years, I am pleased to report that the three major retirement plans administered by MSRS continue to be well funded.

Because of the decline in the stock markets, MSRS realized a \$900 million decline in assets. As of June 30, 2002, we had assets totaling \$7.4 billion, as compared to \$8.3 billion at the end of the prior fiscal year. The declining market also took its toll on this year's post retirement adjustment. Eligible retirees will receive a 0.745 percent increase effective January 1, 2003.

The Minnesota State Retirement System provides an integral part to the state's economy. This past year, we paid over \$366 million in monthly benefits to over 23,000 benefit recipients. Most of this money, over 90 percent, stays in Minnesota to pay bills, purchase goods, and of course add to the tax revenue of the state.

The last year has been a difficult year. Continued fear of terrorism, possible war with Iraq, and seemingly total disregard for corporate integrity by companies such as Enron and World Com, rocked our sense of security. Through it all, MSRS continues to remain solid. Since its creation in 1929, the system has remained solid through wars, bear markets, and many shocking world events. We will weather these difficult times as well.

These recent events have reminded us how unpredictable the future can be. While we cannot foretell the future, we can prepare for it. The MSRS Board and staff will diligently work to provide our members with a rock solid retirement plan so they may enjoy their retirement years.

Sincerely,



Mary Benner, Chair
MSRS Board of Directors

LETTER OF TRANSMITTAL

December 31, 2002

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

Dear Directors:

We are pleased to present the Minnesota State Retirement System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This fiscal year we provided retirement coverage for 56,100 active employees, 23,000 retirees and 23,600 deferred members (members who no longer contribute, but are eligible to receive either a future monthly benefit or a lump sum payment).

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

MSRS is devoted to providing high quality services to various state and public employees. We deliver retirement, survivor and disability benefits to members covered in the following plans:

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

MSRS also oversees the Minnesota State Deferred Compensation Plan (DCP). The plan is available to all state employees, and local government and school district employees. The plan had 80,000 participants with assets of almost \$2.4 billion as of June 30, 2002.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT IS DIVIDED INTO 5 SECTIONS.

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

FINANCIAL SECTION — consists of the independent auditor's report, management's discussion and analysis, financial statements and footnotes for fiscal year 2002, and the required supplemental information.

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

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

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

MAJOR INITIATIVES

During fiscal year 2002, MSRS expanded coverage of the Health Care Savings Plan to several bargaining units since its inception in July, 2001. MSRS reached the milestone of having 100 participating groups in October, 2002. MSRS continues to expand the plan throughout the state.

The St Cloud branch office opened in February 2002; the Mankato office in September, 2002. In keeping with the cooperative ideals behind the consolidated retirement building that houses MSRS, Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA), the branches include MSRS and TRA counselors and DCP educators. Members have a better chance of getting their retirement questions answered in one stop without having to drive to St Paul. More branch offices will open in the future, although specific locations have yet to be decided.

The MSRS web site received a facelift this year. Users can navigate the site easier thanks to the new layout. The site also includes greater capabilities than before. Browsers can read news articles affecting pensions, look up account information and make changes to investment selections (Unclassified and Health Care Savings only).

FINANCIAL INFORMATION

Accounting Systems and Reports

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

MSRS' system of internal accounting controls has been designed to provide reasonable assurance that system assets are safeguarded and financial records are accurate and reliable. These controls are reviewed by the accounting and finance staff on an as needed basis and revised when necessary. Our independent auditors reported no material weaknesses in internal control, nor any departures from finance-related statutes for the fiscal year ended June 30, 2002.

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

Revenues (Additions)

MSRS' revenue is derived from three sources: 1) employee contributions; 2) employer contributions; and 3) investment returns. Income for fiscal year 2002 totaled a loss of \$431 million. This fiscal year's return on investment was a loss of \$654 million, an increase of \$20 million over last fiscal year. Employee and employer contributions totaled \$207 million; appropriations and other sources provided an additional \$15 million.

	(In thousands of dollars)		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>Increase (Decrease)</u>
Employee Contributions	92,755	101,961	9,206
Employer Contributions	101,089	105,429	4,340
Investment Income	(634,048)	(653,784)	(19,736)
Other	17,189	15,202	(1,987)
	<u> </u>	<u> </u>	<u> </u>
Total	<u>(423,015)</u>	<u>(431,192)</u>	<u>(8,177)</u>

Expenses (Deductions)

Expenses in fiscal year 2002 came to \$395 million, a \$28 million increase over last year's expenses. Expenses combined with investment losses and other revenues resulted in a net decrease in assets of \$826 million.

(In Thousands)

	FY 2001	FY 2002	Increase (Decrease)
Annuity Benefits	332,819	366,010	33,191
Refunds	18,727	14,456	(4,271)
Administrative Expenses	4,310	4,813	503
Other	10,993	9,426	(1,567)
Total	366,849	394,705	27,856

Funding Status

On an actuarial basis, the figures below show the assets, liabilities and funding ratios of each fund as of June 30, 2002.

(In Thousands)

Fund	Liabilities	Assets	Funding Ratio
State Employees	\$7,340,397	\$7,673,028	104.53%
State Patrol	\$510,344	\$591,383	115.88%
Correctional	\$446,426	\$457,416	102.46%
Judges	\$171,921	\$131,379	76.42%
Legislators	\$78,070	\$45,501	58.28%
Elective State Officers	\$4,075	\$201	4.93%

More information regarding the funding of MSRS' plans can be found on pages 34 and 35. The assumptions and actuarial details are in accordance with Minnesota Statutes section 356.215. The entry age normal method, with level contributions as a percent of payroll, is used as the actuarial funding method.

Investment Activities

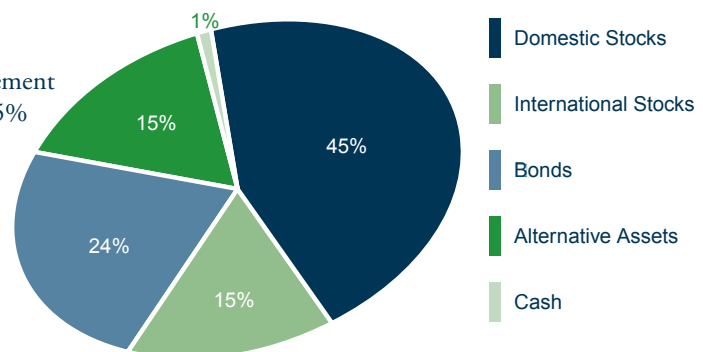
Assets of the MSRS funds are invested by the State Board of Investment (SBI). The board includes the governor, attorney general, secretary of state, state auditor and the state treasurer. Members of the board are subject to the Prudent Person rule, fiduciary standards detailed in Minnesota Statutes section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

Basic Retirement Fund

The rate of return in the Basic Retirement Fund was -8.2% for the fiscal year ended June 30, 2002.

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

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



Post Retirement Investment Fund

The rate of return for the Post-Retirement Fund was -7.8% in fiscal year 2002. A 0.745% increase will be paid to eligible retirees on January 1, 2002.

When a member retires, funds sufficient to pay monthly benefits for his or her lifetime are transferred from the Basic Retirement Fund to the Post-Retirement Fund. The assumed rate of return for the Post-Retirement Fund is 6%. The goal of the Post Fund is to provide income to pay monthly benefits, plus a cost-of-living increase based on inflation up to, but not exceeding, 2.5 percent. The inflation rate is determined by the U.S. Consumer Price Index. If investment returns from the Post-Retirement Fund are higher than the 6 percent plus the Cost of Living increase, the additional

investment return is spread over a five-year period to help fund future increases. If the Post-Fund experiences an investment loss (earns less than 6% + inflation rate) the loss is spread out over a five-year period.

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

Economic Outlook

According to most economists, the recession is over. However, stock markets have yet to reflect the recovery. When they do, the recovery will not be as aggressive as the late 1990's. Economists at the time knew that growth could not be sustained at that rate. Normally, the first few quarters following a recession produce rapid growth. Forecasters predict this recovery will be more subdued as we form a foundation upon which to build sustainable economic growth. There are no guarantees, however, DRI-WEFA (formerly known as Data Resources, Inc and Wharton Econometric Forecasting Associates, now known as Global Insight, Inc) and the October Blue Chip Consensus predict 2.4 percent growth in calendar 2002 and 3.0 percent growth in calendar 2003. The war on terrorism and the potential war with Iraq may have some part in the cautious return to business investment. Most agree that military action in Iraq would further slow the return to strong, sustainable growth, but would not cause another recession.

Last fiscal year, we reported an investment loss of \$634 million. This year we had an investment loss of over \$650 million. If the experts' forecasts hold true, we hope to see a gain in 2003. Even if the market does turn bullish, it is not likely to return to the increases experienced during the 1990's.

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

Review of Operations and Activities of Fiscal Year 2002

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

Independent Audit

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

Professional Services

The Minnesota Attorney General's Office provides legal counsel for MSRS. The 2002 actuarial valuations were completed by Milliman & Robertson Inc. and reviewed by William M. Mercer Inc.

Acknowledgments

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

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

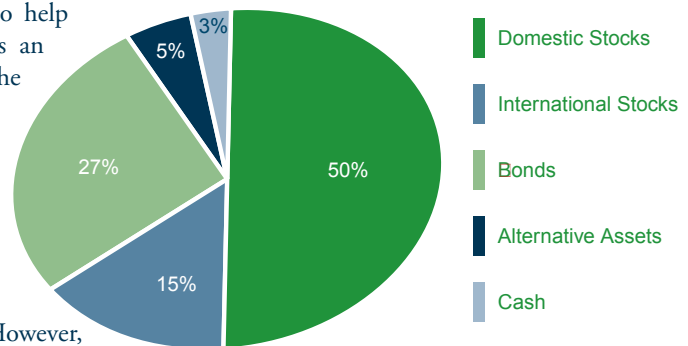
Respectfully submitted,



David Bergstrom
Executive Director



Arvin Herman
Assistant Director



ADMINISTRATIVE ORGANIZATION - JUNE 30, 2002

MSRS BOARD OF DIRECTORS

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

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

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

David Crockett
Minnesota State University - Moorhead
1104 Seventh Ave. S.
Moorhead, MN 56563
Telephone: (218) 236-2070
Elected: General/Unclassified Plan representative

Carol Johnson
State Treasurer
303 Administration Building
St. Paul, MN 55155
Telephone: (651) 296-7091
Appointed: state official

Richard J. Kolodziejcki
Minnesota Correctional Facility, Shakopee
1010 W. Sixth Ave.
Shakopee, MN 55379
Telephone: (952) 496-4440
Elected: Correctional Plan representative

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

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

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

Susan O'Connell
Metropolitan State University
700 E 7th Street
St Paul, MN 55106-5000
Elected: General/Unclassified Plan representative

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

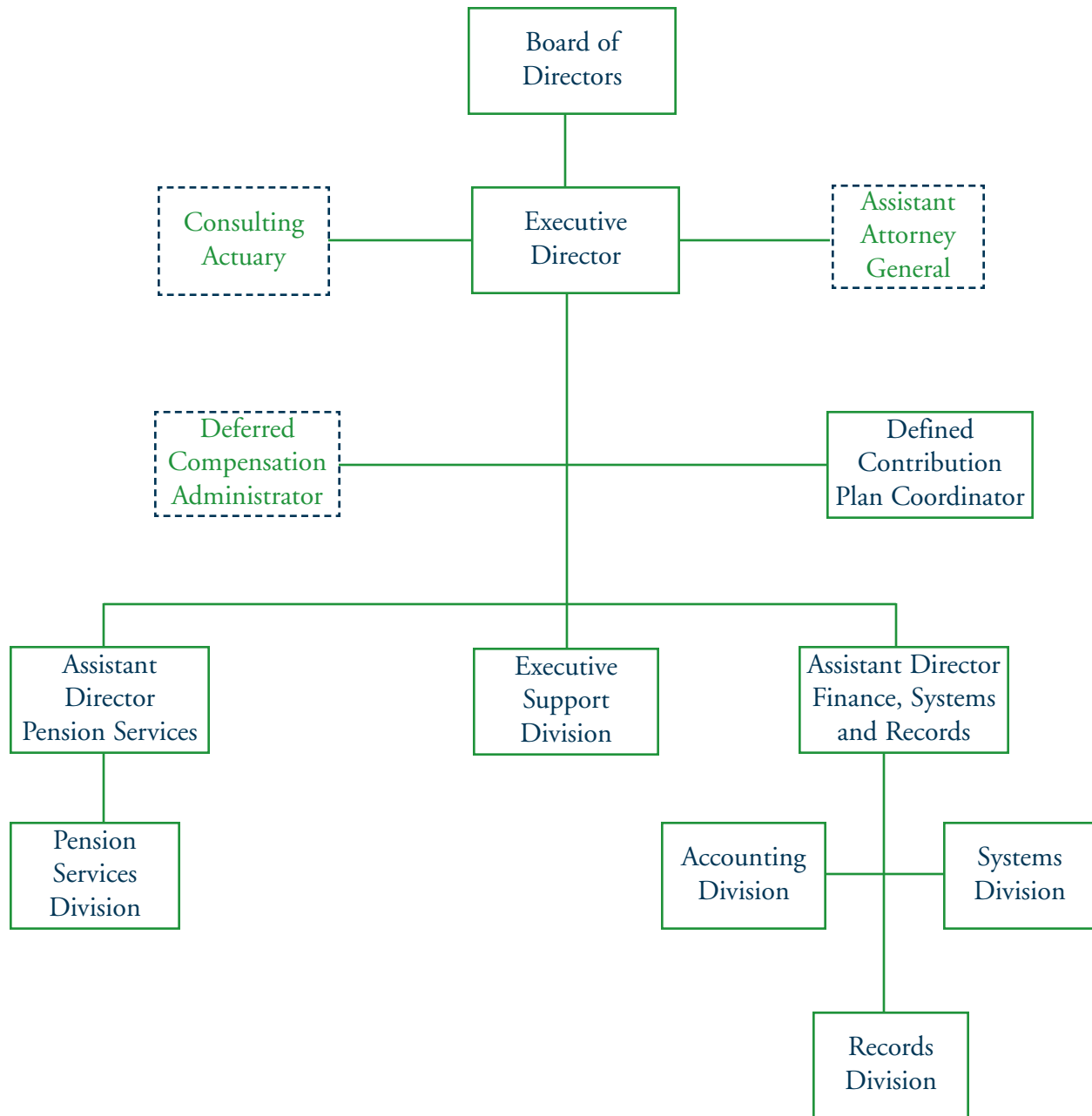
ADMINISTRATIVE STAFF

Executive Director:
David Bergstrom
Assistant Directors:
Arvin Herman
Ronald Schweitzer

PROFESSIONAL CONSULTANTS

Legislative Actuary:
Milliman & Robertson Inc.
Consulting Actuary:
William M. Mercer Inc.
Legal Counsel:
Assistant Attorney General Jon Murphy
Assistant Attorney General Rory Foley
Medical Advisor:
Minnesota Department of Health

ORGANIZATION CHART - JUNE 30, 2002



NOTE: MSRS invests its funds in various investment pools administered by the State Board of Investment (SBI). The SBI retains various investment advisors whose fees are paid by the pool participants, including MSRS. A schedule of these advisors and MSRS' share of their fees is included on page 46 of the Financial Section.

SUMMARY OF RETIREMENT SYSTEM PLANS

PURPOSE

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

ADMINISTRATION

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

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

DEFINED BENEFIT PLANS

I. GENERAL EMPLOYEES PLAN

- A. Coverage: most state employees and selected metropolitan agency employees

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

2. MILITARY AFFAIRS, TRANSPORTATION PILOTS AND FIRE MARSHALS PLANS (PROVISIONS DIFFERING FROM GENERAL PLAN)

- A. Coverage: required retirement from federal military status at age 60, or 62 for transportation pilots, no such requirements for deputy fire marshals.

Contributions:

- Military Affairs and Transportation Pilot - 5.6 percent, employee; 5.6 percent, employer.
- Deputy Fire Marshals - 6.78 percent employee; 8.20 percent employer.

- B. Retirement age and service years

- military affairs, age 60, with at least three years of service, no reduction
- transportation pilots, age 62
- fire marshals, age 55 with 2.0 percent accrual rate

- C. Disability

- eligible for disability if unable to perform duties with five years of service
- General Plan formula, no reduction
- pilots are entitled to 75 percent of salary for maximum of five years
- deputy fire marshals receive minimum of 15 years of service, 20 years if duty related

3. STATE PATROL RETIREMENT PLAN

- A. Coverage: state troopers, conservation officers, crime bureau and gambling enforcement agents
Contributions: 8.4 percent, employee; 12.6 percent, employer

- B. Benefit formula: 3 percent of successive, five high year salary for each year of service

- C. Retirement age and service years

- age 55 with three years of service, no reduction
- age 50 with three years of service, reduction from age 55

- D. Disability

- eligible for disability if unable to perform duties with three years of service, and immediate coverage if disabled on the job.
- job related disability, benefit is equal to 60 percent of five high year average salary, plus 3 percent for each year beyond 20; minimum non-job related disability is 45 percent

- E. Survivor benefits

- member death in service: spouse gets 50 percent of final average salary; with 10 or more years of service spouse's entitlement changes to 100 percent Joint and Survivor annuity when the employee would have reached age 55.
- children get 10 percent of final average salary per child plus \$20 per month, prorated equally to the children until age 18, or 23 if a student, or until married; total benefit limited to 40

percent of final average salary

- refund with 6 percent interest if no survivor benefit payable

F. Refunds

- contributions with 6 percent interest

G. Annuity and disability option

- 100 percent Joint and Survivor with bounce back

- 50 percent Joint and Survivor with bounce back

4. CORRECTIONAL EMPLOYEES PLAN (PROVISIONS DIFFERING FROM GENERAL PLAN)

A. Coverage: employees who have direct contact with inmates at Minnesota correctional facilities
Contributions: 5.69 percent, employee; 7.98 percent, employer

B. Benefit formula

- 2.4 percent of five high year average salary for each year of service or an accelerated annuity to age 62 or 65, then an actuarially adjusted benefit thereafter

C. Retirement age and service years

- age 55 with three years of service

- age 50 with three years of service, reduction from age 55

- job related disability, benefit equals 50 percent of five high year average salary plus 2.4 percent for each year beyond 20; the minimum non-job related disability is 36 percent

5. JUDGES RETIREMENT PLAN

A. Coverage: district, appellate and supreme court judges
Contributions: 8.0 percent, employee; 20.5 percent, employer

B. Benefit formula

- 2.7 percent for each year of service prior to July 1, 1980, plus 3.2 percent of same average salary for service after June 30, 1980; formula applied to five high year average salary within last decade; the formula is capped at 76.8 percent

C. Retirement age and service years

- age 70 with one year of service, no reduction

- age 65 with five years of service, no reduction

- age 62 with five years of service, reduction from age 65

D. Disability

- eligible for disability if unable to perform duties

- continuation of full salary for one year, then as computed under the formula with no reduction, and subject to minimum of 25 percent of five high year salary

- E. Survivor benefits
 - spouse eligible for 60 percent of normal annuity, subject to a minimum of 25 percent of final average salary
- F. Refunds
 - contributions with 5 percent interest
- G. Annuity and disability options
 - 100 percent Joint and Survivor with or without bounce back
 - 50 percent Joint and Survivor with or without bounce back
 - 15 Year Certain and Life Thereafter
 - 10 Year Certain and Life Thereafter

GENERAL FUND PLANS

6. LEGISLATORS RETIREMENT PLAN

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

7. ELECTIVE STATE OFFICERS PLAN

- A. Coverage: elected constitutional officers; newly elected constitutional officers are covered by the Unclassified Plan as of Jan. 1, 1999

Note: All constitutional officers are new since the last election, therefore, this plan is closed.

DEFINED CONTRIBUTION PLANS

1. UNCLASSIFIED EMPLOYEES PLAN

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

2. HEALTH CARE SAVINGS PLAN

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



FINANCIAL SECTION

Photo courtesy of Linda Dietsch

St. Paul Mist - The St.Paul skyline as viewed during a foggy day in 1985 from Mounds Park.

INDEPENDENT AUDITOR'S OPINION



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

Members of the Board of Trustees
 Minnesota State Retirement System
 and
 Executive Director
 Minnesota State Retirement System

We have audited the accompanying basic financial statements of the Minnesota State Retirement System (MSRS) for the year ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of MSRS's management. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSRS at June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MSRS implemented Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments: Omnibus, for the year ended June 30, 2002. These statements establish new financial reporting requirements for state and local governments throughout the United States. There was no significant affect on MSRS's basic financial statements because of this implementation, except for the addition of Management's Discussion and Analysis.

Management's Discussion and Analysis on pages 18 and 19 is not a required part of MSRS's basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The required supplementary information on pages 34 to 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit this information and do not express an opinion on it. The supplementary information is required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures which consisted mainly of inquiries of management regarding the methods of measurement and presentation for the Schedule of Funding Progress, Schedule of Employer Contributions, and Other Required Supplementary Information.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information on pages 36 to 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory, Investment, Actuarial, and Statistical Sections listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated December 6, 2002, on our consideration of MSRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Signed by



James R. Nobles
Legislative Auditor

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Minnesota State Retirement System's financial performance provides an overview of the system's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the transmittal letter on pages 4 to 7 and the financial statements beginning on page 20.

Financial Highlights

The three largest MSRS funds remain very well funded on the actuarial basis used to determine contribution rates. The funding percentages for each are the State Employees Retirement Fund 104.5%, the State Patrol Retirement Fund 115.9%, and the Correctional Employees Retirement Fund 102.46%. Total investment losses were \$654 million, an increase of \$20 million over the previous year. Total monthly benefit recipients increased by over 1,000 and total monthly benefits paid increased by over \$33 million. Total contributions increased by more than \$13.5 million or about 7%. Administrative expenses increased by only \$503,000 or 11.7%.

Overview of the Financial Statements

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

The Statement of Plan Net Assets

Provides a summary of financial resources on hand and obligations owed as of June 30, 2002. The assets available and the liabilities owed are reported at their fair value as of that date. The difference between the two is the net amount of assets in excess of liabilities which is available for payment of future pension benefits or other obligations.

The Statement of Changes in Plan Net Assets

Presents the revenues and other items that added to and the expenses and other items that deducted from the Net Assets since the previous fiscal year ended June 30, 2001.

The Notes to the Financial Statements

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

Financial Analysis of Individual Funds

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

Defined Benefit Funds

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

(in millions)

	SERF	SPRF	CERF	JRF	TOTALS
TOTAL ASSETS, 06/30/2002	\$6,769	\$518	\$405	\$118	\$7,810
TOTAL ASSETS, 06/30/2001	\$7,488	\$590	\$441	\$132	\$8,651
Change	(\$719)	(\$72)	(\$36)	(\$14)	(\$841)
% Change	-9.60%	-12.20%	-8.16%	-10.61%	-9.72%
TOTAL LIABILITIES, 06/30/2002	\$569	\$41	\$32	\$11	\$653
TOTAL LIABILITIES, 06/30/2001	\$597	\$50	\$35	\$13	\$695
Change	(\$28)	(\$9)	(\$3)	(\$2)	(\$42)
% Change	-4.69%	-18.00%	-8.57%	-15.38%	-6.04%
NET ASSETS, 06/30/2002	\$6,200	\$477	\$373	\$107	\$7,157
NET ASSETS, 06/30/2001	\$6,891	\$540	\$406	\$119	\$7,956
Change	(\$691)	(\$63)	(\$33)	(\$12)	(\$799)
% Change	-10.03%	-11.67%	-8.13%	-10.08%	-10.04%

While the overall financial position of these funds declined from the previous year, except for the Judges Retirement Fund, they all exceed 100% funding on an actuarial basis; and the Judges Retirement Fund is reasonably well funded at over 76 percent.

	SERF	SPRF	CERF	JRF	TOTALS
TOTAL ADDITIONS, YEAR ENDED 06/30/2002	(\$380)	(\$31)	(\$15)	\$2	(\$424)
TOTAL ADDITIONS, YEAR ENDED 06/30/2001	(\$374)	(\$31)	(\$13)	\$2	(\$416)
Change	(\$6)	\$0	(\$2)	\$0	(\$8)
% Change	1.60%	0.00%	15.38%	0.00%	1.92%
TOTAL DEDUCTIONS, YEAR ENDED 06/30/2002	\$312	\$33	\$18	\$13	\$376
TOTAL DEDUCTIONS, YEAR ENDED 06/30/2001	\$287	\$30	\$16	\$12	\$345
Change	\$25	\$3	\$2	\$1	\$31
% Change	8.71%	10.00%	12.50%	8.33%	8.99%
NET ADDITION (DEDUCTION) YEAR ENDED 06/30/2002	(692)	(64)	(33)	(11)	(800)
NET ADDITION (DEDUCTION) YEAR ENDED 06/30/2001	(661)	(61)	(29)	(10)	(761)
Change	(31)	(3)	(4)	(1)	(39)
% Change	4.69%	4.92%	13.79%	10.00%	5.12%

Even though each of the funds showed an increase in the decline of net assets, all of the funds are financially healthy and will improve as investment trends improve.

Defined Contribution Funds

The Health Care Savings Fund is a startup plan that began operations in October, 2001. After only nine months, it's too early for any meaningful comparisons except that the membership is steadily growing month by month. The Unclassified Employees Retirement Fund was affected by the same investment market conditions that affected the defined benefit funds. Fortunately for its members, they have the option to annuitize their account balance at retirement or, during periods of market decline, elect the optional defined benefit in the State Employees Retirement Fund. Because individual members select their own investment options, comparisons of fund investment earnings are not meaningful. However, throughout the past year the overall proportion of accounts invested in fixed interest and money market has increased in relation to the various equity options. The other sources of revenue, employee contributions and employer contributions increased slightly while fund membership remained relatively steady.

Summary

While MSRS has experienced a reduction in its net assets over the past two years, it remains financially sound and is well positioned to reap the benefits of future investment market improvements. This financial report is intended to provide a general overview of MSRS's finances. Questions or comments concerning the contents of this report should be sent to Minnesota State Retirement System, 60 Empire Drive Suite 300, St. Paul, MN 55103-3000 or to www.msrs.state.mn.us.

STATEMENT OF PLAN NET ASSETS (AS OF JUNE 30, 2002)

DEFINED BENEFIT PLANS

	STATE EMPLOYEES	STATE PATROL	CORRECTIONAL EMPLOYEES	JUDGES
ASSETS:				
Cash & Short-Term Investments				
Cash	\$328	\$20	\$28	\$10
Short-Term Investment Pools	36,351	2,283	6,787	3,186
	\$36,679	\$2,303	\$6,815	\$3,196
RECEIVABLES:				
Accounts Receivable	\$5,721	\$309	\$543	\$0
Accrued Interest	3	1	2	0
Due from Other Plans	860	0	0	0
Other	1	0	0	0
	\$6,585	\$310	\$545	\$0
INVESTMENT POOLS (AT FAIR VALUE)				
Equity in Post Retirement Fund	\$2,445,326	\$262,466	\$140,480	\$79,692
Fixed Investment Pool	913,085	51,611	55,190	6,256
External Domestic Equity Fund	1,190,057	67,266	71,932	8,154
Passive Domestic Equity Pool	557,293	30,850	32,990	3,739
Real Estate Fund Pool	133,546	7,549	8,072	915
MN Resources Fund Pool	63,807	3,607	3,857	437
MN Venture Capital Pool	299,370	16,921	18,094	2,051
Global Equity Pool	607,353	34,330	36,711	4,161
Supplemental Investment Fund	0	0	0	0
	\$6,209,837	\$474,600	\$367,326	\$105,405
Securities Lending Collateral	\$509,563	\$40,576	\$30,654	\$9,122
Fixed Assets	6,199	0	0	0
Nondedicated Member Deposits	0	0	0	0
TOTAL ASSETS	\$6,768,863	\$517,789	\$405,340	\$117,723
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$1,973	\$86	\$93	\$11
Accrued Compensated Absences	413	0	0	0
Securities Lending Collateral	509,563	40,576	30,654	9,122
Deferred Revenue	0	0	0	10
Due to MPRI fund	51,376	581	1,071	1,521
Due to other plans	22	92	258	44
Bonds Payable	5,800	0	0	0
	\$569,147	\$41,335	\$32,076	\$10,708
TOTAL LIABILITIES	\$569,147	\$41,335	\$32,076	\$10,708
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	\$6,199,716	\$476,454	\$373,264	\$107,015

(A Schedule of Funding Progress for each of the defined benefit plans are on pages 36 and 37.)

(In Thousands)

DEFINED CONTRIBUTION PLANS				
LEGISLATORS	ELECTIVE STATE OFFICERS	UNCLASSIFIED EMPLOYEES	HEALTH CARE SAVINGS PLAN	TOTALS
\$0	\$0	\$193	\$112	\$691
0	0	2,521	776	51,904
<u>\$0</u>	<u>\$0</u>	<u>\$2,714</u>	<u>\$888</u>	<u>\$52,595</u>
\$0	\$0	\$285	\$162	\$7,020
0	0	0	0	6
0	0	22	0	882
0	0	0	0	1
<u>\$0</u>	<u>\$0</u>	<u>\$307</u>	<u>\$162</u>	<u>\$7,909</u>
\$30,590	\$0	\$0	\$0	\$2,958,554
0	0	0	0	1,026,142
0	0	0	0	1,337,409
0	0	0	0	624,872
0	0	0	0	150,082
0	0	0	0	71,708
0	0	0	0	336,436
0	0	0	0	682,555
0	0	225,986	1,872	227,858
<u>\$30,590</u>	<u>\$0</u>	<u>\$225,986</u>	<u>\$1,872</u>	<u>\$7,415,616</u>
\$2,710	\$0	\$10,412	\$16	\$603,053
0	0	0	0	6,199
8,377	203	0	0	8,580
<u>\$41,677</u>	<u>\$203</u>	<u>\$239,419</u>	<u>\$2,938</u>	<u>\$8,093,952</u>
\$0	\$0	\$0	\$0	\$2,163
0	0	0	0	413
2,710	0	10,412	16	603,053
0	0	0	0	10
662	0	0	0	55,211
29	1	235	201	882
0	0	0	0	5,800
<u>\$3,401</u>	<u>\$1</u>	<u>\$10,647</u>	<u>\$217</u>	<u>\$667,532</u>
<u>\$38,276</u>	<u>\$202</u>	<u>\$228,772</u>	<u>\$2,721</u>	<u>\$7,426,420</u>

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

STATEMENT OF CHANGES IN PLAN NET ASSETS (YEAR ENDED JUNE 30, 2002)

(In thousands)

	DEFINED BENEFIT FUNDS			
	STATE EMPLOYEES	STATE PATROL	CORRECTIONAL EMPLOYEES	JUDGES
ADDITIONS:				
CONTRIBUTIONS:				
Member contributions	\$79,487	\$4,215	\$7,207	\$2,345
Employer contributions	76,614	6,209	9,925	6,371
General Fund Contributions	0	0	0	1,998
Total Contributions	\$156,101	\$10,424	\$17,132	\$10,714
INVESTMENT INCOME:				
Investment Income	\$(540,629)	\$(41,114)	\$(32,494)	\$(8,970)
Less Investment Expense:	5,678	321	342	39
Net Investment Income	\$(546,307)	\$(41,435)	\$(32,836)	\$(9,009)
INCOME FROM SECURITIES LENDING ACTIVITIES:				
Security Lending Income	\$16,207	\$1,312	\$987	\$296
Security Lending Expenses:				
Borrower Rebates	\$10,896	\$887	\$665	\$201
Management Fees	1,350	107	82	24
Total Security Lending Expenses	\$12,246	\$994	\$747	\$225
Net Income From Security Lending Activities	\$3,961	\$318	\$240	\$71
TOTAL NET INVESTMENT INCOME	\$(542,346)	\$(41,117)	\$(32,596)	\$(8,938)
OTHER ADDITIONS:				
Transfers From Other Plans	\$5,978	\$0	\$727	\$0
Other income	633	0	0	10
Total Other Additions	\$6,611	\$0	\$727	\$10
TOTAL ADDITIONS	\$(379,634)	\$(30,693)	\$(14,737)	\$1,786
DEDUCTIONS:				
Annuity benefits	\$296,687	\$33,031	\$17,105	\$13,202
Refunds	8,068	60	634	0
Interest to MPRI Fund	765	171	310	80
Transfers to Other Plans	2,046	0	12	9
Administrative expenses	3,942	102	265	57
Other Expenses	0	0	0	0
Total Deductions	\$311,508	\$33,364	\$18,326	\$13,348
Net increase (decrease)	\$(691,142)	\$(64,057)	\$(33,063)	\$(11,562)
NET ASSETS, JULY 1, 2001	\$6,890,858	\$540,511	\$406,327	\$118,577
NET ASSETS, JUNE 30, 2002	\$6,199,716	\$476,454	\$373,264	\$107,015

DEFINED CONTRIBUTION FUNDS

LEGISLATORS	ELECTIVE STATE OFFICERS	UNCLASSIFIED EMPLOYEES	HEALTH CARE SAVINGS	TOTALS
\$458	\$0	\$4,951	\$3,298	\$101,961
0	0	6,310	0	105,429
4,135	355	0	0	6,488
<u>\$4,593</u>	<u>\$355</u>	<u>\$11,261</u>	<u>\$3,298</u>	<u>\$213,878</u>
\$(2,581)	\$0	\$(26,328)	\$9	\$(652,107)
0	0	0	0	6,380
<u>\$(2,581)</u>	<u>\$0</u>	<u>\$(26,328)</u>	<u>\$9</u>	<u>\$(658,487)</u>
<u>\$88</u>	<u>\$0</u>	<u>\$397</u>	<u>\$0</u>	<u>\$19,287</u>
\$60	\$0	\$276	\$0	\$12,985
7	0	29	0	1,599
<u>\$67</u>	<u>\$0</u>	<u>\$305</u>	<u>\$0</u>	<u>\$14,584</u>
<u>\$21</u>	<u>\$0</u>	<u>\$92</u>	<u>\$0</u>	<u>\$4,703</u>
<u>\$(2,560)</u>	<u>\$0</u>	<u>\$(26,236)</u>	<u>\$9</u>	<u>\$(653,784)</u>
\$0	\$0	\$1,328	\$0	\$8,033
0	0	33	5	681
<u>\$0</u>	<u>\$0</u>	<u>\$1,361</u>	<u>\$5</u>	<u>\$8,714</u>
<u>\$2,033</u>	<u>\$355</u>	<u>\$(13,614)</u>	<u>\$3,312</u>	<u>\$(431,192)</u>
\$5,243	\$353	\$0	\$389	\$366,010
39	0	5,655	0	14,456
28	0	39	0	1,393
0	0	5,966	0	8,033
29	1	215	202	4,813
0	0	0	0	0
<u>\$5,339</u>	<u>\$354</u>	<u>\$11,875</u>	<u>\$591</u>	<u>\$394,705</u>
<u>\$(3,306)</u>	<u>\$1</u>	<u>\$(25,489)</u>	<u>\$2,721</u>	<u>\$(825,897)</u>
<u>\$41,582</u>	<u>\$201</u>	<u>\$254,261</u>	<u>\$0</u>	<u>\$8,252,317</u>
<u>\$38,276</u>	<u>\$202</u>	<u>\$228,772</u>	<u>\$2,721</u>	<u>\$7,426,420</u>

NOTES TO THE FINANCIAL STATEMENTS

1. DESCRIPTION OF THE SYSTEM

The Minnesota State Retirement System is the administrator of a multiple employer, cost sharing public employee retirement system. It consists of six defined benefit funds and two defined contribution funds. On June 30, 2002, the number of employers contributing to the various funds was:

-	State of Minnesota	1
-	University of Minnesota	1
-	Metropolitan agencies	6
-	Counties	9
-	Unions	3
-	Other	<u>55</u>
		75

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

B. Investment Policies

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

C. Investment Valuations

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

D. Fixed Assets

Fixed assets consist of office equipment and fixtures, land, building, and unamortized bond issuance charges. All were capitalized at historical cost at the date of acquisition, issuance, or completion. Balances at June 30, 2002, were:

	(in 000's)		
	Cost	Accumulated Depreciation/ Amortization	Undepreciated /Unamortized Balance
Office equipment & Fixtures	\$432	\$201	\$231
Land	88	N/A	88
Building	5,957	149	5,808
Deferred Bond Issuance Charges	75	3	72
Totals	<u>6,552</u>	<u>353</u>	<u>6,199</u>

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

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

E. Accrued Compensated Absences

MSRS employees accrue vacation, sick, and compensatory leave in accordance with various collective bargaining agreements. The obligation, \$413,178, for future payment of these balances at June 30, 2002 has been accrued to the extent that the right to receipt is either vested or expected to become vested.

F. Nondedicated Member Deposits

Member contributions to the Legislators' and Elective State Officers' Funds are deposited into the general operating revenues of the state. In the event of plan termination, the state Department of Finance and the legislative auditor believe that Minnesota's General Fund is obligated to repay member contributions. Because this contingency is considered unlikely, these amounts have not been appropriated in the state's General Fund. These balances at June 30, 2002, were:

	(in 000's)
Legislators' Retirement Fund	\$8,377
Elective State Officers' Fund	<u>203</u>
	<u>\$8,580</u>

G. Reserve Accounts

1) Employee Reserve

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

These balances at June 30, 2002 were:

	(in 000's)
State Employees' Retirement Fund	\$807,966
State Patrol Retirement Fund	38,508
Correctional Employees' Retirement Fund	51,324
Judges' Retirement Fund	16,243
Legislators' Retirement Fund	7,093
Elective State Officers' Retirement Fund	194
Unclassified Employees' Retirement Fund	227,931
Health Care Savings Fund	<u>2,915</u>
	<u>\$1,152,174</u>

2) Benefit Reserve

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

These balances at June 30, 2002, were:

	(in 000's)
State Employees' Retirement Fund	\$2,521,304
State Patrol Retirement Fund	128,827
Correctional Employees' Retirement Fund	154,644
Judges' Retirement Fund	11,896
Legislators' Retirement Fund	(2,528)
Elective State Officers' Retirement Fund	8
Unclassified Employees' Retirement Fund	841
Health Care Savings Fund	(193)
	<u>\$2,814,799</u>

3) Minnesota Post-Retirement Investment Fund Reserve

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

These balances at June 30, 2002 were:

	(in 000's)
State Employees' Retirement Fund	\$2,870,446
State Patrol Retirement Fund	309,119
Correctional Employees' Retirement Fund	167,296
Judges' Retirement Fund	78,876
Legislators' Retirement Fund	33,711
	<u>\$3,459,448</u>

H. Actuarial Assumptions

Actuarial valuations and experience studies are performed annually at fiscal year end. For this report, that was June 30, 2002. The entry age normal actuarial cost method - a projected benefit cost method - is used to value all of the defined benefit funds. The cost is amortized by contributions made as a level percentage of salary. The actual inflation rate for all funds was 0.745 percent, there is no assumed inflation rate for any of the funds. The assumed investment rate of return for all funds is 8.5 percent. The designated period for amortizing liabilities is an open-ended 30 years. Assumed salary scales for the State Employees Retirement Fund are increased in annual increments ranging from 6.75 percent at age 20 to 5.00 percent at age 70. The State Patrol Retirement Fund assumes similar increases ranging from 7.75 percent to 5.25 percent. The Correctional Retirement Fund assumes similar increases ranging from 7.75 percent to 5.25 percent. The Judges Retirement Fund assumes similar increases from 7.75 percent to 5.25 percent. The Legislative Retirement Fund assumes similar increases from 7.75 percent to 5.25 percent. The Elective State Officers Retirement Fund, a closed plan, assumes similar increases from 7.75 percent to 7.25 percent. The Unclassified Retirement Fund is a defined contribution plan and therefore there are neither assumptions nor actuarial valuations. These financial statements and the supplementary schedules that follow were prepared using these assumptions.

3. CASH AND INVESTMENTS

A. Cash

MSRS cash is deposited into the state's treasury accounts. On June 30, 2002, and throughout the year, these accounts were secured by pledged collateral and deposit insurance to the extent required by Minnesota Statutes.

B. Credit risk

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

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

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

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

C. Investment Valuation

The combined funds' proportionate share in the cost and fair values of the State Board of Investment's pools at June 30, 2002, were:

	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	1,049,546	1,026,142
External Domestic Equity	1,685,534	1,337,409
Passive Domestic Equity	674,549	624,872
Real Estate	140,668	150,082
Minnesota Resources	71,858	71,708
Minnesota Venture Capital	441,598	336,436
Global Equity	774,032	682,555
Post-Retirement Fund	3,648,826	2,958,554
Supplemental Investment Fund	110,757	227,858
Total	<u><u>\$8,597,368</u></u>	<u><u>\$7,415,616</u></u>

D. Securities Lending

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

4. INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2002, interfund receivables and payables were:

	(in 000's)	
	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Defined Benefit Retirement Funds		
State Employees'	\$860	\$22
State Patrol		91
Correctional Employees'		258
Judges'		45
Legislators'		29
Elective State Officers'		1
Defined Contribution Retirement Funds		
Unclassified Employees'	22	235
Health Care Savings		201
Totals	<u><u>\$882</u></u>	<u><u>\$882</u></u>

5. LEASES

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

<u>Fiscal Year</u>	<u>St Cloud</u>	<u>Mankato</u>	<u>Totals</u>
2003	\$16,093	\$17,468	\$33,561
2004	\$16,093	\$21,098	\$37,191
2005	\$8,047	\$21,783	\$29,830
2006	-	\$22,194	\$22,194
2007	-	\$22,605	\$22,605
<u>Totals</u>	<u>\$40,233</u>	<u>\$105,148</u>	<u>\$145,381</u>

6. ACTUARIAL ASSET VALUATIONS

Minnesota Statutes provide for a graduated recognition over a period of five years of the market gains or losses in excess of the 8.5 percent annual rate of return. All but one fifth of each preceding year's excess is added to or subtracted from the fair value of assets at fiscal year end in order to compute the "Actuarial Basis" of net assets. The amounts shown in the "Statement of Plan Net Assets" are presented at fair value and do not include any of the preceding adjustments.

The unfunded liability determined using both methods as of June 30, 2002 were:

(in 000's)

	<u>Actuarial Basis</u>	<u>Fair Value Basis</u>
State Employees'	\$(332,631)	\$570,455
State Patrol	(81,049)	(28,387)
Correctional Employees'	(10,990)	41,036
Judges'	40,542	46,489
Legislators'	32,569	32,569
Elective State Officers'	3,874	3,874
	<u>(347,685)</u>	<u>666,036</u>

7. OPTIONAL RETIREMENT ANNUITIES

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

8. DESCRIPTIONS OF INDIVIDUAL DEFINED BENEFIT FUNDS

A. State Employees' Retirement Fund

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

Membership statistics, as of June 30, 2002, follow:

Members receiving benefits:	
- retirees	18,497
- beneficiaries	2,308

Terminated members:	
- vested, not receiving benefits	11,939
- nonvested	8,224
Active members:	
- vested	36,320
- nonvested	12,779
	<u> </u>
Totals	90,067
	<u> </u>
Annual payroll (June 30, 2002):	\$ 1,915,350,000
Participating employers	29

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

B. State Patrol Retirement Fund

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

Membership statistics, as of June 30, 2002, follow:

Members receiving benefits:	
- retirees	606
- beneficiaries	156
Terminated members:	
- vested, not receiving benefits	27
- nonvested	11
Active members:	
- vested	699
- nonvested	111
	<u> </u>
Totals	1,610
	<u> </u>
Annual payroll (June 30, 2002):	\$ 49,278,000

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

C. Correctional Employees' Retirement Fund

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

Membership statistics, as of June 30, 2002, follow:

Members receiving benefits:	
- retirees	869
- beneficiaries	69
Terminated members:	
- vested, not receiving benefits	550
- nonvested	268
Active members:	
- vested	2,207
- nonvested	1,042
	<hr/>
Totals	5,005
	<hr/> <hr/>
Annual payroll (June 30, 2002):	\$124,373,000

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

D. Judges' Retirement Fund

The Judges' Retirement Fund includes only the Judges' Retirement Plan, a single employer plan. Active membership is limited to Minnesota district, appellate and supreme court judges. Also, retirees include municipal and county court judges.

Membership statistics, as of June 30, 2002, follow:

Members receiving benefits:	
- retirees	169
- beneficiaries	87
Terminated members:	
- vested, not receiving benefits	24
- nonvested	1
Active Members:	
- vested	152
- nonvested	131
	<hr/>
Totals	564
	<hr/> <hr/>
Annual payroll (June 30, 2002):	\$31,078,000

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

E. General Fund Plans

The General Fund Plans include the Legislators' Retirement Plan and the Elected State Officers' Plan. Each is a single employer plan. Members of the Minnesota House of Representatives and Senate are included in the Legislators' Retirement Plan; the Elected State Officers' Plan includes only the elected constitutional officers. Both plans are closed to new members. Persons first elected to take office on January 1, 1999 are members of

the Unclassified Plan; those who took office prior to January 1, 1999 were given the option of selecting membership in whichever plan they preferred.

Membership statistics, as of June 30, 2002, follow:

	Legislators	Elective State Officers
Members receiving benefits:		
- retirees	230	8
- beneficiaries	67	5
Terminated members:		
- vested, not receiving benefits	97	4
- nonvested	5	0
Active members:		
- vested	114	0
- nonvested	20	0
Totals	<u>533</u>	<u>17</u>
Annual payroll (June 30, 2002):	\$5,089,000	N/A*

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

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

9. INDIVIDUAL DESCRIPTIONS OF DEFINED CONTRIBUTION FUNDS

A. Unclassified Employees' Retirement Fund

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

Membership statistics as of June 30, 2002 were:

- Active members	1,930
- Inactive members	1,737
Total	<u>3,667</u>
- Annual payroll (June 30, 2002)	\$101,435,000
- Participating employers	12
- Contribution rates	
-- Employee	4%
-- Employer	6%

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

actuarially valued as a contingent liability for the State Employees' Retirement Fund in the amount of \$22,255,000.

B. Health Care Savings Fund

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

Membership statistics as of June 30, 2002 follow.

-	Active members	610
-	Inactive members	<u>706</u>
	Total	<u>1,316</u>
-	Annual payroll (June 30, 2002)	N/A
-	Participating employers	31

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

10. REQUIRED SUPPLEMENTAL INFORMATION

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

11. LONG-TERM DEBT

MSRS has entered into an agreement with the Teachers Retirement Association and the Public Employees Retirement Association for the purpose of construction and ownership of an administrative office building. Each agency owns an undivided portion of the asset total equal to their relative number of employees at the time the agreement was approved. For MSRS that portion was 20.4 percent of the total; it has since been revised to 20.2 percent. In order to finance building construction, on June 1, 2000 the state Department of Finance issued \$ 29,000,000 in 30-year revenue bonds. The bonds are secured by the value of the land purchased and the building that was constructed and are to be repaid from the revenues of the three retirement systems. The table that follows shows the debt service amounts for which MSRS is directly responsible. In the event of default, MSRS would be liable for the entire remaining outstanding principal and interest balance of the bonds, \$ 58,726,668.82. Bonds Payable on the Statement of Plan Net Assets includes interest accrued for the month of June in the amount of \$27,669.16.

DEBT REPAYMENT SCHEDULE

PAYMENT DATE	RATE	PRINCIPAL	INTEREST	TOTAL PRINCIPAL & INTEREST	UNPAID PRINCIPLE BALANCE
12/01/2002	5.375%		166,014.96	166,014.96	5,772,150.00
6/01/2003	5.375%	90,900.00	166,014.96	256,914.96	5,681,250.00
12/01/2003	5.375%		163,572.03	163,572.03	5,681,250.00
6/01/2004	5.375%	95,950.00	163,572.03	259,522.03	5,585,300.00
12/01/2004	5.375%		160,993.37	160,993.37	5,585,300.00
6/01/2005	5.375%	101,000.00	160,993.37	261,993.37	5,484,300.00
12/01/2005	5.375%		158,278.99	158,278.99	5,484,300.00
6/01/2006	5.375%	106,050.00	158,278.99	264,328.99	5,378,250.00
12/01/2006	5.375%		155,428.90	155,428.90	5,378,250.00
6/01/2007	5.375%	111,100.00	155,428.90	266,528.90	5,267,150.00
12/01/2007	5.375%		152,443.09	152,443.09	5,267,150.00
6/01/2008	5.375%	116,150.00	152,443.09	268,593.09	5,151,000.00
12/01/2008	5.375%		149,321.56	149,321.56	5,151,000.00
6/01/2009	5.375%	121,200.00	149,321.56	270,521.56	5,029,800.00
12/01/2009	5.375%		146,064.31	146,064.31	5,029,800.00
6/01/2010	5.375%	126,250.00	146,064.31	272,314.31	4,903,550.00
12/01/2010	5.40%		142,671.34	142,671.34	4,903,550.00
6/01/2011	5.40%	136,350.00	142,671.34	279,021.34	4,767,200.00
12/01/2011	5.45%		138,989.89	138,989.89	4,767,200.00
6/01/2012	5.45%	141,400.00	138,989.89	280,389.89	4,625,800.00
12/01/2012	5.50%		135,136.74	135,136.74	4,625,800.00
6/01/2013	5.50%	151,500.00	135,136.74	286,636.74	4,474,300.00
12/01/2013	5.55%		130,970.49	130,970.49	4,474,300.00
6/01/2014	5.55%	156,550.00	130,970.49	287,520.49	4,317,750.00
12/01/2014	5.60%		126,626.23	126,626.23	4,317,750.00
6/01/2015	5.60%	166,650.00	126,626.23	293,276.23	4,151,100.00
12/01/2015	5.65%		121,960.03	121,960.03	4,151,100.00
6/01/2016	5.65%	176,750.00	121,960.03	298,710.03	3,974,350.00
12/01/2016	5.70%		116,966.84	116,966.84	3,974,350.00
6/01/2017	5.70%	186,850.00	116,966.84	303,816.84	3,787,500.00
12/01/2017	5.75%		111,641.61	111,641.61	3,787,500.00
6/01/2018	5.75%	196,950.00	111,641.61	308,591.61	3,590,550.00
12/01/2018	5.75%		105,979.30	105,979.30	3,590,550.00
6/01/2019	5.75%	212,100.00	105,979.30	318,079.30	3,378,450.00
12/01/2019	5.80%		99,881.43	99,881.43	3,378,450.00
6/01/2020	5.80%	222,200.00	99,881.43	322,081.43	3,156,250.00
12/01/2020	5.875%		93,437.63	93,437.63	3,156,250.00
6/01/2021	5.875%	237,350.00	93,437.63	330,787.63	2,918,900.00
12/01/2021	5.875%		86,465.47	86,465.47	2,918,900.00
6/01/2022	5.875%	252,500.00	86,465.47	338,965.47	2,666,400.00
12/01/2022	5.875%		79,048.28	79,048.28	2,666,400.00
6/01/2023	5.875%	267,650.00	79,048.28	346,698.28	2,398,750.00
12/01/2023	5.875%		71,186.06	71,186.06	2,398,750.00
6/01/2024	5.875%	282,800.00	71,186.06	353,986.06	2,115,950.00
12/01/2024	5.875%		62,878.81	62,878.81	2,115,950.00
6/01/2025	5.875%	303,000.00	62,878.81	365,878.81	1,812,950.00
12/01/2025	5.875%		53,978.19	53,978.19	1,812,950.00
6/01/2026	5.875%	318,150.00	53,978.19	372,128.19	1,494,800.00
12/01/2026	5.875%		44,632.53	44,632.53	1,494,800.00
6/01/2027	5.875%	338,350.00	44,632.53	382,982.53	1,156,450.00
12/01/2027	6.00%		34,693.50	34,693.50	1,156,450.00
6/01/2028	6.00%	363,600.00	34,693.50	398,293.50	792,850.00
12/01/2028	6.00%		23,785.50	23,785.50	792,850.00
6/01/2029	6.00%	383,800.00	23,785.50	407,585.50	409,050.00
12/01/2029	6.00%		12,271.50	12,271.50	409,050.00
6/01/2030	6.00%	409,050.00	12,271.50	421,321.50	
Totals		\$5,772,150.00	\$6,090,637.16	\$11,862,787.16	

Note: Ownership participation revised during FY. 2002.

TRA: From 39.90% to 40.00%

PERA: From 39.70% to 39.80%

MSRS: From 20.40% to 20.20%

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF FUNDING PROGRESS

(In Thousands)

YEAR ENDED JUNE 30,	ACTUARIAL VALUE ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A)/(B)	ACTUAL COVERED PAYROLL (C)	UAAL AS PERCENT OF COVERED PAYROLL (B-A)/(C)
STATE EMPLOYEES RETIREMENT FUND:						
1997	\$4,664,519	\$4,519,542	\$(144,977)	103.21%	\$1,568,747	-9.24%
1998	5,390,526	5,005,165	(385,361)	107.70	1,557,880	-24.74
1999	5,968,692	5,464,207	(504,485)	109.23	1,649,469	-30.58
2000	6,744,165	6,105,703	(638,462)	110.46	1,733,054	-36.84
2001	7,366,673	6,573,193	(793,480)	112.07	1,834,042	-43.26
2002	7,673,028	7,340,397	(332,631)	104.53	1,915,350	-17.37
STATE PATROL RETIREMENT FUND:						
1997	375,650	332,427	(43,223)	113.00	41,996	-102.92
1998	430,011	371,369	(58,642)	115.79	43,456	-134.95
1999	472,687	406,215	(66,472)	116.36	45,333	-146.63
2000	528,573	458,384	(70,189)	115.31	48,167	-145.72
2001	572,815	489,483	(83,332)	117.02	48,935	-170.29
2002	591,383	510,344	(81,039)	115.88	49,278	-164.45
CORRECTIONAL EMPLOYEES RETIREMENT FUND:						
1997	241,916	212,638	(29,278)	113.77	112,408	-26.05
1998	295,291	261,869	(33,422)	112.76	105,796	-31.59
1999	335,408	307,408	(28,000)	109.11	106,131	-26.38
2000	386,964	359,885	(27,079)	107.52	112,587	-24.05
2001	431,134	398,633	(32,501)	108.15	120,947	-26.87
2002	457,416	446,426	(10,990)	102.46	124,373	-8.84
JUDGES RETIREMENT FUND:						
1997	74,681	117,714	43,033	63.44	22,909	187.84
1998	86,578	130,727	44,149	66.23	24,965	176.84
1999	97,692	139,649	41,957	69.96	32,940	127.19
2000	111,113	153,660	42,547	72.31	26,315	161.68
2001	123,589	165,244	41,655	74.79	28,246	147.47
2002	131,379	171,921	40,542	76.42	31,078	130.45
LEGISLATORS RETIREMENT FUND:						
1997	25,678	60,055	34,377	42.76	7,767	442.60
1998	31,212	62,928	31,716	49.60	6,802	466.27
1999	33,474	66,418	32,944	50.40	7,490	439.84
2000	37,265	69,364	32,099	53.72	5,808	552.67
2001	42,608	75,072	32,464	56.76	5,858	554.18
2002	45,501	78,070	32,569	58.28	5,089	639.99
ELECTIVE STATE OFFICERS RETIREMENT FUND*:						
1997	456	3,214	2,758	14.19	467	590.58
1998	500	3,369	2,869	14.84	461	622.34
1999	198	3,373	3,175	5.87	291	1,091.00
2000	199	3,535	3,336	5.63	0	N/A
2001	201	3,775	3,574	5.32	0	N/A
2002	201	4,075	3,874	4.93	0	N/A

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

REQUIRED SUPPLEMENTAL INFORMATION**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(In Thousands)

YEAR ENDED JUNE 30,	ACTUARIALLY REQUIRED CONTRIBUTION RATE (A)	ACTUAL COVERED PAYROLL (B)	ACTUAL MEMBER CONTRIBUTION (C)	ANNUAL REQUIRED CONTRIBUTION [(A)X(B)]-(C)	ACTUAL EMPLOYER CONTRIBUTION*	PERCENT CONTRIBUTED
STATE EMPLOYEES RETIREMENT FUND:						
1997	7.21%	\$1,568,747	\$63,848	\$49,259	\$66,568	135.14%
1998	7.13	1,557,880	62,901	48,176	62,315	129.35
1999	6.48	1,649,469	66,823	40,063	65,979	164.69
2000	6.12	1,733,054	70,378	35,685	69,322	194.26
2001	7.12	1,834,042	74,364	56,220	73,362	130.49
2002	6.79	1,915,350	79,487	50,565	76,614	151.52
STATE PATROL RETIREMENT FUND:						
1997	21.33	41,996	3,746	5,212	6,151	118.02
1998	15.67	43,456	3,634	3,176	5,475	172.39
1999	14.14	45,333	3,850	2,560	5,712	223.13
2000	15.17	48,167	4,044	3,263	6,069	185.99
2001	15.48	48,935	4,145	3,430	6,166	179.77
2002	14.00	49,278	4,215	2,684	6,209	231.33
CORRECTIONAL EMPLOYEES RETIREMENT FUND:						
1997	11.21	112,408	5,508	7,093	9,129	128.70
1998	12.49	105,796	5,954	7,260	8,146	112.20
1999	12.99	106,131	6,378	7,408	8,172	110.31
2000	13.66	112,587	6,526	8,853	8,984	101.48
2001	13.72	120,947	6,996	9,598	9,652	100.56
2002	13.81	124,373	7,207	9,969	9,925	99.56
*This includes contributions from state General Fund appropriations, if applicable.						
JUDGES RETIREMENT FUND:						
1997	27.01	22,909	1,457	4,731	6,632	140.18
1998	27.60	24,965	1,570	5,320	7,129	134.00
1999	27.32	32,940	2,069	6,930	7,051	101.75
2000	26.75	26,315	2,107	4,932	7,298	147.97
2001	24.58	28,246	2,162	4,781	7,793	163.00
2002	26.72	31,078	2,345	5,959	8,369	140.44
LEGISLATORS RETIREMENT FUND:						
1997	43.96	7,767	699	2,715	3,176	116.98
1998	48.03	6,802	612	2,655	5,199	195.82
1999	47.19	7,490	674	2,861	2,091	73.09
2000	52.72	5,808	523	2,539	3,192	125.72
2001	47.26	5,858	527	2,241	5,039	224.85
2002	60.14	5,089	458	2,603	4,135	158.86
ELECTIVE STATE OFFICERS RETIREMENT FUND:						
1997	43.49	467	42	161	167	103.73
1998	51.07	461	42	193	175	90.67
1999	51.66	291	26	124	40	32.26
2000	321**	0	-	-	306	N/A
2001	340**	0	-	-	330	N/A
2002	371**	0	-	-	354	N/A

*This includes contributions from state General Fund appropriations, if applicable.

**This plan no longer has active contributing members, therefore, there is no payroll to amortize the required liabilities. This is the required contribution expressed in thousands of dollars.

SCHEDULE OF ADMINISTRATIVE EXPENSES (YEAR ENDED JUNE 30, 2002)

(In Thousands)

Staff salaries	\$2,260
Social Security	168
Retirement	97
Insurance	306
Other personal services	5
Total	\$2,836
Professional services:	
actuarial	\$140
data processing	250
disability examinations	8
legal counsel	15
other professional services	6
Total	\$344
Communication:	
printing	\$99
telephone	37
postage	152
travel	24
subscriptions, memberships and training	11
Total	\$323
Rentals:	
office space	\$68
Miscellaneous:	
building services	\$216
supplies	193
office furniture	36
repairs and maintenance agreements	18
department head and board member expense	8
statewide indirect cost	87
depreciation	186
interest expense	338
state sales taxes	34
local sales taxes	3
other services	48
Total	\$1,167
Total Operating Expenses	\$4,813
Expenses distributed by fund:	
State Employees	\$3,942
State Patrol	102
Correctional Employees	265
Judges	57
Legislators	29
Elective State Officers	1
Unclassified Employees	215
Health Care Savings	202
Total distribution	\$4,813

SCHEDULE OF CHANGES IN PLAN NET ASSETS

STATE EMPLOYEES RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)

	(In Thousands)			
	MEMBER	POST-RETIREMENT INVESTMENT FUND	BENEFIT	TOTALS
ADDITIONS:				
CONTRIBUTIONS:				
member contributions	\$77,104	\$0	\$2,383	\$79,487
employer contributions	0	0	76,614	76,614
Total contributions	\$77,104	\$0	\$78,997	\$156,101
INVESTMENT INCOME:				
investment income	\$0	\$(345,011)	\$(195,618)	\$(540,629)
less investment expense	0	0	5,678	5,678
Net Investment Income	\$0	\$(345,011)	\$(201,296)	\$(546,307)
INCOME FROM SECURITIES LENDING ACTIVITIES:				
securities lending income	\$0	\$7,073	\$9,134	\$16,207
securities lending expenses:				
--borrower rebates	0	4,819	6,077	10,896
--management fees	0	563	787	1,350
Total Securities Lending Expenses	\$0	\$5,382	\$6,864	\$12,246
Net Income from Securities Lending Activities	\$0	\$1,691	\$2,270	\$3,961
Total Net Investment Income	\$0	\$(343,320)	\$(199,026)	\$(542,346)
OTHER ADDITIONS:				
transfers from other plans	\$860	\$0	\$5,118	\$5,978
other income	0	0	633	633
Total Other Additions	\$860	\$0	\$5,751	\$6,611
TOTAL ADDITIONS	\$77,964	\$(343,320)	\$(114,278)	\$(379,634)
DEDUCTIONS:				
annuity benefits	\$0	\$296,159	\$528	\$296,687
refunds	5,896	0	2,172	8,068
interest to MPRI Fund	0	0	765	765
transfers to other plans	408	0	1,638	2,046
administrative expenses	0	0	3,942	3,942
Total Deductions	\$6,304	\$296,159	\$9,045	\$311,508
OTHER CHANGES IN RESERVES:				
retirements	\$(25,587)	\$202,676	\$(177,089)	\$0
mortality gains (losses)	0	20,843	(20,843)	0
assumption change adjustment	0	30,533	(30,533)	0
Total Other Changes	\$(25,587)	\$254,052	\$(228,465)	\$0
NET INCREASE	\$46,073	\$(385,427)	\$(351,788)	\$(691,142)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of the Year	\$761,893	\$3,255,873	\$2,873,092	\$6,890,858
End of the Year	\$807,966	\$2,870,446	\$2,521,304	\$6,199,716

SCHEDULE OF CHANGES IN PLAN NET ASSETS

STATE PATROL RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)

(In Thousands)

	MEMBER	POST-RETIREMENT INVESTMENT FUND	BENEFIT	TOTALS
ADDITIONS:				
CONTRIBUTIONS:				
member contributions	\$4,158	\$0	\$57	\$4,215
employer contributions	0	0	6,209	6,209
Total contributions	\$4,158	\$0	\$6,266	\$10,424
INVESTMENT INCOME:				
investment income	\$0	\$(37,498)	\$(3,616)	\$(41,114)
less investment expense	0	0	321	321
Net Investment Income	\$0	\$(37,498)	\$(3,937)	\$(41,435)
INCOME FROM SECURITIES LENDING ACTIVITIES:				
securities lending income	\$0	\$774	\$538	\$1,312
securities lending expenses:				
--borrower rebates	0	527	360	887
--management fees	0	62	45	107
Total Securities Lending Expenses	\$0	\$589	\$405	\$994
Net Income from Securities Lending Activities	\$0	\$185	\$133	\$318
Total Net Investment Income	\$0	\$(37,313)	\$(3,804)	\$(41,117)
OTHER ADDITIONS:				
transfers from other plans	\$0	\$0	\$0	\$0
Total Other Additions	\$0	\$0	\$0	\$0
TOTAL ADDITIONS	\$4,158	\$(37,313)	\$2,462	\$(30,693)
DEDUCTIONS:				
annuity benefits	\$0	\$32,823	\$208	\$33,031
refunds	50	0	10	60
interest to MPRI Fund	0	0	171	171
administrative expenses	0	0	102	102
other expenses	0	0	0	0
Total Deductions	\$50	\$32,823	\$491	\$33,364
OTHER CHANGES IN RESERVES:				
retirements	\$(2,745)	\$22,053	\$(19,308)	\$0
mortality gains (losses)	0	581	(581)	0
Total Other Changes	\$(2,745)	\$22,634	\$(19,889)	\$0
NET INCREASE	\$1,363	\$(47,502)	\$(17,918)	\$(64,057)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of the Year	\$37,145	\$356,621	\$146,745	\$540,511
End of the Year	\$38,508	\$309,119	\$128,827	\$476,454

SCHEDULE OF CHANGES IN PLAN NET ASSETS**CORRECTIONAL RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)**

(In Thousands)

	<u>MEMBER</u>	<u>POST-RETIREMENT INVESTMENT FUND</u>	<u>BENEFIT</u>	<u>TOTALS</u>
ADDITIONS:				
CONTRIBUTIONS:				
member contributions	\$7,107	\$0	\$100	\$7,207
employer contributions	0	0	9,925	9,925
Total contributions	<u>\$7,107</u>	<u>\$0</u>	<u>\$10,025</u>	<u>\$17,132</u>
INVESTMENT INCOME:				
investment income	\$0	\$(19,987)	\$(12,507)	\$(32,494)
less investment expense	0	0	342	342
Net Investment Income	<u>\$0</u>	<u>\$(19,987)</u>	<u>\$(12,849)</u>	<u>\$(32,836)</u>
INCOME FROM SECURITIES LENDING ACTIVITIES:				
securities lending income	\$0	\$412	\$575	\$987
securities lending expenses:				
--borrower rebates	0	280	385	665
--management fees	0	33	49	82
Total Securities Lending Expenses	<u>\$0</u>	<u>\$313</u>	<u>\$434</u>	<u>\$747</u>
Net Income from Securities Lending Activities	<u>\$0</u>	<u>\$99</u>	<u>\$141</u>	<u>\$240</u>
Total Net Investment Income	<u>\$0</u>	<u>\$(19,888)</u>	<u>\$(12,708)</u>	<u>\$(32,596)</u>
OTHER ADDITIONS:				
transfers from other plans	\$88	\$0	\$639	\$727
Total Other Additions	<u>\$88</u>	<u>\$0</u>	<u>\$639</u>	<u>\$727</u>
TOTAL ADDITIONS	<u>\$7,195</u>	<u>\$(19,888)</u>	<u>\$(2,044)</u>	<u>\$(14,737)</u>
DEDUCTIONS:				
annuity benefits	\$0	\$17,105	\$0	\$17,105
refunds	504	0	130	634
interest to MPRI Fund	0	0	310	310
transfers to other plans	12	0	0	12
administrative expenses	0	0	265	265
Total Deductions	<u>\$516</u>	<u>\$17,105</u>	<u>\$705</u>	<u>\$18,326</u>
OTHER CHANGES IN RESERVES:				
retirements	\$(3,482)	\$28,364	\$(24,882)	\$0
mortality gains (losses)	0	1,071	(1,071)	0
Total Other Changes	<u>\$(3,482)</u>	<u>\$29,435</u>	<u>\$(25,953)</u>	<u>\$0</u>
NET INCREASE	<u>\$3,197</u>	<u>\$(7,558)</u>	<u>\$(28,702)</u>	<u>\$(33,063)</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of the Year	<u>\$48,127</u>	<u>\$174,854</u>	<u>\$183,347</u>	<u>\$406,328</u>
End of the Year	<u>\$51,324</u>	<u>\$167,296</u>	<u>\$154,644</u>	<u>\$373,264</u>

SCHEDULE OF CHANGES IN PLAN NET ASSETS

JUDGES RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)

(In Thousands)

	MEMBER	POST-RETIREMENT INVESTMENT FUND	BENEFIT	TOTALS
ADDITIONS:				
CONTRIBUTIONS:				
member contributions	\$2,345	\$0	\$0	\$2,345
employer contributions	0	0	6,371	6,371
General Fund contributions	0	0	1,998	1,998
Total contributions	\$2,345	\$0	\$8,369	\$10,714
INVESTMENT INCOME:				
investment income	\$0	\$(11,288)	\$2,318	\$(8,970)
less investment expense	0	0	39	39
Net Investment Income	\$0	\$(11,288)	\$2,279	\$(9,009)
INCOME FROM SECURITIES LENDING ACTIVITIES:				
securities lending income	\$0	\$231	\$65	\$296
securities lending expenses:				
--borrower rebates	0	157	44	201
--management fees	0	18	6	24
Total Securities Lending Expenses	\$0	\$175	\$50	\$225
Net Income from Securities Lending Activities	\$0	\$56	\$15	\$71
Total Net Investment Income	\$0	\$(11,232)	\$2,294	\$(8,938)
OTHER ADDITIONS:				
other income	0	0	10	10
Total Other Additions	\$0	\$0	\$10	\$10
TOTAL ADDITIONS	\$2,345	\$(11,232)	\$10,673	\$1,786
DEDUCTIONS:				
annuity benefits	\$0	\$11,204	\$1,998	\$13,202
refunds	0	0	0	0
interest to MPRI Fund	0	0	80	80
transfers to other plans	9	0	0	9
administrative expenses	0	0	57	57
Total Deductions	\$9	\$11,204	\$2,135	\$13,348
OTHER CHANGES IN RESERVES:				
retirements	\$(1,249)	\$9,165	\$(7,916)	\$0
mortality gains (losses)	0	1,521	(1,521)	0
Total Other Changes	\$(1,249)	\$10,686	\$(9,437)	\$0
NET INCREASE	\$1,087	\$(11,750)	\$(899)	\$(11,562)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of the Year	\$15,156	\$90,626	\$12,795	\$118,577
End of the Year	\$16,243	\$78,876	\$11,896	\$107,015

SCHEDULE OF CHANGES IN PLAN NET ASSETS

LEGISLATORS RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)

(In Thousands)

	MEMBER	POST-RETIREMENT INVESTMENT FUND	BENEFIT	TOTALS
ADDITIONS:				
CONTRIBUTIONS:				
member contributions	\$458	\$0	\$0	\$458
General Fund contributions	0	0	4,135	4,135
Total contributions	\$458	\$0	\$4,135	\$4,593
INVESTMENT INCOME:				
investment income	\$0	\$(2,581)	\$0	\$(2,581)
less investment expense	0	0	0	0
Net Investment Income	\$0	\$(2,581)	\$0	\$(2,581)
INCOME FROM SECURITIES LENDING ACTIVITIES:				
securities lending income	\$0	\$88	\$0	\$88
securities lending expenses:				
--borrower rebates	0	60	0	60
--management fees	0	7	0	7
Total Securities Lending Expenses	\$0	\$67	\$0	\$67
Net Income from Securities Lending Activities	\$0	\$21	\$0	\$21
Total Net Investment Income	\$0	\$(2,560)	\$0	\$(2,560)
OTHER ADDITIONS:				
transfers from other plans	\$0	\$0	\$0	\$0
Total Other Additions	\$0	\$0	\$0	\$0
TOTAL ADDITIONS	\$458	\$(2,560)	\$4,135	\$2,033
DEDUCTIONS:				
annuity benefits	\$0	\$4,635	\$608	\$5,243
refunds	27	0	12	39
interest to MPRI Fund	0	0	28	28
administrative expenses	0	0	29	29
Total Deductions	\$27	\$4,635	\$677	\$5,339
OTHER CHANGES IN RESERVES:				
retirements	\$(270)	\$1,843	\$(1,573)	\$0
mortality gains (losses)	0	662	(662)	0
Total Other Changes	\$(270)	\$2,505	\$(2,235)	\$0
NET INCREASE	\$161	\$(4,690)	\$(1,223)	\$(3,306)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of the Year	\$6,932	\$38,401	\$(3,751)	\$41,582
End of the Year	\$7,093	\$33,711	\$(2,528)	\$38,276

SCHEDULE OF CHANGES IN PLAN NET ASSETS**ELECTIVE STATE OFFICERS RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)**

(In Thousands)

	MEMBER	POST-RETIREMENT INVESTMENT FUND	BENEFIT	TOTALS
ADDITIONS:				
CONTRIBUTIONS:				
member contributions	\$0	\$0	\$0	\$0
employer contributions	0	0	0	0
General Fund contributions	0	0	355	355
Total contributions	\$0	\$0	\$355	\$355
INVESTMENT INCOME:				
investment income	\$0	\$0	\$0	\$0
less investment expense	0	0	0	0
Net Investment Income	\$0	\$0	\$0	\$0
INCOME FROM SECURITIES LENDING ACTIVITIES:				
securities lending income	\$0	\$0	\$0	\$0
securities lending expenses:				
--borrower rebates	0	0	0	0
--management fees	0	0	0	0
Total Securities Lending Expenses	\$0	\$0	\$0	\$0
Net Income from Securities Lending Activities	\$0	\$0	\$0	\$0
Total Net Investment Income	\$0	\$0	\$0	\$0
OTHER ADDITIONS:				
transfers from other plans	\$0	\$0	\$0	\$0
Total Other Additions	\$0	\$0	\$0	\$0
TOTAL ADDITIONS	\$0	\$0	\$355	\$355
DEDUCTIONS:				
annuity benefits	\$0	\$0	\$353	\$353
refunds	0	0	0	0
interest to MPRI Fund	0	0	0	0
transfers to other plans	0	0	0	0
administrative expenses	0	0	1	1
Total Deductions	\$0	\$0	\$354	\$354
OTHER CHANGES IN RESERVES:				
retirements	\$0	\$0	\$0	\$0
mortality gains (losses)	0	0	0	0
Total Other Changes	\$0	\$0	\$0	\$0
NET INCREASE	\$0	\$0	\$1	\$1
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of the Year	\$194	\$0	\$7	\$201
End of the Year	\$194	\$0	\$8	\$202

SCHEDULE OF CHANGES IN PLAN NET ASSETS

UNCLASSIFIED EMPLOYEES RETIREMENT FUND (YEAR ENDED JUNE 30, 2002)

	(In Thousands)		
	<u>MEMBER</u>	<u>BENEFIT</u>	<u>TOTALS</u>
ADDITIONS:			
CONTRIBUTIONS:			
member	\$4,951	\$0	\$4,951
employer	6,310	0	6,310
Total	<u>\$11,261</u>	<u>\$0</u>	<u>\$11,261</u>
INVESTMENT INCOME:			
investment income	\$(26,429)	\$101	\$(26,984)
less investment expense:	0	0	0
Net Investment Income	<u>\$(26,429)</u>	<u>\$101</u>	<u>\$(26,984)</u>
INCOME FROM SECURITIES LENDING ACTIVITIES:			
securities lending income	\$397	0	\$3,237
securities lending expenses:			
--borrower rebates	276	0	276
--management fees	29	0	29
Total Securities Lending Expenses	<u>\$305</u>	<u>\$0</u>	<u>\$2,489</u>
Net Income from Securities Lending Activities	<u>\$92</u>	<u>\$0</u>	<u>\$748</u>
Total Net Investment Income	<u>\$(26,337)</u>	<u>\$101</u>	<u>\$(26,236)</u>
OTHER ADDITIONS:			
transfers from other plans	\$1,328	\$0	\$1,328
other income	0	33	33
Total Other Additions	<u>\$1,328</u>	<u>\$33</u>	<u>\$1,361</u>
TOTAL ADDITIONS	<u>\$(13,748)</u>	<u>\$134</u>	<u>\$(13,614)</u>
DEDUCTIONS:			
refunds	\$5,655	\$0	\$5,655
interest to MPRI Fund	0	39	39
transfers to other plans	5,966	0	5,966
administrative expenses	0	215	215
Total Deductions	<u>\$11,621</u>	<u>\$254</u>	<u>\$11,875</u>
NET INCREASE	<u>\$(25,369)</u>	<u>\$(120)</u>	<u>\$(25,489)</u>
ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of the Year	<u>\$253,300</u>	<u>\$961</u>	<u>\$254,261</u>
End of the Year	<u>\$227,931</u>	<u>\$841</u>	<u>\$228,772</u>

SCHEDULE OF CHANGES IN PLAN NET ASSETS

HEALTH CARE SAVINGS FUND (YEAR ENDED JUNE 30, 2002)

(In Thousands)

	MEMBER	BENEFIT	TOTALS
ADDITIONS:			
CONTRIBUTIONS:			
member	\$3,298	\$0	\$3,298
employer	0	0	0
Total	\$3,298	\$0	\$3,298
INVESTMENT INCOME:			
investment income	\$6	\$3	\$9
less investment expense:	0	0	0
Net Investment Income	\$6	\$3	\$9
INCOME FROM SECURITIES LENDING ACTIVITIES:			
securities lending income	\$0	0	\$0
securities lending expenses:			
--borrower rebates	0	0	0
--management fees	0	0	0
Total Securities Lending Expenses	\$0	\$0	\$0
Net Income from Securities Lending Activities	\$0	\$0	\$0
Total Net Investment Income	\$6	\$3	\$9
OTHER ADDITIONS:			
transfers from other plans	\$0	\$0	\$0
other income	0	5	5
Total Other Additions	\$0	\$5	\$5
TOTAL ADDITIONS	\$3,304	\$8	\$3,312
DEDUCTIONS:			
annuity benefits	\$389	\$0	\$389
administrative expenses	0	202	202
Total Deductions	\$389	\$202	\$591
NET INCREASE	\$2,915	\$(194)	\$2,721
ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of the Year	\$0	\$0	\$0
End of the Year	\$2,915	\$(194)	\$2,721

SUMMARY SCHEDULE OF COMMISSIONS AND PAYMENTS TO CONSULTANTS (YEAR ENDED JUNE 30, 2002)

(In Thousands)

INDIVIDUAL OR FIRM NAME	SERVICES RECEIVED	FEES PAID
William Mercer Inc.	Consulting Actuary	\$109,976
State of Minnesota:		
Department of Health	Medical advisor	\$7,706
Office of the Attorney General	Legal counsel	\$14,589
Legislative Commission on Pensions and Retirement	Consulting Actuary	\$30,593

SCHEDULE OF INVESTMENT EXPENSES**(YEAR ENDED JUNE 30, 2002)**

(In Thousands)

	STATE EMPLOYEES	STATE PATROL	CORRECTIONAL EMPLOYEES	JUDGES	TOTALS
Outside Money Managers, Equities	\$4,508	\$255	\$272	\$31	\$5,066
Outside Money Managers, Bonds	898	51	54	6	1,009
Minnesota State Board of Investment	196	11	12	2	221
Financial Control Systems	27	2	2	0	31
Richards & Tierney	28	2	2	0	32
Pension Consulting	7	0	0	0	7
	\$5,664	\$321	\$342	\$39	\$6,366



INVESTMENT SECTION

Photo courtesy of Mary DeZurik

A covered bridge near Mantorville, MN welcomes nostalgic travelers.

INVESTMENT REPORT STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD OF INVESTMENT



Board Members

Governor
Jesse Ventura

State Auditor
Judi Dutcher

State Treasurer
Carol C. Johnson

Secretary of State
Mary Kiffmeyer

Attorney General
Mike Hatch

Executive Director:

Howard J. Bicker

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INVESTMENT AUTHORITY

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

INVESTMENT POLICY

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

INVESTMENT OBJECTIVES

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

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

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

COMBINED FUNDS

The combined funds, while not existing under statute, represent the assets of the active and retired public employees who participate in the defined benefit plans of MSRS, the Public Employees Retirement System, and the Teachers Retirement Association. The SBI looks at the combined funds for comparison purposes only, since most public pension plans do not separate the assets of their active employees and retirees. The long-term objectives of the combined funds are to:

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

As of June 30, 2002, the combined funds returned 9.4 percentage points above the Consumer Price Index over the last 10 years, outperformed the Composite Index by 0.3 percentage points over the past five years, and ranked below — the 72nd percentile — the median fund in the Trust Universe Comparison Service.

INVESTMENT PRESENTATION

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

Respectfully submitted,



Howard Bicker
Executive Director
State Board of Investment

INVESTMENT RESULTS

INVESTMENT RETURNS BY SECTOR

Performance of Asset Pools (net of fees)

	RATES OF RETURN (ANNUALIZED)		
	FY2002	Three Year	Five-Year
Domestic Stock	-18.0%	-9.0%	3.0%
--Wilshire 5000 Investable	-17.3	-8.9	3.1
Bond	8.2	8.2	7.6
--Lehman Aggregate	8.6	8.1	7.6
International Stock	-7.0	-5.4	-1.3
--Composite Index	-8.7	-6.8	-2.4
Real Estate (Basic Funds only)	2.9	9.2	14.4
Private Equity (Basic Funds only)	-7.6	7.1	12.9
Resource (Basic Funds only)	-3.2	18.9	9.6

INVESTMENT ALLOCATION (AT JUNE 30, 2002) *

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

INVESTMENT TYPE	BASIC FUND		MPRI FUND	
	Actual Asset Mix	Long-Term Policy Target	Actual Asset Mix	Long-Term Policy Target
Domestic Equity	46.2%	45.0%	49.4%	50.0%
International Equity	16.1	15.0	15.7	15.0
Bond	24.2	24.0	30.0	27.0
Alternative Assets**	13.3	15.0	4.0	5.0
Cash	0..2	1.0	0.9	3.0
Total	100.0%	100.0%	100.0%	100.0%

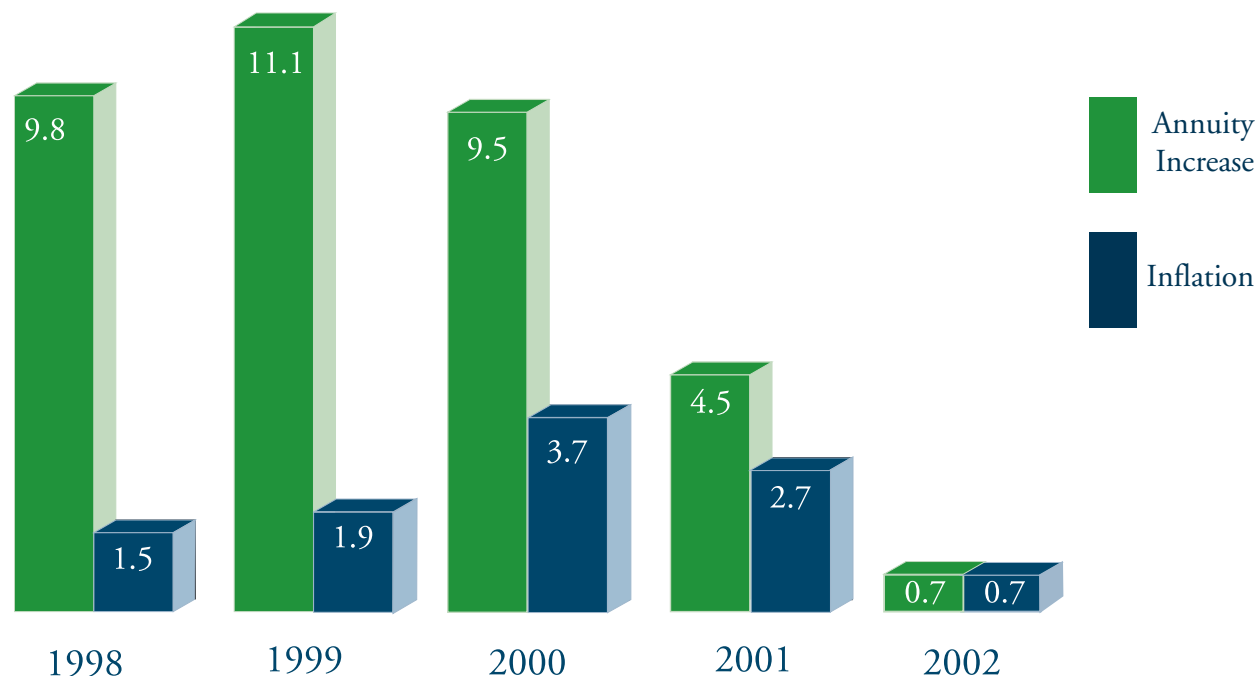
* Source: Minnesota State Board of Investment, fiscal year 2002 annual report.

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

INVESTMENT RESULTS

ANNUITY INCREASES VS. INFLATION

Increases awarded to MSRS retirees in the Post-Retirement Investment Fund have outpaced inflation during the last five years. Benefit increases and inflation are expressed as percentages for the fiscal years ended June 30, 2002. Increases are effective January 1 of the calendar year.



INVESTMENT PERFORMANCE

FUNDS

FUNDS	RATES OF RETURN (ANNUALIZED)		
	FY2002	Three Year	Five-Year
Basic (active accounts)	-8.2%	-2.0%	5.0%
Basic Composite Market Index	-8.1	-2.4	4.8
Post-Retirement Investment (retiree accounts)	-7.8	-2.3	4.5
MPRIF Composite Market Index	-7.4	-2.6	4.2
Combined (both) *	-8.2	-2.0	5.0
Combined Composite Market Index	-8.1	-2.4	4.8

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

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

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

LARGEST ASSETS HELD (AS OF JUNE 30, 2002)**COMPOSITE HOLDINGS OF 10 LARGEST EQUITIES (BY MARKET VALUE)**

Security	Percent of Portfolio
Microsoft Corp.	1.74%
General Electric Co.	1.66
Citigroup Inc.	1.58
Exxon Mobil Corp.	1.47
Pfizer Inc.	1.47
Wal Mart Stores Inc	1.35
American International Group, Inc.	1.14
Johnson & Johnson	1.12
Proctor & Gamble	0.93
Home Depot	0.85

COMPOSITE HOLDINGS OF 10 LARGEST BONDS (BY MARKET VALUE)

Security	Coupon Rate	Maturity Date	Rating	Percent of Portfolio
GNMA	6.50%	12/15/2099	AAA	2.52%
FNMA	7.00	12/31/2099	AAA	1.41
FNMA	7.00	12/31/2099	AAA	0.85
United States Treasury Notes	6.125	08/15/2007	AAA	0.76
FNMA	6.00	12/01/2099	AAA	0.73
FNMA	6.50	12/31/2029	AAA	0.69
GNMA	6.00	12/31/2099	AAA	0.65
GNMA	7.00	12/31/2099	AAA	0.62
United States Treasury Bonds	3.625	04/15/2028	AAA	0.57
United States Treasury Bonds	8.50	02/15/2020	AAA	0.56

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

INVESTMENT SUMMARY AT FAIR VALUE *

(AS OF JUNE 30, 2002)

	(In Thousands)		
	FAIR VALUE JUNE 30, 2001	FAIR VALUE JUNE 30, 2002	PERCENT OF PORTFOLIO
STATE EMPLOYEES RETIREMENT FUND:			
external domestic equity	\$1,404,220	\$1,190,057	34%
passive domestic equity	597,465	557,293	16
global equity	585,299	299,370	9
fixed income	1,013,609	913,085	26
real estate	158,701	133,546	4
resources	63,645	63,807	2
venture capital	311,991	299,370	9
Total	\$4,134,930	\$3,456,528	100%
STATE PATROL RETIREMENT FUND:			
external domestic equity	\$82,656	\$67,266	32%
passive domestic equity	35,305	30,850	14
global equity	34,410	34,330	16
fixed income	59,717	51,611	24
real estate	9,443	7,549	4
resources	3,782	3,607	2
venture capital	18,547	16,921	8
Total	\$243,860	\$212,134	100%
CORRECTIONAL EMPLOYEES RETIREMENT FUND:			
external domestic equity	\$86,893	\$71,932	30%
passive domestic equity	36,971	32,990	14
global equity	36,218	36,711	16
fixed income	62,722	55,190	23
real estate	9,828	8,072	3
resources	3,936	3,857	2
venture capital	19,305	18,094	12
Total	\$255,873	\$226,846	100%
JUDGES RETIREMENT FUND:			
external domestic equity	\$8,120	\$8,154	32%
passive domestic equity	3,455	3,739	14
global equity	3,385	4,161	16
fixed income	5,861	6,256	24
real estate	918	915	4
resources	368	437	2
venture capital	1,804	2,051	8
Total	\$23,911	\$25,713	100%

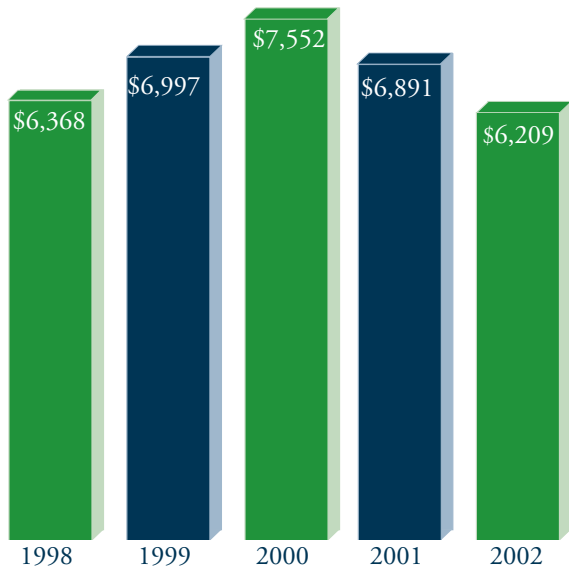
*Includes active member pooled funds only.

FAIR VALUE OF NET ASSETS

FAIR VALUE OF MSRS' FOUR LARGEST FUNDS (AS OF JUNE 30, 2002)

(In Millions)

STATE EMPLOYEES RETIREMENT FUND



CORRECTIONAL EMPLOYEES RETIREMENT FUND

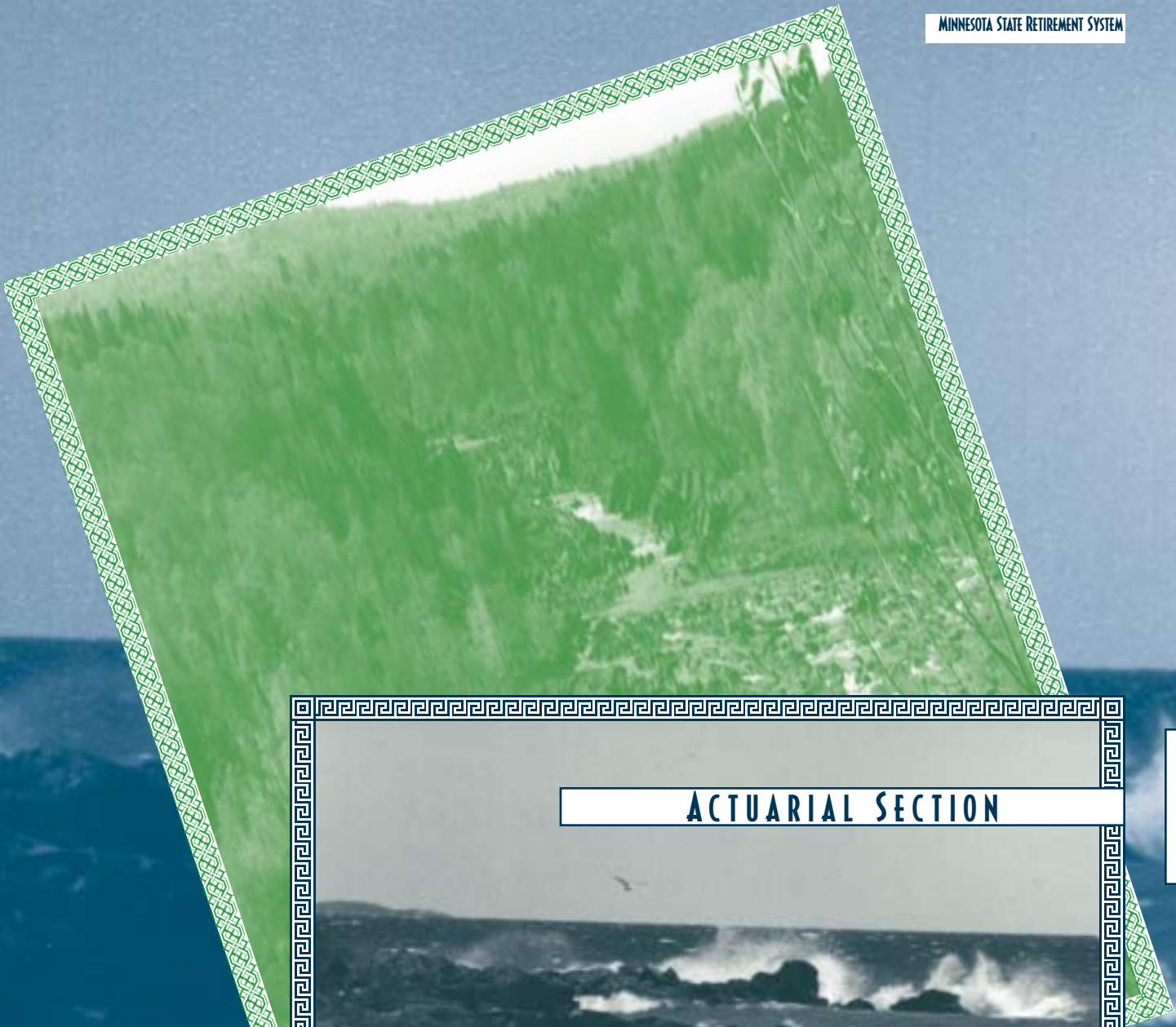


STATE PATROL RETIREMENT FUND



JUDGES RETIREMENT FUND





ACTUARIAL SECTION

Photo courtesy of Mary DeZurik

Some lucky treasure seekers may find agates between the boulders and crashing waves of Lake Superior's north shore.

ACTUARY'S CERTIFICATION LETTER

A MILLIMAN GLOBAL FIRM



Milliman USA

Consultants and Actuaries

15800 Bluemound Road, Suite 400
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December 13, 2002

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

Members of the Board:

We have completed our annual actuarial valuation of the Minnesota State Retirement System to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the State Employees Retirement Fund (SERF), the State Patrol Retirement Fund (SPRF), the Correctional Employees Retirement Fund (CERF), the Legislators Retirement Fund (LRF), the Elective State Officers Retirement Fund (ESORF) and the Judges Retirement Fund (JRF) and of July 1, 2002.

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

The results of the valuation indicate that the SERF, SPRF, CERF, and JRF are either ahead of or on schedule to meet the required dates for full funding. The valuation of the LRF resulted in a deficiency in the current funding level of 54.12%. The ESORF no longer has any active participants. The level dollar deficiency for the ESORF, based on full funding by 2020, is \$412,000. It should be noted that with respect to the LRF and ESORF, the employer is required to fund the portion of the benefit liabilities which are not funded by the member's accumulated contribution at the time of benefit commencement.

The actuarial valuation was based upon applicable GASB Statement 25 and statutory provisions and the Standards of Actuarial Work in effect on July 1, 2002. In the aggregate, the basic financial and membership data provided to us by the system office appears reasonable in comparison to last year. We have relied upon the data as submitted in performing the actuarial valuation and in preparing the trend data schedules. It is our understanding that the data has subsequently been audited with no significant changes made. We are responsible for providing the numbers for each of the supporting schedules in the Actuarial Section of MSRS' comprehensive annual financial report. We are also responsible for preparing both of the Required Supplemental Information schedules found in the Financial Section of this report.

The six valuations were performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by MSRS Board and approved by the Legislative Commission on Pensions and Retirement. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the MSRS comprehensive annual financial report, set by GASB Statement No. 25.

ACTUARY'S CERTIFICATION LETTER (PAGE 2)

Board of Trustees
 December 13, 2002
 Page Two

The following table shows the date for full funding for each of the plans and the funding percentage for the 2002 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

FUND	FUNDING DATE	FUNDED PERCENTAGE
SERF	2032	105%
SPRF	2032	116%
CERF	2032	102%
LRF	N/A	58%
ESORF	N/A	5%
JRF	2020	76%

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

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

Respectfully submitted,

Milliman USA



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

TKC/bh

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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

Assumptions:

Retirement State Employees Plan⁽¹⁰⁾ — Graded rates from age 55 with a higher percent of those eligible for Rule of 90 retiring each year; Correctional Plan⁽⁶⁾ and State Patrol Plan⁽⁶⁾ — Graded rates from age 50; Judges Plan⁽⁶⁾ — Graded rates from age 62; Elective State Officers⁽⁶⁾ and Legislators Plans⁽⁶⁾ — age 62.

Disability Age and gender related graded rates⁽¹¹⁾

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

FUND	PRE-RETIREMENT		POST-RETIREMENT*	
	MALE	FEMALE	MALE	FEMALE
State Employees ⁽¹¹⁾	-5	-2	-2	-1
State Patrol	-1	0	+2	+2
Correctional Employees	-1	0	+2	+2
Judges	-4	-2	0	0
Legislators	-4	-2	0	0
Elective State Officers	-4	-2	0	0

Separation Graded rates are based on actual experience.⁽⁸⁾ Select & ultimate rates are used for State Employees Plan

Combined Service

Annuity Allowance⁽¹¹⁾ Liabilities for active and deferred members are increased by a percentage (load factor) to account for participants' eligibility to receive a Combined Service Annuity.

FUND	LOAD FACTOR	
	ACTIVE	DEFERRED
SERF	1.2%	40%
SPRF	0%	30%
CERF	0%	30%
JRF	0%	30%
LRF	0%	30%
ESORF	0%	30%

- Expense** Prior year administrative expenses are expressed as a percentage of prior year payroll.⁽⁸⁾
- Interest** 8.5 percent⁽⁹⁾
- Salary increases** A.)State Employees Plan⁽¹⁰⁾ - 10-year select and ultimate table. During the select period, 0.3 percent x (10-T) where T is completed years of service is added to the ultimate rate. An ultimate table ranges from 6.75 percent at age 20 down to 5.25 percent at age 70. B.)State Patrol and Correctional Employees Plans Experience adjusted rates from 7.75 percent at age 20 declining to 5.25 percent at age 55 and thereafter. C.)Judges, Legislators and Elective State Officers Plans - 5 percent annually.
- Contribution refund** Employees who withdraw are assumed to take the larger of a refund or a deferred benefit.⁽⁴⁾
- Social Security** The Correctional Plan⁽³⁾ is based on the present law and a 6.0 percent retroactive salary scale and only state service earnings history. Future Social Security benefits replace the same proportion of salary as present. Other plans are unaffected.
- Asset valuation** Market value, less a percentage of the unrecognized asset return, are determined at the close of each of the four preceding fiscal years. The unrecognized asset return is the difference between the actual net return on market value of assets and the asset return expected during the fiscal year based of the assumed interest rate, 8.5 percent.⁽¹⁰⁾

Effective dates assumptions adopted:

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

REQUIRED RESERVES (AS OF JULY 1, 2002)

(In Thousands)

	STATE EMPLOYEES FUND	STATE PATROL FUND	CORRECTIONAL EMPLOYEES FUND	JUDGES FUND	LEGISLATORS FUND	ELECTIVE STATE OFFICERS FUND*
Active members:						
retirement annuities	\$3,321,215	\$164,687	\$222,821	\$55,050	\$16,832	\$0
disability benefits	126,575	9,178	11,539	2,646	0	0
survivor benefits	71,473	4,017	4,039	2,206	152	0
deferred retirements	188,303	1,163	12,438	0	1,150	0
refunds	(99,546)	(524)	(5,638)	155	(334)	0
Totals	\$3,608,020	\$178,521	\$245,199	\$60,057	\$17,800	\$0
Deferred retirements	683,381	6,048	28,089	1,172	10,704	879
Former members not vested	11,173	19	532	2	75	0
Annuitants in MPRIF	3,015,552	324,743	172,606	98,109	37,816	0
Annuitants not in MPRIF	16	1,013	0	12,581	11,675	3,196
Unclassified Plan Contingent Liability	22,255	0	0	0	0	0
Total required reserves	\$7,340,397	\$510,344	\$446,426	\$171,921	\$78,070	\$4,075

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L**ACTUAL CONTRIBUTION RATES AS COMPARED TO ACTUARIALLY RECOMMENDED RATES**

	ACTUAL CONTRIBUTION RATES			RECOMMENDED RATE	SUFFICIENCY (DEFICIENCY)
	EMPLOYEE	EMPLOYER	TOTAL		
State Employees Fund	4.00%	4.00%	8.00%	8.34%	(0.34)%
State Patrol Fund	8.40	12.60	21.00	14.34	6.66
Correctional Employees Fund	5.69	7.98	13.67	14.73	(1.06)
Judges Fund	8.00	20.50	28.50	26.82	1.68
Legislators Plan	9.00	0.00	9.00	63.12	(54.12)
Elective State Officers Plan*	N/A	N/A	N/A	N/A	N/A

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

SCHEDULE OF CHANGES IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL) (YEAR ENDED JUNE 30, 2002)

(In Thousands)

	STATE EMPLOYEES FUND	STATE PATROL FUND	CORRECTIONAL EMPLOYEES FUND	STATE JUDGES FUND	LEGISLATORS FUND	ELECTIVE STATE OFFICERS FUND
A. UAAL, at the Beginning of the Year, July 1, 2001	(793,480)	(83,332)	(32,501)	41,655	32,464	3,574
B. Change Due to Interest Requirements and Current Rate of Funding						
1. Normal Cost and Expenses	176,338	11,708	19,404	4,955	1,035	1
2. Contribution	(156,101)	(10,424)	(17,132)	(10,714)	(4,593)	(354)
3. Interest on A, B1, and B2	(66,586)	(7,029)	(2,666)	3,296	2,608	289
4. Totals (B1+B2+B3)	(46,349)	(5,745)	(394)	(2,463)	(950)	(64)
C. Expected UAAL at End of the Year (A+B)	(839,829)	(89,077)	(32,895)	39,192	31,514	3,510
D. Increase (Decrease) Due to Actuarial Losses (Gains) Because of Experience Deviations From the Expected						
1. Salary Increases	(100,655)	(8,953)	(6,690)	1,965	(1,595)	0
2. Investment Return	211,865	12,190	11,694	1,503	623	17
3. MPRIF Mortality	20,843	581	1,071	1,521	662	0
4. Mortality of Other Benefit Recipients	0	26	0	(62)	(667)	73
5. Other Items	45,958	2,794	9,225	(3,848)	(455)	71
6. Totals	178,011	6,638	15,300	1,079	(1,432)	161
E. UAAL at the End of the Year Before Plan Amendments and Changes in Actuarial Assumptions (C+D6)	(661,818)	(82,439)	(17,595)	40,271	30,082	3,671
F. Change in Unfunded Actuarial Accrued Liabilities Due to Changes in Actuarial Methods	0	0	0	0	0	0
G. Change in Unfunded Actuarial Accrued Liabilities Due to Recognition of Unclassified Plan Contingent Liability	329,187	1,400	6,605	271	2,487	203
H. UAAL at the End of the Year, June 30, 2002 (E+F+G)	(332,631)	(81,039)	(10,990)	40,542	32,569	3,874

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

VALUATION DATE	NUMBER	ANNUAL PAYROLL	AVERAGE ANNUAL PAY	PERCENT INCREASE IN AVERAGE PAY
STATE EMPLOYEES RETIREMENT FUND:				
06-30-97	46,289	\$1,568,747,000	\$33,890	8.10%
06-30-98	46,299	1,577,880,000	34,080	0.56
06-30-99	47,168	1,649,469,000	34,970	2.61
06-30-00	47,920	1,733,054,000	36,166	3.42
06-30-01	49,229	1,834,042,000	37,255	3.01
06-30-02	49,099	1,915,350,000	39,010	4.71
STATE PATROL RETIREMENT FUND:				
06-30-97	795	\$41,996,000	\$52,825	-1.04%
06-30-98	806	43,456,000	53,916	2.06
06-30-99	825	45,333,000	54,949	1.92
06-30-00	830	48,167,000	58,033	5.61
06-30-01	823	48,935,000	59,459	2.46
06-30-02	810	49,278,000	60,837	2.32
CORRECTIONAL EMPLOYEES RETIREMENT FUND:				
06-30-97	2,600	\$112,408,000	\$43,234	34.16%
06-30-98	2,817	105,796,000	37,556	-13.13
06-30-99	2,882	106,131,000	36,825	-1.95
06-30-00	3,098	112,587,000	36,342	-1.31
06-30-01	3,182	120,947,000	38,010	4.59
06-30-02	3,249	124,373,000	38,280	0.71
JUDGES RETIREMENT FUND:				
06-30-97	279	\$22,909,000	\$82,111	2.54%
06-30-98	278	24,965,000	89,802	9.37
06-30-99	282	32,940,000	116,809	30.07
06-30-00	282	26,315,000	93,316	-20.11
06-30-01	292	28,246,000	96,733	3.66
06-30-02	283	31,078,000	109,816	13.52
LEGISLATORS RETIREMENT FUND:				
06-30-97	201	\$7,767,000	\$38,642	23.93%
06-30-98	199	6,802,000	34,181	-11.54
06-30-99	180	7,490,000	41,611	21.74
06-30-00	173	5,808,000	33,572	-19.32
06-30-01	139	5,858,000	42,144	25.53
06-30-02	134	5,089,000	37,978	-9.89
ELECTIVE STATE OFFICERS RETIREMENT FUND:				
06-30-97	6	\$467,000	\$77,833	1.68%
06-30-98	6	461,000	76,833	-1.28
06-30-99 *	0	291,000	0	N/A
06-30-00 *	0	0	0	N/A
06-30-01 *	0	0	0	N/A
06-30-02 *	0	0	0	N/A

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

SCHEDULE OF RETIREES AND BENEFICIARIES

(FISCAL YEAR END TOTALS)

YEAR ENDED	NUMBER ADDED	NUMBER REMOVED	ANNUAL NUMBER	BENEFITS	PERCENT INCREASE IN ANNUAL BENEFITS	AVERAGE ANNUAL BENEFIT
STATE EMPLOYEES RETIREMENT FUND:						
06-30-97	1,118	670	17,197	\$150,676,000	10.37%	\$8,762
06-30-98	1,319	686	17,830	182,562,000	21.16	10,239
06-30-99	1,414	756	18,488	207,962,000	13.91	11,248
06-30-00	1,474	661	19,301	237,825,000	14.36	12,322
06-30-01	1,436	759	19,978	270,558,000	13.76	13,543
06-30-02	1,738	911	20,805	296,687,000	9.66	14,260
STATE PATROL RETIREMENT FUND:						
06-30-97	28	18	570	\$14,642,000	10.26%	\$25,688
06-30-98	62	12	620	18,353,000	25.34	29,602
06-30-99	70	18	672	22,226,000	21.10	33,074
06-30-00	55	17	710	25,789,000	16.03	36,323
06-30-01	60	25	745	29,935,000	16.08	40,181
06-30-02	48	31	762	33,031,000	10.34	43,348
CORRECTIONAL EMPLOYEES RETIREMENT FUND:						
06-30-97	62	16	519	\$6,267,000	14.78%	\$12,075
06-30-98	86	14	591	8,226,000	31.26	13,919
06-30-99	82	21	652	10,190,000	23.88	15,629
06-30-00	118	23	747	12,414,000	21.83	16,618
06-30-01	100	39	808	14,911,000	20.11	18,454
06-30-02	156	26	938	17,105,000	14.71	18,236
JUDGES RETIREMENT FUND:						
06-30-97	20	8	227	\$7,560,000	11.83%	\$33,304
06-30-98	21	11	237	9,082,000	20.13	38,321
06-30-99	12	11	238	9,996,000	10.06	42,000
06-30-00	14	13	239	11,082,000	10.86	46,368
06-30-01	17	9	247	12,228,000	10.33	49,506
06-30-02	22	13	256	13,202,000	7.97	51,570
LEGISLATORS RETIREMENT FUND:						
06-30-97	27	8	247	\$2,639,000	13.85%	\$10,684
06-30-98	23	8	262	3,276,000	24.14	12,504
06-30-99	11	6	267	3,740,000	14.16	14,007
06-30-00	23	10	280	4,213,000	12.65	15,046
06-30-01	21	8	293	4,856,000	15.26	16,573
06-30-02	15	11	297	5,243,000	7.97	17,653
ELECTIVE STATE OFFICERS RETIREMENT FUND:						
06-30-97	0	1	11	\$160,000	3.23%	\$14,545
06-30-98	2	2	11	171,000	6.88	15,545
06-30-99	3	1	13	213,000	24.56	16,385
06-30-00	0	0	13	303,000	42.25	23,308
06-30-01	0	0	13	330,000	8.91	25,385
06-30-02	0	0	13	353,000	6.97	27,154

SOLVENCY TEST – FUNDING RATIO

(In Thousands)

VALUATION DATE	(1)	(2)	(3)	PORTION COVERED BY REPORTED ASSETS			FUNDING RATIO	
	ACTIVE MEMBER CONTRIBUTIONS	RETIREES AND BENEFICIARIES	EMPLOYER FINANCED PORTION	(1)	(2)	(3)		
	AGGREGATE ACCRUED LIABILITIES			REPORTED ASSETS				
STATE EMPLOYEES RETIREMENT FUND:								
06-30-97	\$621,933	\$1,586,977	\$2,310,632	\$4,664,519	100%	100%	106.3%	103.2%
06-30-98	653,884	1,815,870	2,535,411	5,390,526	100	100	115.2	107.7
06-30-99	688,510	2,057,415	2,718,282	5,968,692	100	100	118.6	109.2
06-30-00	722,921	2,464,913	2,917,869	6,744,165	100	100	121.9	110.5
06-30-01	762,784	2,774,207	3,036,202	7,366,673	100	100	126.1	112.1
06-30-02	807,966	3,015,568	3,516,863	7,673,028	100	100	109.5	104.5
STATE PATROL RETIREMENT FUND:								
06-30-97	35,356	152,929	144,142	375,650	100	100	130.0	113.0
06-30-98	35,702	186,345	149,322	430,011	100	100	139.3	115.8
06-30-99	35,405	226,199	144,611	472,687	100	100	146.0	116.4
06-30-00	36,373	266,323	155,688	528,573	100	100	145.1	115.3
06-30-01	37,145	305,287	147,051	572,815	100	100	156.7	117.0
06-30-02	38,508	325,756	146,080	591,383	100	100	155.5	115.9
CORRECTIONAL EMPLOYEES RETIREMENT FUND:								
06-30-97	30,347	63,680	118,611	241,916	100	100	124.7	113.8
06-30-98	34,827	79,770	147,272	295,291	100	100	122.7	112.8
06-30-99	39,503	99,324	168,581	335,408	100	100	116.7	109.1
06-30-00	43,787	124,401	191,697	386,964	100	100	114.1	107.5
06-30-01	48,133	144,906	205,594	431,134	100	100	115.8	108.2
06-30-02	51,324	172,606	222,496	457,416	100	100	104.9	102.5
JUDGES RETIREMENT FUND:								
06-30-97	10,070	69,908	37,736	74,680	100	92.4	0	63.4
06-30-98	10,865	79,076	40,786	86,578	100	95.7	0	66.2
06-30-99	12,390	85,400	41,859	97,692	100	99.9	0	70.0
06-30-00	13,740	94,063	45,857	111,113	100	100.0	7.2	72.3
06-30-01	15,157	102,861	47,226	123,589	100	100.0	11.8	74.8
06-30-02	16,243	110,690	44,988	131,379	100	100.0	9.9	76.4
LEGISLATORS RETIREMENT FUND:								
06-30-97	6,378	29,423	24,254	25,678	100	65.6	0	42.8
06-30-98	6,655	33,434	22,839	31,212	100	73.4	0	49.6
06-30-99	6,956	36,231	23,231	33,474	100	73.2	0	50.4
06-30-00	7,042	41,623	20,699	37,265	100	72.6	0	53.7
06-30-01	6,924	47,915	20,233	42,608	100	74.5	0	56.8
06-30-02	7,093	49,491	21,486	45,501	100	77.6	0	58.3
ELECTIVE STATE OFFICERS RETIREMENT FUND:								
06-30-97	455	1,368	1,391	456	100.0	0.1	0	14.2
06-30-98	497	1,374	1,498	500	100.0	0.2	0	14.8
06-30-99	194	2,836	343	198	100.0	0.1	0	5.9
06-30-00	194	2,963	572	199	100.0	0.2	0	5.6
06-30-01	194	3,152	429	201	100.0	0.2	0	5.3
06-30-02	194	3,196	685	201	100.0	0.2	0	4.9

SUMMARY OF UNFUNDED ACCRUED LIABILITY (UAL)

VALUATION DATE	AGGREGATE ACCRUED LIABILITIES	REPORTED ASSETS	UNFUNDED ACCRUED LIABILITIES	MEMBER PAYROLL	UAL AS A PERCENT PAYROLL
STATE EMPLOYEES RETIREMENT FUND:					
06-30-97	4,519,542	4,664,519	(144,977)	1,568,747	-9.2%
06-30-98	5,005,165	5,390,526	(385,361)	1,557,880	-24.7
06-30-99	5,464,207	5,968,692	(504,485)	1,649,469	-30.6
06-30-00	6,105,703	6,744,165	(638,462)	1,733,054	-36.8
06-30-01	6,573,193	7,366,673	(793,480)	1,834,042	-43.3
06-30-02	7,340,397	7,673,028	(332,631)	1,915,350	-17.4
STATE PATROL RETIREMENT FUND:					
06-30-97	332,427	375,650	(43,223)	41,996	-102.9%
06-30-98	371,369	430,011	(58,642)	43,456	-134.9
06-30-99	406,215	472,687	(66,472)	45,333	-146.6
06-30-00	458,384	528,573	(70,189)	48,167	-145.7
06-30-01	489,483	572,815	(83,332)	48,935	-170.3
06-30-02	510,344	591,383	(81,039)	49,278	-164.5
CORRECTIONAL EMPLOYEES RETIREMENT FUND:					
06-30-97	212,638	241,916	(29,278)	112,406	-26.0%
06-30-98	261,869	295,291	(33,422)	105,796	-31.6
06-30-99	307,408	335,408	(28,000)	106,131	-26.4
06-30-00	359,885	386,964	(27,079)	112,587	-24.1
06-30-01	398,633	431,134	(32,501)	120,947	-26.9
06-30-02	446,426	457,416	(10,990)	124,373	-8.8
JUDGES RETIREMENT FUND:					
06-30-97	117,714	74,680	43,034	22,909	187.8%
06-30-98	130,727	86,578	44,149	24,965	176.8
06-30-99	139,649	97,692	41,957	32,940	127.4
06-30-00	153,660	111,113	42,547	26,315	161.7
06-30-01	165,244	123,589	41,655	28,246	147.5
06-30-02	171,921	131,379	40,542	31,078	130.5
LEGISLATORS RETIREMENT FUND:					
06-30-97	60,055	25,678	34,377	7,767	442.6%
06-30-98	62,928	31,212	31,716	6,802	466.3
06-30-99	66,418	33,474	32,944	7,490	439.8
06-30-00	69,364	37,265	32,099	5,808	552.7
06-30-01	75,072	42,608	32,464	5,858	554.2
06-30-02	78,070	45,501	32,569	5,089	640.0
ELECTIVE STATE OFFICERS FUND:*					
06-30-97	3,214	456	2,758	467	590.6%
06-30-98	3,369	500	2,869	461	622.3
06-30-99	3,373	198	3,175	291	1091.1
06-30-00	3,535	199	3,336	0	N/A
06-30-01	3,775	201	3,574	0	N/A
06-30-02	4,075	201	3,874	0	N/A

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

SAMPLE ASSUMED ANNUAL RATES OF TERMINATION PER 10,000 MEMBERS AND ASSUMED SALARY INCREASES (AS OF JULY 1, 2002)

AGE	PRE-RETIREMENT				RETIREMENT				SALARY INCREASES
	DEATH		WITHDRAWAL		DISABILITY		RETIREMENT *		
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE/ R90	FEMALE/ OTHER	
STATE EMPLOYEES RETIREMENT FUND:									
20	3	2	690	855	1	1	0	0	6.75%
25	4	2	590	780	1	1	0	0	6.75
30	5	3	490	705	1	1	0	0	6.75
35	6	4	390	630	3	3	0	0	6.75
40	9	6	320	555	8	8	0	0	6.75
45	12	8	270	480	13	13	0	0	6.45
50	22	14	220	390	24	24	0	0	5.95
55	39	21	0	0	42	36	2,500	500	5.45
60	61	34	0	0	65	52	2,500	1,000	5.25
65	92	58	0	0	0	0	4,500	4,500	5.25
70	156	97	0	0	0	0	3,000	3,000	5.25
STATE PATROL RETIREMENT FUND:									
20	4	2	220	220	4	4	0	0	7.75 %
25	4	3	170	170	6	6	0	0	7.00
30	6	3	120	120	8	8	0	0	7.00
35	8	5	70	70	11	11	0	0	7.00
40	11	7	60	60	18	18	0	0	6.50
45	19	10	60	60	29	29	0	0	5.75
50	35	16	0	0	50	50	200	200	5.50
55	57	25	0	0	88	88	6,000	6,000	5.25
60	84	42	0	0	141	141	2,000	2,000	5.25
65	129	71	0	0	0	0	10,000	10,000	5.25
70	248	124	0	0	0	0	0	0	5.25
CORRECTIONAL EMPLOYEES RETIREMENT FUND:									
20	4	2	2,400	1,600	4	4	0	0	7.75%
25	4	3	1,470	1,420	6	6	0	0	7.00
30	6	3	910	1,350	8	8	0	0	7.00
35	8	5	600	1,290	11	11	0	0	7.00
40	11	7	440	1,040	18	18	0	0	6.50
45	19	10	340	640	29	29	0	0	5.75
50	35	16	240	470	50	50	200	200	5.50
55	57	25	140	330	88	88	6,000	6,000	5.25
60	84	42	0	0	141	141	2,000	2,000	5.25
65	129	71	0	0	0	0	10,000	10,000	5.25
70	248	124	0	0	0	0	0	0	5.25

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

SAMPLE ASSUMED ANNUAL RATES OF TERMINATION PER 10,000 MEMBERS AND ASSUMED SALARY INCREASES (AS OF JULY 1, 2002)

JUDGES RETIREMENT FUND:

AGE	PRE-RETIREMENT				RETIREMENT				SALARY INCREASES
	DEATH		WITHDRAWAL		DISABILITY		RETIREMENT *		
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	
20	3	2	0	0	0	0	0	0	5.00%
25	4	2	0	0	0	0	0	0	5.00
30	5	3	0	0	2	0	0	0	5.00
35	6	4	0	0	2	1	0	0	5.00
40	9	6	0	0	2	2	0	0	5.00
45	14	8	0	0	3	5	0	0	5.00
50	25	14	0	0	14	10	0	0	5.00
55	43	21	0	0	34	24	0	0	5.00
60	66	34	0	0	76	62	0	0	5.00
65	101	58	0	0	0	0	2,000	2,000	5.00
70	176	97	0	0	0	0	3,000	3,000	5.00

LEGISLATORS RETIREMENT FUND: (TERMINATION RATES BY YEARS OF SERVICE)**

YEAR	SEPARATION		SALARY INCREASES
	HOUSE	SENATE	
1	0%	0%	5.00%
2	30	0	5.00
3	0	0	5.00
4	20	25	5.00
5	0	0	5.00
6	10	0	5.00
7	0	0	5.00
8	5	10	5.00

ELECTIVE STATE OFFICERS RETIREMENT FUND: (TERMINATION RATES BY YEARS OF SERVICE)***

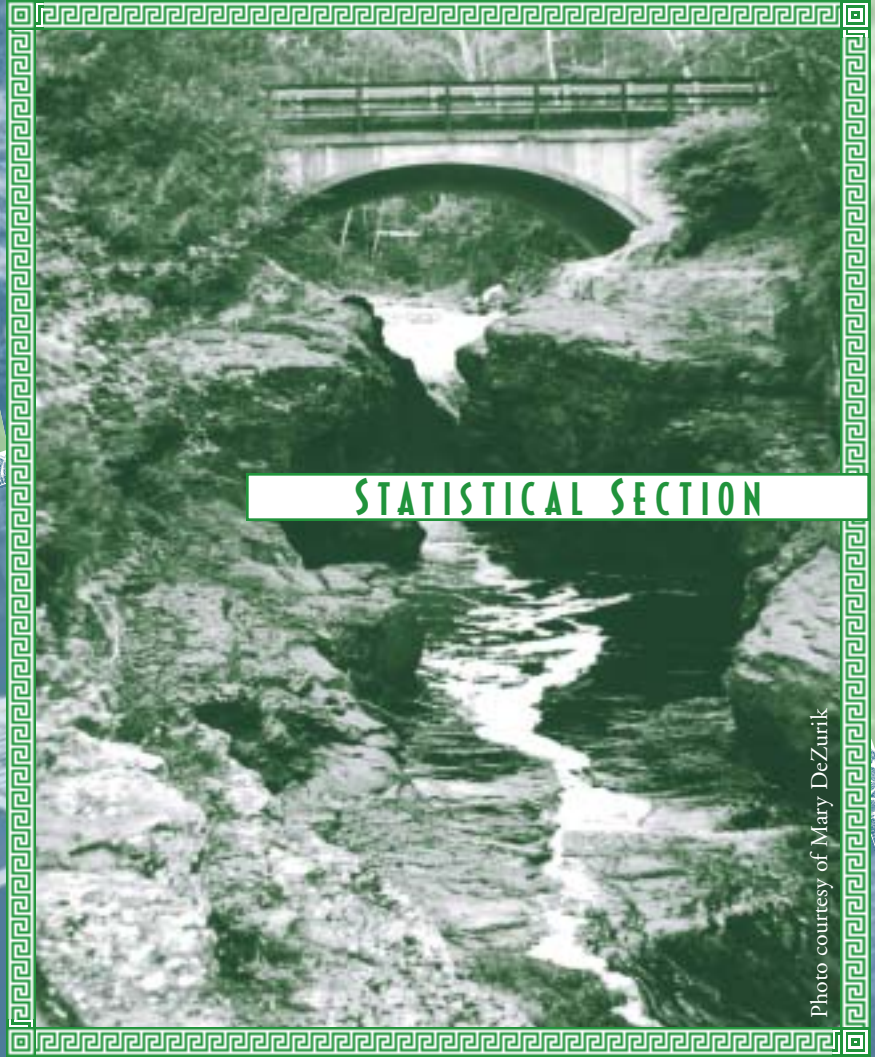
YEAR	SEPARATION		SALARY INCREASES
	RATE		
1	0%		5.00%
2	0		5.00
3	0		5.00
4	50		5.00
5	0		5.00
6	0		5.00
7	0		5.00
8	50		5.00

* By statute all judges must retire by the age of 70.

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

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

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STATISTICAL SECTION

Photo courtesy of Mary DeZurik

This bridge offers visitors a safe passage over the Temperance River in northeast Minnesota.



SCHEDULE OF REVENUES BY SOURCE

(In Thousands)

YEAR ENDED JUNE 30	EMPLOYEE CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	INVESTMENT INCOME	OTHER	TOTAL	ACTUAL COVERED PAYROLL	PERCENTAGE EMPLOYER CONTRIBUTIONS
STATE EMPLOYEES RETIREMENT FUND:							
1997	\$63,848	\$66,568	\$936,759	\$2,455	\$1,069,630	\$1,568,747	4.24%
1998	62,901	62,315	1,110,022	3,500	1,238,738	1,557,880	4.00
1999	66,823	65,979	716,178	5,407	854,387	1,649,469	4.00
2000	70,378	69,322	673,314	5,260	818,274	1,733,054	4.00
2001	74,364	73,362	(529,082)	7,408	(373,948)	1,834,042	4.00
2002	79,487	76,614	(542,346)	6,611	(379,634)	1,915,350	4.00
STATE PATROL RETIREMENT FUND:							
1997	\$3,746	\$6,151	\$75,700	\$0	\$85,597	\$41,996	14.65%
1998	3,634	5,475	90,117	0	99,226	43,456	12.60
1999	3,850	5,712	60,922	17	70,501	45,333	12.60
2000	4,044	6,069	53,160	10	63,283	48,167	12.60
2001	4,146	6,166	(40,928)	1	(30,615)	48,935	12.60
2002	4,215	6,209	(41,117)	0	(30,693)	49,278	12.60
CORRECTIONAL EMPLOYEES RETIREMENT FUND:							
1997	\$5,508	\$9,129	\$ 46,321	\$3,715	\$64,673	\$112,408	8.12%
1998	5,954	8,146	58,451	6,375	78,926	105,796	7.80
1999	6,378	8,172	39,182	2,518	56,250	106,131	7.70
2000	6,526	8,984	39,972	6,953	62,435	112,587	7.98
2001	6,996	9,651	(31,082)	1,128	(13,307)	120,947	7.98
2002	7,207	9,925	(32,596)	727	(14,737)	124,375	7.98
JUDGES RETIREMENT FUND:							
1997	\$1,457	\$5,094	\$16,057	\$1,548	\$24,156	\$22,909	22.24%
1998	1,571	5,446	18,410	1,693	27,120	24,965	21.81
1999	2,069	5,301	12,302	1,761	21,433	32,940	16.09
2000	2,107	5,398	10,203	1,910	19,618	26,315	20.51
2001	2,162	5,790	(8,384)	2,013	1,581	28,246	20.50
2002	2,345	6,371	(8,938)	2,008	1,786	31,078	20.50
LEGISLATORS RETIREMENT FUND:							
1997	\$699	\$0	\$4,347	\$3,176	\$8,222	\$7,767	N/A
1998	612	0	5,635	5,199	11,446	6,802	N/A
1999	674	0	3,245	2,091	6,010	7,490	N/A
2000	523	0	2,954	3,192	6,669	5,808	N/A
2001	527	0	(2,414)	5,041	3,154	5,858	N/A
2002	458	0	(2,560)	4,135	2,033	5,089	N/A
ELECTIVE STATE OFFICERS RETIREMENT FUND*:							
1997	\$42	\$0	\$0	\$167	\$209	\$467	N/A
1998	42	0	0	175	217	461	N/A
1999	26	0	0	40	66	291	N/A
2000*	0	0	0	306	306	N/A*	N/A
2001*	0	0	0	333	333	N/A*	N/A
2002*	0	0	0	355	355	N/A*	N/A

*The Elective State Officers Plan has no active members.

SCHEDULE OF EXPENSES BY TYPE

(In Thousands)

YEAR ENDED JUNE 30	BENEFITS	ADMINISTRATIVE EXPENSES	REFUNDS	OTHER	TOTAL
STATE EMPLOYEES RETIREMENT FUND:					
1997	\$150,676	\$2,172	\$14,649	\$5,160	\$172,657
1998	182,562	2,365	11,659	7,932	204,518
1999	207,962	2,555	11,110	3,797	225,424
2000	237,825	3,701	11,227	10,269	263,022
2001	270,558	3,738	9,750	3,197	287,243
2002	296,687	3,942	8,068	2,811	311,508
STATE PATROL RETIREMENT FUND:					
1997	\$14,642	\$62	\$30	\$146	\$14,880
1998	18,354	66	23	334	18,777
1999	22,226	74	16	310	22,626
2000	25,789	94	90	252	26,225
2001	29,935	90	1	249	30,275
2002	33,031	102	60	171	33,364
CORRECTIONAL EMPLOYEES RETIREMENT FUND:					
1997	\$6,267	\$140	\$368	\$140	\$6,915
1998	8,226	154	378	282	9,040
1999	10,190	163	425	225	11,003
2000	12,414	243	753	340	13,750
2001	14,911	240	660	261	16,072
2002	17,105	310	634	277	18,326
JUDGES RETIREMENT FUND:					
1997	\$7,560	\$33	\$0	\$39	\$7,632
1998	9,082	34	0	51	9,167
1999	9,996	38	375	28	10,437
2000	11,083	42	122	217	11,464
2001	12,228	41	17	54	12,340
2002	13,202	57	0	89	13,348
LEGISLATORS RETIREMENT FUND:					
1997	\$2,639	\$30	\$119	\$20	\$2,808
1998	3,276	29	108	41	3,454
1999	3,740	32	49	387	4,208
2000	4,213	34	108	99	4,454
2001	4,857	29	72	32	4,990
2002	5,243	29	39	28	5,339
ELECTIVE STATE OFFICERS RETIREMENT FUND:					
1997	\$160	\$5	\$0	\$0	\$165
1998	171	3	0	0	174
1999	213	6	86	63	368
2000	303	2	0	0	305
2001	330	1	6	0	331
2002	353	1	0	0	354

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(In Thousands)

FISCAL YEAR	RETIREMENT	SURVIVOR	DISABILITY	REFUND	TOTALS
STATE EMPLOYEES RETIREMENT FUND:					
1997	\$132,871	\$12,018	\$5,787	\$14,649	\$165,325
1998	160,305	15,023	7,234	11,659	194,221
1999	181,712	17,931	8,319	11,110	219,072
2000	206,536	21,398	9,891	11,227	249,052
2001	233,734	25,467	11,357	9,750	280,308
2002	254,601	29,021	13,065	8,068	304,755
STATE PATROL RETIREMENT FUND:					
1997	\$12,414	\$1,790	\$438	\$30	\$14,672
1998	15,568	2,238	548	23	18,377
1999	18,988	2,597	641	16	22,242
2000	21,993	3,089	707	90	25,879
2001	25,439	3,617	831	1	29,888
2002	28,125	3,927	979	60	33,091
CORRECTIONAL RETIREMENT FUND:					
1997	\$5,443	\$233	\$591	\$368	\$6,635
1998	7,195	291	739	378	8,603
1999	8,913	348	928	425	10,614
2000	10,658	502	1,255	753	13,168
2001	12,623	598	1,690	660	15,571
2002	14,465	709	1,931	634	17,739
JUDGES RETIREMENT FUND:					
1997	\$5,665	\$1,666	\$229	\$0	\$7,560
1998	6,712	2,083	287	0	9,082
1999	7,374	2,306	316	375	10,371
2000	8,140	2,644	47	122	10,953
2001	8,942	2,848	286	17	12,093
2002	9,609	3,211	382	0	13,202
LEGISLATORS RETIREMENT FUND:					
1997	\$2,212	\$427	\$0	\$119	\$2,758
1998	2,760	515	0	108	3,383
1999	3,155	585	0	49	3,789
2000	3,574	639	0	108	4,321
2001	4,126	591	0	72	4,789
2002	4,444	799	0	39	5,282
ELECTIVE STATE OFFICERS RETIREMENT FUND:					
1997	\$65	\$95	\$0	\$0	\$160
1998	71	99	0	0	170
1999	125	89	0	86	300
2000	206	97	0	0	303
2001	223	107	0	6	336
2002	239	114	0	0	353

ACTIVE EMPLOYEES AVERAGE AGE TABLES

(THESE STATISTICS ARE NOT AVAILABLE FOR THE LEGISLATORS PLAN OR ELECTED STATE OFFICERS PLAN)

YEAR ENDED	AVERAGES FOR NEW MEMBERS			AVERAGES FOR ALL MEMBERS								
	ENTRY AGE			ENTRY AGE			ATTAINED AGE			SERVICE CREDIT		
	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
STATE EMPLOYEES RETIREMENT FUND:												
06-30-97	33.7	32.7	33.2	30.9	30.8	30.8	44.6	42.6	43.6	12.9	10.5	11.6
06-30-98	34.6	33.8	34.2	31.0	30.8	30.9	45.0	42.9	43.9	13.1	10.6	11.8
06-30-99	34.7	33.7	34.1	31.2	30.9	31.0	45.1	43.4	42.2	12.9	10.6	11.7
06-30-00	34.5	32.7	33.4	31.5	31.1	31.3	45.3	43.1	44.1	12.8	10.5	11.6
06-30-01	34.7	33.7	34.1	31.8	31.4	31.6	45.4	43.4	44.3	12.7	10.4	11.5
06-30-02	34.2	33.7	34.2	31.9	31.5	31.8	45.8	43.9	44.8	12.9	10.7	11.7
STATE PATROL RETIREMENT FUND:												
06-30-97	29.8	26.2	29.6	27.3	27.0	27.3	43.3	36.9	42.8	15.9	9.8	15.4
06-30-98	30.8	31.7	30.9	27.5	27.5	27.5	42.6	36.9	42.1	15.0	9.3	14.6
06-30-99	29.9	31.1	30.0	27.7	27.7	27.2	41.3	36.9	40.9	13.5	9.1	13.1
06-30-00	29.3	29.9	29.3	27.9	27.6	27.8	41.0	37.7	40.7	13.0	9.8	12.8
06-30-01	33.1	33.2	33.1	28.2	28.2	28.2	41.0	37.9	40.7	12.7	9.5	12.5
06-30-02	29.8	31.5	30.2	28.3	28.5	28.3	41.2	38.0	40.9	12.9	9.4	12.5
CORRECTIONAL EMPLOYEES RETIREMENT FUND:												
06-30-97	38.4	39.0	38.7	30.9	33.4	31.6	39.8	38.3	39.3	8.3	4.4	7.2
06-30-98	36.2	40.1	38.3	30.9	34.6	32.1	40.2	39.8	40.0	8.8	4.7	7.5
06-30-99	33.4	33.6	33.5	30.7	33.9	31.8	40.9	39.9	40.6	9.1	5.4	7.9
06-30-00	33.6	36.1	34.9	31.0	34.2	32.1	40.5	39.7	40.2	9.1	5.1	7.7
06-30-01	33.1	34.9	33.9	31.0	34.4	32.2	40.7	40.2	40.5	9.2	5.5	7.9
06-30-02	34.2	35.7	34.9	31.2	34.5	32.3	40.8	40.3	40.6	9.2	5.5	7.9
JUDGES RETIREMENT FUND:												
06-30-97	52.2	51.1	51.7	42.8	42.3	42.6	54.5	50.2	53.6	11.1	8.0	10.4
06-30-98	48.1	41.4	47.0	42.9	42.0	42.7	54.5	50.8	53.6	11.1	8.5	10.5
06-30-99	47.3	43.5	46.2	43.2	41.7	42.9	54.8	50.3	53.8	11.0	8.4	10.4
06-30-00	46.8	41.7	46.1	43.3	41.6	41.4	53.7	53.7	53.7	12.4	9.6	11.5
06-30-01	49.8	44.0	48.2	43.8	41.8	43.4	55.5	50.8	54.4	11.1	8.9	10.6
06-30-02	49.8	43.5	47.3	44.5	42.0	43.9	55.1	50.6	54.0	10.1	8.6	9.7

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EMPLOYEES ELIGIBLE TO AN IMMEDIATE ANNUITY

(AS OF JUNE 30, 2002)

	TOTAL
STATE EMPLOYEES RETIREMENT FUND:	
- full benefit	451
- reduced benefit due to early retirement	5,856
- proportional benefit (age equal to or more than 65 and service years fewer than 10)	134
- Rule of 90	1,170
- vested employees not eligible to immediate benefit	28,700
- employees not vested	12,779
	<hr/>
Totals	49,090
STATE PATROL RETIREMENT FUND:	
- full benefit	23
- reduced benefit	102
- vested employees not eligible to immediate benefit	574
- employees not vested	111
	<hr/>
Totals	810
CORRECTIONAL EMPLOYEES' RETIREMENT FUND:	
- full benefit	91
- reduced benefit	397
- vested employees not eligible to immediate benefit	1,719
- employees not vested	1,042
	<hr/>
Totals	3,249
JUDGES RETIREMENT FUND:	
- full benefit	6
- reduced benefit	7
- vested judges not eligible to immediate benefit	139
- judges not vested	131
	<hr/>
Totals	283
LEGISLATORS RETIREMENT FUND:	
- full benefit	31
- reduced benefit	27
- vested members not eligible for an immediate benefit	56
- members not vested	20
	<hr/>
Totals	134
ELECTIVE STATE OFFICERS RETIREMENT FUND:	
- no remaining active members as of June 30, 2001	0

SCHEDULE OF REFUND STATISTICS

(THESE STATISTICS ARE NOT AVAILABLE FOR THE LEGISLATORS PLAN OR ELECTED STATE OFFICERS PLAN)

YEAR ENDED	NUMBER OF REFUNDS			AVERAGE AGE		AVERAGE YEARS FORFEITED		NUMBER FORFEITING VESTED RIGHTS
	MALE	FEMALE	TOTAL	MALE	FEMALE	MALE	FEMALE	
STATE EMPLOYEES RETIREMENT FUND								
06-30-97	1,281	2,143	3,424	36.4	35.9	3.4	3.7	1,190
06-30-98	998	1,732	2,730	36.4	36.2	3.6	3.3	895
06-30-99	947	1,509	2,456	36.2	37.0	2.2	2.5	623
06-30-00	962	1,461	2,423	37.7	36.4	2.3	2.4	568
06-30-01	915	1,524	2,439	37.0	36.8	2.1	2.1	474
06-30-02	793	1,298	2,091	38.2	36.4	2.0	2.0	390
STATE PATROL RETIREMENT FUND:								
06-30-97	2	1	3	46.2	34.0	3.1	0.1	1
06-30-98	1	0	1	30.0	-	5.9	-	1
06-30-99	0	0	0	-	-	-	-	0
06-30-00	1	1	2	33.5	30.5	8.4	0.1	1
06-30-01	1	0	1	25.9	-	0.4	-	0
06-30-02	3	0	3	34.0	-	3.4	-	1
CORRECTIONAL EMPLOYEES RETIREMENT FUND:								
06-30-97	54	22	76	34.0	33.3	3.1	2.6	18
06-30-98	52	33	85	34.6	31.0	3.4	1.8	27
06-30-99	45	49	94	34.1	36.1	2.6	1.6	24
06-30-00	55	49	104	35.6	36.6	2.9	1.7	31
06-30-01	73	63	136	35.7	35.4	2.8	1.1	29
06-30-02	70	56	126	35.5	37.4	2.3	2.0	27
JUDGES RETIREMENT FUND:								
06-30-97	1	0	1	48.0	-	0.1	0	0
06-30-98	1	0	1	62.6	-	2.7	0	0
06-30-99	0	0	0	-	-	-	-	0
06-30-00	0	0	0	-	-	-	-	0
06-30-01	1	0	1	64.7	-	6.0	-	1
06-30-02	0	0	0	-	-	-	-	0

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SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

STATE EMPLOYEES RETIREMENT FUND

MONTHLY BENEFIT AMOUNT	NUMBER OF RETIREES	RETIREMENT TYPE					OPTION SELECTED			
		1	2	3	4	5	LIFE	I	II	III
\$0-499	5,459	4,452	323	610	0	74	3,501	1,682	205	71
500-999	5,287	4,065	443	722	2	55	3,255	1,812	185	35
1,000-1,499	3,732	2,987	299	415	0	31	2,118	1,500	91	23
1,500-1,999	2,482	2,137	96	237	2	10	1,246	1,175	45	16
2,000-2,499	1,578	1,385	34	147	0	12	717	829	20	12
2,500-2,999	981	880	13	81	1	6	406	558	10	7
3,000-3,499	608	554	3	48	0	3	232	365	6	5
3,500-3,999	340	309	2	23	2	4	131	201	3	5
4,000-4,499	168	157	1	10	0	0	60	106	1	1
4,500-4,999	88	80	0	8	0	0	31	57	0	0
5,000+	87	81	0	2	1	3	24	63	0	0
Totals	20,810	17,087	1,214	2,303	8	198	11,721	8,348	566	175

TYPE:		OPTION:
1	GENERAL PLAN ANNUITANTS	LIFE
2	GENERAL PLAN DISABILITANTS	I
3	GENERAL PLAN SURVIVORS	II
4	MILITARY AFFAIRS PLAN	III
5	UNCLASSIFIED PLAN	
		SINGLE LIFE ANNUITY
		JOINT AND SURVIVOR
		DEATH WHILE ELIGIBLE
		PERIOD CERTAIN

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STATE PATROL RETIREMENT FUND

MONTHLY BENEFIT AMOUNT	NUMBER OF RETIREES	RETIREMENT TYPE			OPTION SELECTED		
		1	2	3	LIFE	I	II
\$0-499	22	6	0	16	5	2	15
500-999	21	8	2	11	7	5	9
1,000-1,499	34	9	2	23	12	17	5
1,500-1,999	49	15	3	31	12	32	5
2,000-2,499	43	15	4	24	12	27	4
2,500-2,999	64	43	5	16	22	38	4
3,000-3,499	64	47	4	13	23	39	2
3,500-3,999	121	112	3	6	31	89	1
4,000-4,499	107	97	2	8	37	66	4
4,500-4,999	111	103	3	5	65	44	2
5,000+	126	122	1	3	80	46	0
Totals	762	577	29	156	306	405	51

TYPE:		OPTION:
1	RETIRED MEMBERS	LIFE
2	DISABILITANTS	I
3	SURVIVORS	II
		SINGLE LIFE ANNUITY
		JOINT AND SURVIVOR
		DEATH WHILE ELIGIBLE

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SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

CORRECTIONAL EMPLOYEES RETIREMENT FUND

MONTHLY BENEFIT AMOUNT	NUMBER OF RETIREES	RETIREMENT TYPE			OPTION SELECTED			
		1	2	3	LIFE	I	II	III
0-499	129	99	4	26	83	28	18	0
500-999	153	122	15	16	97	47	8	1
1000-1499	207	144	46	17	139	63	5	0
1500-1999	170	134	32	4	115	51	3	1
2000-2499	104	87	15	2	74	29	1	0
2500-2999	78	73	2	3	57	20	1	0
3000-3499	50	48	1	1	33	17	0	0
3500-3999	30	30	0	0	18	12	0	0
4000-4499	10	10	0	0	8	2	0	0
4500-4999	4	4	0	0	4	0	0	0
5000+	3	3	0	0	2	1	0	0
Totals	938	754	115	69	630	270	36	2

TYPE:
 1 RETIRED MEMBERS
 2 DISABILITANTS
 3 SURVIVORS

OPTION:
 LIFE SINGLE LIFE ANNUITY
 I JOINT AND SURVIVOR
 II PERIOD CERTAIN
 III DEATH WHILE ELIGIBLE

JUDGES RETIREMENT FUND

MONTHLY BENEFIT AMOUNT	NUMBER OF RETIREES	RETIREMENT TYPE			OPTION SELECTED			
		1	2	3	LIFE	I	II	III
0-499	0	0	0	0	0	0	0	0
500-999	6	1	0	5	4	0	2	0
1000-1499	12	6	0	6	6	4	1	1
1500-1999	9	2	0	7	4	4	1	0
2000-2499	20	7	0	13	9	10	0	1
2500-2999	16	9	0	7	6	9	1	0
3000-3499	29	11	0	18	14	9	6	0
3500-3999	25	15	0	10	9	14	2	0
4000-4499	18	12	0	6	3	12	2	1
4500-4999	20	13	1	6	8	10	2	0
5000+	101	88	4	9	45	50	2	4
Totals	256	164	5	87	108	122	19	7

TYPE:
 1 RETIRED MEMBERS
 2 DISABILITANTS
 3 SURVIVORS

OPTION:
 LIFE SINGLE LIFE ANNUITY
 I JOINT AND SURVIVOR
 II LIFE PLUS 50 PERCENT SURVIVORS
 III PERIOD CERTAIN

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

LEGISLATORS AND ELECTIVE STATE OFFICERS RETIREMENT FUNDS

MONTHLY BENEFIT AMOUNT	MEMBER	ELECTIVE STATE OFFICERS	RETIREMENT TYPE		LEGISLATORS	SURVIVOR
			SURVIVOR	MEMBER		
0-499	2		0	15		23
500-999	1		2	58		17
1000-1499	1		0	60		16
1500-1999	0		1	32		5
2000-2499	1		0	23		1
2500-2999	0		0	12		1
3000-3499	0		1	12		1
3500-3999	0		1	8		2
4000-4499	1		0	5		0
4500-4999	1		0	3		1
5000+	1		0	2		0
Totals	8		5	230		67

SCHEDULE OF NEW RETIREES AND INITIAL BENEFIT PAID (FOR THE SIX FISCAL YEARS ENDING JUNE 30, 2002)

STATE EMPLOYEES RETIREMENT FUND

	0-5	5-10	10-15	15-20	20-25	25-30	30+	TOTALS
PERIOD 7/1/96 TO 6/30/97:								
Average Monthly Benefit	\$92	\$281	\$422	\$611	\$842	\$1,138	\$1,592	\$745
Number of Current Retirees	120	105	155	144	154	110	165	955
PERIOD 7/1/97 TO 6/30/98:								
Average Monthly Benefit	\$91	\$256	\$470	\$693	\$951	\$1,147	\$1,828	\$895
Number of Current Retirees	161	119	138	151	171	121	273	1,134
PERIOD 7/1/98 TO 6/30/99:								
Average Monthly Benefit	\$92	\$305	\$462	\$706	\$946	\$1,291	\$1,788	\$920
Number of Current Retirees	138	130	139	164	177	137	274	1,159
PERIOD 7/1/99 TO 6/30/00:								
Average Monthly Benefit	\$95	\$296	\$529	\$747	\$991	\$1,336	\$1,976	\$1,017
Number of Current Retirees	173	127	166	146	201	148	334	1305
PERIOD 7/1/00 TO 6/30/01:								
Average Monthly Benefit	\$114	\$348	\$537	\$758	\$1,001	\$1,284	\$2,016	\$1,047
Number of Current Retirees	182	112	148	156	177	141	355	1271
PERIOD 7/1/01 TO 6/30/02:								
Average Monthly Benefit	\$138	\$331	\$571	\$771	\$1,006	\$1,401	\$1,979	\$1,050
Number of Current Retirees	175	138	157	152	129	138	359	1248
PERIOD 7/1/96 TO 6/30/02:								
Average Monthly Benefit	\$105	\$303	\$500	\$715	\$957	\$1,274	\$1,896	\$956
Number of Current Retirees	949	731	903	913	1,009	795	1,760	7,072

STATE PATROL RETIREMENT FUND

	0-5	5-10	10-15	15-20	20-25	25-30	30+	TOTALS
PERIOD 7/1/96 TO 6/30/97:								
Average Monthly Benefit	\$0	\$0	\$0	\$1,838	\$2,125	\$3,020	\$3,028	\$2,913
Number of Current Retirees	0	0	0	1	1	12	5	19
PERIOD 7/1/97 TO 6/30/98:								
Average Monthly Benefit	\$0	\$631	\$689	\$2,379	\$2,477	\$3,193	\$3,846	\$3,215
Number of Current Retirees	0	2	1	2	2	23	18	48
PERIOD 7/1/98 TO 6/30/99:								
Average Monthly Benefit	\$0	\$0	\$0	\$1,960	\$2,745	\$3,526	\$3,779	\$3,472
Number of Current Retirees	0	0	0	6	6	23	25	57
PERIOD 7/1/99 TO 6/30/00:								
Average Monthly Benefit	\$249	\$0	\$1,431	\$2,240	\$2,891	\$3,864	\$4,085	\$3,410
Number of Current Retirees	2	0	2	15	11	14	16	46
PERIOD 7/1/00 TO 6/30/01:								
Average Monthly Benefit	\$517	\$776	\$878	\$2,462	\$2,934	\$3,979	\$4,168	\$3,466
Number of Current Retirees	2	2	1	1	7	13	17	43
PERIOD 7/1/01 TO 6/30/02:								
Average Monthly Benefit	\$641	\$0	\$1,629	\$2,256	\$3,166	\$3,887	\$4,504	\$3,526
Number of Current Retirees	1	0	3	4	4	12	11	35
PERIOD 7/1/96 TO 6/30/02:								
Average Monthly Benefit	\$435	\$703	\$1,331	\$2,187	\$2,857	\$3,539	\$3,963	\$3,375
Number of Current Retirees	5	4	7	29	31	102	92	248

SCHEDULE OF NEW RETIREES AND INITIAL BENEFIT PAID (FOR THE SIX FISCAL YEARS ENDING JUNE 30, 2002)

CORRECTIONAL EMPLOYEES RETIREMENT FUND

	0-5	5-10	10-15	15-20	20-25	25-30	30+	TOTALS
PERIOD 7/1/96 TO 6/30/97:								
Average Monthly Benefit	\$414	\$856	\$1,390	\$2,062	\$2,620	\$2,710	\$2,968	\$1,592
Number of Current Retirees	10	8	9	9	10	2	2	50
PERIOD 7/1/97 TO 6/30/98:								
Average Monthly Benefit	\$445	\$608	\$1,046	\$1,310	\$1,919	\$3,126	\$2,212	\$1,387
Average Monthly Benefit	10	11	8	23	23	4	4	83
PERIOD 7/1/98 TO 6/30/99:								
Average Monthly Benefit	\$433	\$518	\$972	\$1,354	\$1,992	\$2,353	\$2,825	\$1,585
Number of Current Retirees	5	7	6	18	20	12	3	71
PERIOD 7/1/99 TO 6/30/00:								
Average Monthly Benefit	\$264	\$620	\$1,111	\$1,312	\$1,940	\$2,603	\$2,466	\$1,344
Number of Current Retirees	17	15	18	19	26	12	3	110
PERIOD 7/1/00 TO 6/30/01:								
Average Monthly Benefit	\$252	\$640	\$1,114	\$1,288	\$1,801	\$2,912	\$3,756	\$1,515
Number of Current Retirees	11	15	7	18	19	14	4	88
PERIOD 7/1/01 TO 6/30/02:								
Average Monthly Benefit	\$371	\$649	\$1,135	\$1,340	\$1,996	\$2,486	\$2,680	\$1,442
Number of Current Retirees	15	20	21	28	32	19	3	138
PERIOD 7/1/96 TO 6/30/02:								
Average Monthly Benefit	\$347	\$645	\$1,135	\$1,380	\$1,990	\$2,625	\$2,828	\$1,458
Number of Current Retirees	68	76	69	115	130	63	19	540

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JUDGES RETIREMENT FUND

	0-5	5-10	10-15	15-20	20-25	25-30	30+	TOTALS
PERIOD 7/1/96 TO 6/30/97:								
Average Monthly Benefit	\$917	\$0	\$3,078	\$0	\$3,705	\$4,379	\$4,008	\$3,596
Number of Current Retirees	1	0	2	0	5	3	2	3
PERIOD 7/1/97 TO 6/30/98:								
Average Monthly Benefit	\$1,696	\$1,244	\$2,123	\$3,201	\$4,121	\$4,677	\$4,311	\$3,258
Number of Current Retirees	1	1	3	1	2	3	1	12
PERIOD 7/1/98 TO 6/30/99:								
Average Monthly Benefit	\$700	\$0	\$2,771	\$3,382	\$4,341	\$4,724	\$4,403	\$3,605
Number of Current Retirees	1	0	1	2	2	1	2	9
PERIOD 7/1/99 TO 6/30/00:								
Average Monthly Benefit	\$0	\$1,362	\$1,719	\$2,976	\$3,670	\$4,556	\$0	\$3,338
Number of Current Retirees	0	1	1	2	2	3	0	9
PERIOD 7/1/00 TO 6/30/01:								
Average Monthly Benefit	\$0	\$0	\$2,240	\$3,372	\$4,084	\$0	\$0	\$3,387
Number of Current Retirees	0	0	3	3	5	0	0	11
PERIOD 7/1/01 TO 6/30/02:								
Average Monthly Benefit	\$641	\$0	\$1,629	\$2,256	\$3,166	\$3,887	\$4,504	\$3,526
Number of Current Retirees	1	0	3	4	4	12	11	35
PERIOD 7/1/95 TO 6/30/01:								
Average Monthly Benefit	\$989	\$1,303	\$2,202	\$2,921	\$3,794	\$4,191	\$4,417	\$3,472
Number of Current Retirees	4	2	13	12	20	22	16	89

SCHEDULE OF NEW RETIREES AND INITIAL BENEFIT PAID (FOR THE SIX FISCAL YEARS ENDING JUNE 30, 2002)

LEGISLATORS RETIREMENT FUND

	0-5	5-10	10-15	15-20	20-25	25-30	30+	TOTALS
PERIOD 7/1/96 TO 6/30/97:								
Average Monthly Benefit	\$364	\$554	\$914	\$1,213	\$1,934	\$2,601	\$0	\$1,004
Number of Current Retirees	3	5	7	2	3	1	0	21
PERIOD 7/1/97 TO 6/30/98:								
Average Monthly Benefit	\$573	\$937	\$1,715	\$1,701	\$2,474	\$0	\$0	\$1,354
Number of Current Retirees	3	4	2	3	2	0	0	14
PERIOD 7/1/98 TO 6/30/99:								
Average Monthly Benefit	\$455	\$1,241	\$1,065	\$0	\$1,607	\$0	\$0	\$1,029
Number of Current Retirees	2	2	4	0	1	0	0	9
PERIOD 7/1/99 TO 6/30/00:								
Average Monthly Benefit	\$325	\$760	\$981	\$1,726	\$1,803	\$0	\$0	\$964
Number of Current Retirees	2	6	8	2	1	0	0	19
PERIOD 7/1/00 TO 6/30/01:								
Average Monthly Benefit	\$0	\$894	\$879	\$1,320	\$3,238	\$2,778	\$0	\$1,426
Number of Current Retirees	0	6	6	3	3	1	0	19
PERIOD 7/1/01 TO 6/30/02:								
Average Monthly Benefit	\$335	\$0	\$1,572	\$0	\$0	\$2,081	\$0	\$1,172
Number of Current Retirees	3	0	4	0	0	1	0	8
PERIOD 7/1/96 TO 6/30/02:								
Average Monthly Benefit	\$414	\$823	\$1,081	\$1,494	\$2,387	\$2,487	\$0	\$1,156
Number of Current Retirees	13	23	31	10	10	3	0	90

ELECTIVE STATE OFFICERS RETIREMENT FUND

	0-5	5-10	10-15	15-20	20-25	25-30	30+	TOTALS
PERIOD 7/1/96 TO 6/30/97:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0
Number of Current Retirees	0	0	0	0	0	0	0	0
PERIOD 7/1/97 TO 6/30/98:								
Average Monthly Benefit	\$934	\$0	\$0	\$0	\$0	\$0	\$0	\$934
Number of Current Retirees	1	0	0	0	0	0	0	1
PERIOD 7/1/98 TO 6/30/99:								
Average Monthly Benefit	\$0	\$2,036	\$0	\$0	\$4,315	\$0	\$0	\$3,556
Number of Current Retirees	0	1	0	0	1	0	0	2
PERIOD 7/1/99 TO 6/30/00:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
PERIOD 7/1/00 TO 6/30/01:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
PERIOD 7/1/01 TO 6/30/02:								
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Number of Current Retirees	0	0	0	0	0	0	0	0
PERIOD 7/1/96 TO 6/30/02:								
Average Monthly Benefit	\$934	\$2,036	\$0	\$0	\$4,315	\$0	\$0	\$2,682
Number of Current Retirees	1	1	0	0	1	0	0	3

PARTICIPATING EMPLOYERS

Agricultural Utilization Research Institute
 American Federation of State, County and Municipal Employees (AFSCME)
 Annandale Independent School District (ISD) #876
 Anoka Metro Regional Treatment Center
 Brown County - Law Enforcement Labor Services, Inc.
 Burnsville ISD #191 - Teachers & Principals
 Carlton County - Dept Heads & Teamsters
 Centennial ISD #12
 Chatfield ISD #227
 Comfrey ISD #81
 Crop Improvement Association
 Detroit Lakes ISD #22
 Duluth ISD #709
 East Central Regional Library
 Esko ISD #99
 Fairview Hospital
 Foster Wheeler Inc., Twin Cities
 Gillette Children's Hospital
 House of Representatives
 Koochiching County
 LaCrescent-Hoka ISD #300
 Legislative Coordinating Commission
 Litchfield ISD #465
 Maple Grove, City of
 Metropolitan Council
 - Environmental Services
 - Transit Operations, Union Office
 - Transit Operations, Drivers and Mechanics
 Metropolitan Sports Facility Commission
 Middle Management Association
 Minneapolis Public Schools
 Minneapolis Teachers Retirement
 Minnesota Association of Professional Employees
 Minnesota Historical Society
 Minnesota Horticultural Society
 Minnesota House Employees
 Minnesota House of Representatives
 Minnesota Safety Council
 Minnesota State Colleges & Universities (MnSCU)
 Minnesota Senate
 Minnesota Senate Employees
 Minnesota State Fair
 Minnesota Technology Inc.
 Moorhead, City of
 Mound, City of
 Nicollet County
 New Prague ISD #721
 New Ulm, City of
 Olgilvie ISD #333
 Pelican Rapids ISD #548
 Pine County Soil & Water Conservation District
 Proctor, City of
 Proctor ISD #704
 Red Rock ISD #2884

Redwood Area Schools
 Revisor of Statutes, Office of
 Roseville Area Schools
 Rush City ISD #139
 Saint Cloud ISD #742
 Sauk Centre Public Utilities
 Scott County
 South Central Service Cooperative
 State of Minnesota
 State Residential Schools Education Association (SRSEA)
 Tracy, City of
 University of Minnesota
 Wadena County Social Services
 Washington County
 Watertown-Mayer ISD #111
 Westbrook-Walnut Grove ISD #2898
 Win-E-Mac Schools
 Wright County
 Zumbrota-Mazeppa ISD #2805