



FINANCIAL



DR. MARCUS CHANAY  
JACKSON STATE UNIVERSITY

Helping students feel at home away from home is what fulfills Marcus Chanay as associate vice president for student life. Helping himself feel at home away from home will fulfill his dream for retirement when he is ready to “go abroad—Mexico, Paris—and find a nice resort to put (his) feet up.”







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### **Independent Auditors' Report**

The Board of Trustees  
Public Employees' Retirement System of Mississippi:

We have audited the accompanying statement of fiduciary net assets of the Public Employees' Retirement System of Mississippi (the System), a component unit of the State of Mississippi, as of June 30, 2009, and the related statement of changes in fiduciary net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 net assets of the System as of June 30, 2009, and the changes in the System's net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 25, 2009, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 16 through 24 and the schedules of funding progress and employer contributions on pages 43 through 47 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, investment section, actuarial section, statistical section and supplementary information included in Schedules 1 through 6 on pages 48 through 52 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information included in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

**KPMG LLP**

November 25, 2009

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

## Management's Discussion and Analysis

This section presents management's discussion and analysis of the Public Employees' Retirement System of Mississippi's (the System) financial position and performance for the year ended June 30, 2009. It is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal, included in the Introductory Section, the financial statements and other information which are presented in the Financial Section of this Comprehensive Annual Financial Report.

The System is responsible for administering retirement benefits for all state and public education employees, sworn officers of the Mississippi Highway Patrol, other public employees whose employers have elected to participate, and elected members of the State Legislature and the president of the Senate. The System is comprised of seven funds, including four defined benefit pension plans: the Public Employees' Retirement System (PERS), the Mississippi Highway Safety Patrol Retirement System (MHSPRS), the Municipal Retirement Systems (MRS), and the Supplemental Legislative Retirement Plan (SLRP). The System is also responsible for the administration of two defined contribution plans: the Government Employees' Mississippi Deferred Compensation Plan and Trust (MDC), formerly known as the Government Employees' Deferred Compensation Plan (GEDCP), which is a supplemental retirement savings plan, and the Optional Retirement Plan (ORP) which is an optional plan offered to certain members of institutions of higher learning. As explained in note 2 to the basic financial statements, ORP is not part of the System's reporting entity. The System's funds, with the exception of ORP, are defined as pension (and other employee benefit) trust funds, which are fiduciary in nature. The remaining fund is the Flexible Benefits Cafeteria Plan (FBCP), which is an agency fund. Throughout this discussion and analysis, units of measure (i.e. billions, millions, and thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

## Financial Highlights

- The combined net assets of the defined benefit plans administered by the System decreased by \$4.2 billion, or 21.5 percent. This decrease was primarily the result of the decline in overall market performance brought on by a lagging global economy.
- The 2009 rate of return on investments for the defined benefit plans was negative 19.4 percent compared with fiscal year 2008's rate of return of negative 8.2 percent. Domestic, international and global equity portfolios returned negative 25.3 percent, negative 30.4 percent and negative 38.8 percent for the year respectively, while the return on debt securities was 4.4 percent. The rate of return on real estate investments was negative 31.7 percent and the six-month return on the private equity portfolio was negative 62.8 percent as of fiscal year end.
- The defined benefit plans administered by the System were actuarially funded at an average of 69.8 percent as of June 30, 2009, a decrease from the comparative average of 73.3 percent as of June 30, 2008. The decrease in funding percentage was primarily due to unfavorable investment performance as a result of the global economic downturn. Funding status is further described in note 6 of the basic financial statements.
- The Government Employees' Mississippi Deferred Compensation Plan and Trust (MDC), formerly the Government Employees' Deferred Compensation Plan (GEDCP), net assets decreased \$87 million during fiscal year 2009, primarily due to a decrease in the market value of securities.
- The MDC rates of return for investment options ranged from a high of 9.6 percent to a low of negative 39.6 percent compared to prior year investment option returns with a high of 11.5 percent and a low of negative 24.6 percent.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial reporting, which is comprised of the following components:

- (1) Basic financial statements,
- (2) Notes to the basic financial statements,
- (3) Required supplementary information, and
- (4) Other supplementary schedules.

Collectively, this information presents the net assets held in trust for pension benefits for each of the funds administered by the System as of June 30, 2009. This financial information also summarizes changes in net assets held in trust for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

- 1) **Basic Financial Statements.** The June 30, 2009 financial statements are presented for the fiduciary funds administered by the System. Fiduciary funds are used to account for resources held for the benefit of parties outside of the System. Fiduciary funds include pension trust funds such as PERS, MHSPRS, MRS, SLRP and MDC, as well as an agency fund, the FBCP. A Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets are presented for the fiduciary funds as of June 30, 2009. These financial statements reflect the resources available to pay benefits to members, including retirees and beneficiaries, as of year end, as well as the changes in those resources during the year.
- 2) **Notes to the Basic Financial Statements.** The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Information in the notes to the basic financial statements is described below.
  - Note 1 provides a general description of the System, as well as a concise description of each of the funds administered by the System. Information regarding employer and member participation in the pension plans administered by the System is also provided.
  - Note 2 provides a summary of significant accounting policies, including the basis of accounting for each fund type, management's use of estimates, and other significant accounting policies.
  - Note 3 describes investments, including investing authority and policies, investment risk discussion and additional information about cash, securities lending and derivatives.
  - Note 4 provides a summary of the property and equipment of the System including depreciation and net holding amounts.
  - Note 5 provides a summary of receivables and payables (due to/due from other funds).
  - Note 6 provides information about the funding status and progress for the defined benefit plans administered by the System.
  - Note 7 provides information about contributions to the defined benefit plans administered by the System.
  - Note 8 provides information about System employees as members of PERS.
- (3) **Required Supplementary Information.** The required supplementary information consists of two schedules and related notes concerning actuarial information, funding status and required contributions for the defined benefit pension plans administered by the System.
- (4) **Other Supplementary Schedules.** Other schedules include detailed information on administrative expenses incurred by the System, investment and other professional service expenses incurred, as well as the due to balances for individual municipal retirement plans. Also included are summaries of cash receipts and disbursements, a comparison of budget and actual administrative expenses, and a statement of changes for the Flexible Benefits Cafeteria Plan.

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the Systems – Defined Benefit Plans

#### Investments

The investment assets of the defined benefit plans administered by the System are combined in a commingled investment pool as authorized by State statute. Each plan owns an equity position in the pool and receives a proportionate investment allocation of income or loss from the pool in accordance with its respective ownership percentage. Each plan's allocated share of each type of investment in the pool is shown in the Statement of Fiduciary Net Assets. Investment gains or losses are reported in the Statement of Changes in Fiduciary Net Assets. The rate of return on investments is therefore approximately the same for each of the plans.

#### Total System Investments

At June 30, 2009, the System's total investments, before securities lending activities, approximated \$15.5 billion, a decrease of \$3.9 billion from fiscal year 2008. The combined investment portfolio experienced a return of negative 19.4 percent compared with a median large public plan return of negative 18.1 percent\*. Investment results over time compared with the System's benchmarks are presented on page 58 in the Investment Section.

*\*Mercer Public Funds > \$1 Billion Universe Median*

#### Short-Term Securities

At June 30, 2009, the System held \$59.2 million in short-term investments, which is \$231 million below 2008 holdings. Short-term investments returned 1.0 percent for the 2009 fiscal year.

#### Debt Securities

At June 30, 2009, the System held \$4.4 billion in domestic debt securities, which is approximately \$184 million less than fiscal year 2008 holdings. Debt securities returned 4.4 percent compared with the System's benchmark return of 6.0 percent.

#### Equity Securities

At June 30, 2009, the System held \$10.4 billion in U.S., international and global equity securities, a decrease of \$3.3 billion from fiscal year 2008. U.S., international and global equity securities had returns of negative 25.3 percent, negative 30.4 percent and negative 38.8 percent, respectively. The System's benchmark return for domestic equity securities was negative 26.6 percent while the international securities benchmark returned negative 30.5 percent. The global securities benchmark used by the System returned a negative 29.5 percent.

#### Private Equity

The System funded a private equity asset class, totaling \$12.8 million, in December 2008 which returned a negative 62.8 percent. Private equities are investments in operating companies, typically accessed through limited partnerships, which provide a differentiated return stream and diversification. This asset class is generally managed for long-term gains where returns and asset value take time to develop.

#### Absolute Return Strategies

The Board of Trustees added a five percent allocation to absolute return investments to further diversify the System's overall portfolio. These investments include a combination of equity holdings based on selected specific investment strategies. In late June 2009, \$10.9 million was allocated to absolute return strategies which showed no return at year end due to the short time period in which investments were held.

#### Real Estate

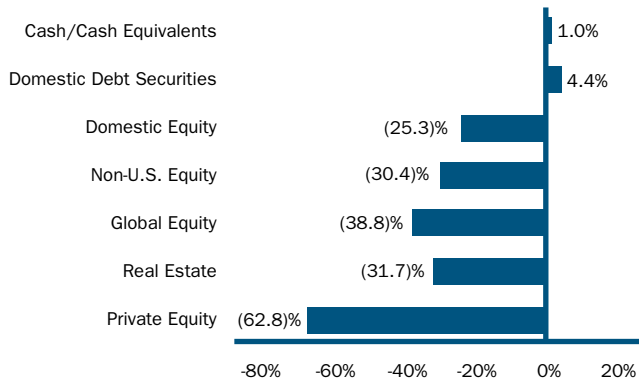
The real estate portfolio is divided between core commingled and value added fund investments, which directly invest in properties and managed portfolios of Real Estate Investment Trusts (REIT). REITs are exchange traded securities which provide indirect exposure to real estate properties and real estate management companies. At June 30, 2009, combined holdings totaled \$669 million, a decrease of \$236 million from 2008. The System's real estate portfolio experienced returns of negative 31.7 percent on the total real estate portfolio for the year end. The NFI ODCE Index, the benchmark for the System's real estate fund investments, saw a return of negative 30.7 percent for the year ended June 30, 2009, while the Dow Jones U.S. Select REIT Index had a return of negative 45.3 percent for the same period.

**Securities Lending**

The System earns additional investment income by lending investment securities to broker-dealers. This is done on a pooled basis by the System's custodial bank, Bank of New York Mellon (BNYM). The broker-dealers provide collateral to BNYM and generally use the borrowed securities to cover short sales and failed trades for their clients. BNYM invests cash collateral in order to earn interest. For the 2009 fiscal year, net securities lending income to the System amounted to \$32.4 million, an increase of \$34 million from fiscal year 2008. The increase primarily reflects a combination of the changes in market values of collateral securities, realized gains on bonds and a reduction in interest expense.

**Defined Benefit Plans**

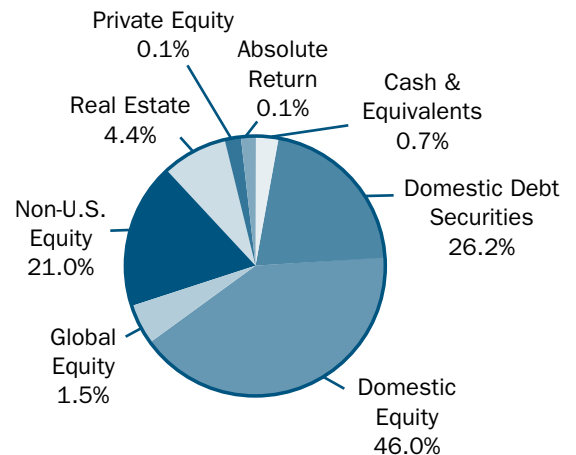
- Investment Rates of Return by Investment Type  
Fiscal Year 2009



Note: Returns are not available for absolute return investments due to funds being invested in the asset class less than one month. Returns for private equity investments represent two quarters.

**Defined Benefit Plans**

- Asset Allocation at Fair Value  
June 30, 2009



**Analysis of Individual Systems – Defined Benefit Plans**

**Public Employees' Retirement System**

The Public Employees' Retirement System of Mississippi (PERS) provides retirement benefits to all State of Mississippi public employees, public education employees, other public employees whose employers have elected to participate, and elected members of the State Legislature and president of the Senate. Benefits of the plan are funded by member and employer contributions and by earnings on investments. Net assets held in trust for benefits at June 30, 2009, amounted to \$15.1 billion, a decrease of \$4.1 billion (21.4 percent) below \$19.3 billion at June 30, 2008.

Additions to PERS net assets held in trust for benefits include employer and employee contributions and investment income (loss). For the 2009 fiscal year, employer and employee contributions increased from those of fiscal year 2008 from \$1.1 billion to \$1.15 billion or an increase of \$47 million (4.3 percent). This change is attributed to a slight increase in average salary, as well as an increase in the number of active members. PERS recognized net investment loss of \$3.7 billion for the 2009 fiscal year, compared with net investment loss of \$1.7 billion for the 2008 fiscal year.

Deductions from PERS net assets held in trust for benefits primarily include retirement and beneficiary benefits, and administrative expenses. For the 2009 fiscal year, benefits amounted to \$1.5 billion, an increase of \$70 million (4.7 percent) over the 2008 fiscal year. The increase in benefit payments was due to an increase in the number of benefit recipients, as well as an increase in the average benefit payment. For the 2009 fiscal year, the cost of administering the System amounted to \$12.3 million, an increase of \$790 thousand (6.8 percent) from fiscal year 2008. The rise in administrative expenses was due primarily to increases in personal and contractual services categories.

An actuarial valuation of PERS assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2009, the funded status of the plan decreased to 67.3 percent from 72.9 percent at June 30, 2008. The amount by which PERS actuarial assets were less than actuarial benefit liabilities was \$10.0 billion at June 30, 2009, an increase of \$2.3 billion over June 30, 2008. The decrease in funded status is due primarily to unfavorable investment performance brought on by a decline in the global economy.

## Management's Discussion and Analysis (Continued)

### Net Assets – Defined Benefit Plans June 30

(In Thousands)

	PERS		MHSPRS	
	2009	2008	2009	2008
<b>Assets:</b>				
Cash, cash equivalents, and receivables	\$ 1,071,214	\$ 1,029,839	\$ 15,033	\$ 14,197
Investments at fair value	15,140,813	18,956,254	214,803	272,694
Invested securities lending collateral	2,342,474	5,377,211	33,318	77,560
Capital assets	15,814	16,310	-	-
Total assets	18,570,315	25,379,614	263,154	364,451
<b>Liabilities:</b>				
Investment accounts and other payables	1,058,922	715,469	14,972	10,220
Securities lending liability	2,376,906	5,413,076	33,808	78,077
Total liabilities	3,435,828	6,128,545	48,780	88,297
Total net assets	\$ 15,134,487	\$ 19,251,069	\$ 214,374	\$ 276,154

### Changes in Net Assets – Defined Benefit Plans Year Ended June 30

(In Thousands)

	PERS		MHSPRS	
	2009	2008	2009	2008
<b>Additions (deletions):</b>				
Contributions	\$ 1,147,650	\$ 1,100,308	\$ 11,232	\$ 11,238
Investment income (loss)	(3,717,016)	(1,725,434)	(52,869)	(24,886)
Other additions	657	637	3,208	3,156
Total	(2,568,709)	(624,489)	(38,429)	(10,492)
<b>Deductions:</b>				
Pension benefits	1,465,500	1,393,175	23,098	20,295
Refunds	70,050	72,750	72	26
Administrative and other deductions	12,323	11,533	181	185
Total	1,547,873	1,477,458	23,351	20,506
Decrease in net assets	\$ (4,116,582)	\$ (2,101,947)	\$ (61,780)	\$ (30,998)

#### Mississippi Highway Safety Patrol Retirement System

The Mississippi Highway Safety Patrol Retirement System (MHSPRS) provides retirement benefits to sworn officers of the Mississippi Highway Safety Patrol. Benefits of the plan are funded by member and employer contributions and by earnings on investments. MHSPRS net assets held in trust for benefits at June 30, 2009, amounted to \$214.4 million, a decrease of \$62 million (22.4 percent) from \$276.2 million at June 30, 2008.

Additions to MHSPRS net assets held in trust for benefits include employer and employee contributions and investment income (loss). For the 2009 fiscal year, employer and employee contributions were \$11.2 million, a slight decrease of \$6 thousand or .01 percent from 2008. MHSPRS also received fees of \$3.2 million to fund retirement benefits. Contributions decreased due to a decrease in the number of active employees, from 626 in 2008 to 570 in 2009. MHSPRS recognized net investment loss of \$52.9 million for the 2009 fiscal year compared with a net investment loss of \$24.9 million for the 2008 fiscal year.

## Management's Discussion and Analysis (Continued)

### Net Assets – Defined Benefit Plans June 30

(In Thousands)

MRS		SLRP		Eliminations		Total Defined Benefit Pension Plans		Total Percent Change
2009	2008	2009	2008	2009	2008	2009	2008	
\$ 10,003	\$ 10,235	\$ 645	\$ 616	\$ (9)	\$ (6)	\$ 1,096,886	\$ 1,054,881	4.0 %
145,985	197,718	9,901	12,281	-	-	15,511,502	19,438,947	(20.2)%
22,643	56,235	1,535	3,492	-	-	2,399,970	5,514,498	(56.5)%
-	-	-	-	-	-	15,814	16,310	(3.0)%
<u>178,631</u>	<u>264,188</u>	<u>12,081</u>	<u>16,389</u>	<u>(9)</u>	<u>(6)</u>	<u>19,024,172</u>	<u>26,024,636</u>	<u>(26.9)%</u>
10,188	7,423	691	461	(9)	(6)	1,084,764	733,567	47.9 %
22,976	56,610	1,558	3,516	-	-	2,435,248	5,551,279	(56.1)%
33,164	64,033	2,249	3,977	(9)	(6)	3,520,012	6,284,846	(44.0)%
<u>\$ 145,467</u>	<u>\$ 200,155</u>	<u>\$ 9,832</u>	<u>\$ 12,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,504,160</u>	<u>\$ 19,739,790</u>	<u>(21.5)%</u>

### Changes in Net Assets – Defined Benefit Plans Year Ended June 30

(In Thousands)

MRS		SLRP		Eliminations		Total Defined Benefit Pension Plans		Total Percent Change
2009	2008	2009	2008	2009	2008	2009	2008	
\$ 17,569	\$ 16,076	\$ 665	\$ 652	\$ -	\$ -	\$ 1,177,116	\$ 1,128,274	4.3 %
(35,930)	(18,046)	(2,437)	(1,120)	-	-	(3,808,252)	(1,769,486)	n/m
-	-	-	-	(657)	(633)	3,208	3,160	1.5 %
<u>(18,361)</u>	<u>(1,970)</u>	<u>(1,772)</u>	<u>(468)</u>	<u>(657)</u>	<u>(633)</u>	<u>(2,627,928)</u>	<u>(638,052)</u>	<u>n/m</u>
35,848	35,870	790	845	-	-	1,525,236	1,450,185	5.2 %
12	-	9	14	-	-	70,143	72,790	(3.6)%
467	439	9	9	(657)	(633)	12,323	11,533	6.8 %
<u>36,327</u>	<u>36,309</u>	<u>808</u>	<u>868</u>	<u>(657)</u>	<u>(633)</u>	<u>1,607,702</u>	<u>1,534,508</u>	<u>4.8 %</u>
<u>\$ (54,688)</u>	<u>\$ (38,279)</u>	<u>\$ (2,580)</u>	<u>\$ (1,336)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,235,630)</u>	<u>\$ (2,172,560)</u>	<u>n/m</u>

n/m – not meaningful

Deductions from MHSPRS net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2009 fiscal year, benefits amounted to \$23.1 million, an increase of \$2.8 million (14 percent) from the 2008 fiscal year. The increase in benefit payments was due to an increase in the number of retirees. For the 2009 fiscal year, MHSPRS transferred \$181 thousand to PERS to offset the cost of administration, a decrease of \$4 thousand (2.2 percent) from fiscal year 2008.

An actuarial valuation of MHSPRS assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2009, the funded status of the plan decreased to 74.1 percent from 78.3 percent at June 30, 2008. The amount by which the MHSPRS actuarial assets were less than actuarial benefit liabilities was \$102 million, compared with \$82.9 million at June 30, 2008. The decrease in funded status relates primarily to unfavorable investment performance due to a decline in the global economy.

## Management's Discussion and Analysis (Continued)

### Municipal Retirement Systems

Two municipal retirement plans and seventeen fire and police disability and relief plans comprise the Municipal Retirement Systems (MRS), all of which are closed to new members. Seventeen of these separate plans provide retirement benefits to municipal employees, fire fighters and police officers who were not already members of PERS and who were hired prior to July 1, 1976. Membership in the other two plans was extended until July 1, 1987. All active employees have retired from six of the municipal plans. The financial positions of MRS plans have been aggregated for financial reporting purposes. Individual plan information is included with the specific municipality's comprehensive annual financial report. Benefits of MRS are funded by employer and employee contributions, and by earnings on investments. The aggregated plan's net assets held in trust for benefits at June 30, 2009, amounted to \$145.5 million, a decrease of \$54.7 million (27.3 percent) from \$200.2 million at June 30, 2008.

Additions to MRS net assets held in trust for benefits consist of employer and employee contributions and investment income (loss). For the 2009 fiscal year, employer and employee contributions of \$17.6 million was \$1.5 million (9.3 percent) more than contributions of \$16.1 million received in fiscal year 2008. Municipal plan employer contributions are funded through taxes levied on assessed properties. The increase in contributions is a result of increased millage rates in a number of municipal systems, as well as an increase in the assessed property values in some municipalities. MRS recognized net investment loss of \$35.9 million for the 2009 fiscal year compared with net investment loss of \$18 million for the 2008 fiscal year.

Deductions from MRS net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2009 fiscal year, benefits amounted to \$35.9 million, a decrease of \$10 thousand over the 2008 fiscal year. The decrease in benefit payments resulted primarily from a small reduction in the number of retirees. For the 2009 fiscal year, MRS transferred \$467 thousand to PERS to offset the cost of administration, compared to \$439 thousand transferred for fiscal year 2008. Administrative fees are calculated based on the amount of contributions.

An actuarial valuation of MRS assets and benefit obligations is performed annually as of September 30. The funded status of MRS as of September 30, 2008, increased to 56.6 percent from 56.2 percent at September 30, 2007. The amount by which the MRS actuarial assets were less than actuarial benefit liabilities was \$159.6 million at September 30, 2008, compared with \$166.2 million at September 30, 2007.

### Supplemental Legislative Retirement Plan

The Supplemental Legislative Retirement Plan (SLRP) provides supplemental retirement benefits to all elected members of the State Legislature and president of the Senate. Benefits of the plan are funded by member and employer contributions and by earnings on investments. The plan's net assets held in trust for benefits at June 30, 2009 amounted to \$9.8 million, a decrease of \$2.6 million (20.8 percent) from \$12.4 million at June 30, 2008.

Additions to SLRP net assets held in trust for benefits include employer and employee contributions and investment income (loss). For the 2009 fiscal year, employer and employee contributions were \$665 thousand, an increase of \$13 thousand (2.0 percent) from those of fiscal year 2008. SLRP recognized net investment loss of \$2.4 million for the 2009 fiscal year, compared with a net investment loss of \$1.1 million for the 2008 fiscal year.

Deductions from SLRP net assets held in trust for benefits primarily include retirement and survivor benefits, as well as administrative fees. For the 2009 fiscal year, benefits amounted to \$799 thousand, a decrease from \$859 thousand (7.0 percent) in the 2008 fiscal year. Several large lump sum retirement payments were made during fiscal year 2008. The same level of lump sum payments did not reoccur in fiscal year 2009 resulting in a decrease in total benefits as compared to 2008 benefits. For the 2009 fiscal year, SLRP transferred \$9 thousand to PERS to offset the cost of administration. Transfers in 2008 also totaled \$9 thousand.

An actuarial valuation of SLRP assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2009, the funded status of the plan decreased to 81.0 percent from 85.9 percent at June 30, 2008. The amount by which the SLRP actuarial assets were under actuarial benefit liabilities was \$3.1 million, compared with \$2.2 million at June 30, 2008. The change in funded status relates primarily to unfavorable investment performance brought on by the decline in global financial markets.

## Management's Discussion and Analysis (Continued)

### Actuarial Valuations and Funding Progress

An actuarial valuation of each of the defined benefit plans administered by the System is performed annually as of June 30, with the exception of MRS, which is performed as of September 30. The funded status of each of the plans is shown in the Schedules of Funding Progress on page 43. This table shows funding ratios for the last ten fiscal years. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial benefit liabilities.

As of June 30, 2009, funding ratios ranged from a high of 81.0 percent to a low of 56.6 percent, as compared to 85.9 percent and 56.2 percent for June 30, 2008. The average funding ratio decreased from 73.3 percent to 69.7 percent during the fiscal year. Unfavorable investment performance as a result of economic declines was the principal factor which influenced the change in funding. At June 30, 2009, the Systems' total unfunded actuarial accrued liability had increased to \$10.3 billion from \$8 billion at June 30, 2008. This is a net increase in the unfunded actuarial accrued liability of \$2.3 billion for the year. At June 30, 2009, the difference between the actuarial value of assets and market value of assets was \$5.6 billion, resulting in actuarially deferred losses which will be recognized in equal increments over the next four years.

In October 2008, the Board of Trustees adopted a 15 basis point increase in the employer contribution rate, from 11.85 percent to 12 percent. This increase will be effective July 1, 2009. The Board approved an additional employer contribution rate increase in October 2009 of 156 basis points, from 12 percent to 13.56 percent. The Board made these decisions, based on the recommendation of the consulting actuary, in accordance with the System's funding policy. This policy states that the need for increases will be evaluated on an annual basis in order to maintain the unfunded accrued liability period below 30 years as prescribed by Governmental Accounting Standards Board, Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

### Net Assets – IRC 457 Plan June 30

(In Thousands)

	IRC 457 Plan GEDCP		Percent Change
	2009	2008	
<b>Assets:</b>			
Cash and receivables	\$ 6,509	\$ 7,464	(12.8)%
Investments at fair value	962,563	1,048,726	(8.2)%
Total	969,072	1,056,190	(8.2)%
<b>Liabilities:</b>			
Investment accounts and other payables	149	199	(25.1)%
Total	149	199	(25.1)%
Total net assets	\$ 968,923	\$ 1,055,991	(8.2)%

### Changes in Net Assets – IRC 457 Plan Year ended June 30

(In Thousands)

	IRC 457 Plan GEDCP		Percent Change
	2009	2008	
<b>Additions:</b>			
Contributions	\$ 83,131	\$ 91,901	(9.5)%
Investment income/(loss)	(115,004)	(40,606)	n/m
Total	(31,873)	51,295	n/m
<b>Deductions:</b>			
Pension benefits	55,195	54,039	2.1 %
Total	55,195	54,039	2.1 %
Decrease in net assets	\$ (87,068)	\$ (2,744)	n/m

## **Management's Discussion and Analysis (Continued)**

### **Defined Contribution Plan**

#### **457 Defined Contribution Plan**

The Government Employees' Mississippi Deferred Compensation Plan and Trust is established under Section 457 of the Internal Revenue Code. MDC provides supplemental retirement benefits for plan participants. The plan is funded by participant contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2009 amounted to \$969 million, which was a decrease of \$87 million (8.2 percent) from net assets of \$1.1 billion at June 30, 2008.

Additions to the MDC net assets held in trust for benefits include contributions and investment income (loss). For the 2009 fiscal year, contributions decreased from those of the 2008 fiscal year, from \$91.9 million to \$83.1 million or a decrease of \$8.8 million (9.5 percent). The decrease from last year is due primarily to a reduction in participants' average dollar amount of contributions. This decrease may be driven by adverse economic conditions. Participation in the plan increased from 39,478 in 2008 to 39,802 in 2009. An investment loss of \$115 million was recognized for the 2009 fiscal year compared with a net investment loss of \$40.6 million for the 2008 fiscal year.

Deductions from the MDC net assets include payments to participants and beneficiaries. For the 2009 fiscal year, payments amounted to \$55.2 million, an increase of \$1.2 million (2.1 percent) from the 2008 fiscal year. The increase in withdrawals is attributed to a prolonged downturn in the economy.

Benefit obligations of the 457 defined contribution plan are equal to the member account balances, which are equal to net assets of the plan.

#### **Requests for Information**

This financial report is designed to provide a general overview of the finances of the System. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Public Employees' Retirement System, Accounting Department, 429 Mississippi Street, Jackson, MS 39201-1005.

# Public Employees' Retirement System of Mississippi

## Statement of Fiduciary Net Assets – June 30, 2009

(In Thousands)

	PERS	MHSPRS	MRS	SLRP	Eliminations	Total Defined Benefit Pension Plans	IRC 457 Plan GEDCP	Total Pension Trust Funds	Agency Funds	Total 2009
<b>Assets</b>										
Cash and cash equivalents (note 3)	\$ 331,948	\$4,693	\$3,190	\$216	\$ -	340,047	\$3,323	\$343,370	\$19	\$ 343,389
Receivables:										
Employer	50,553	-	457	-	-	51,010	-	51,010	-	51,010
Employee	30,635	-	10	-	-	30,645	2,971	33,616	-	33,616
Investment proceeds	583,458	8,279	5,626	381	-	597,744	-	597,744	-	597,744
Interest and dividends	74,121	1,052	715	48	-	75,936	215	76,151	-	76,151
Other	490	1,009	5	-	-	1,504	-	1,504	-	1,504
Total receivables	739,257	10,340	6,813	429	-	756,839	3,186	760,025	-	760,025
Investments, at fair value (note 3)										
Short-term securities	57,805	820	557	38	-	59,220	23,892	83,112	-	83,112
Debt securities	4,264,722	60,504	41,120	2,789	-	4,369,135	39,496	4,408,631	-	4,408,631
Equity securities	10,142,309	143,890	97,790	6,632	-	10,390,621	384,636	10,775,257	-	10,775,257
Private equity	12,510	177	121	8	-	12,816	-	12,816	-	12,816
Absolute return strategy	10,604	150	102	7	-	10,863	-	10,863	-	10,863
Real estate	652,863	9,262	6,295	427	-	668,847	-	668,847	-	668,847
Asset allocation fund	-	-	-	-	-	-	35,601	35,601	-	35,601
Fixed rate and variable	-	-	-	-	-	-	478,603	478,603	-	478,603
Life insurance contracts	-	-	-	-	-	-	335	335	-	335
Total investments before lending activities	15,140,813	214,803	145,985	9,901	-	15,511,502	962,563	16,474,065	-	16,474,065
Securities lending:										
Short-term securities	926,333	13,176	8,954	607	-	949,070	-	949,070	-	949,070
Debt securities	1,416,141	20,142	13,689	928	-	1,450,900	-	1,450,900	-	1,450,900
Total securities lending	2,342,474	33,318	22,643	1,535	-	2,399,970	-	2,399,970	-	2,399,970
Total investments	17,483,287	248,121	168,628	11,436	-	17,911,472	962,563	18,874,035	-	18,874,035
Due from other funds	9	-	-	-	(9)	-	-	-	-	-
Capital assets, at cost, net of accumulated depreciation (note 4)										
	15,814	-	-	-	-	15,814	-	15,814	-	15,814
Total assets	18,570,315	263,154	178,631	12,081	(9)	19,024,172	969,072	19,993,244	19	19,993,263
<b>Liabilities</b>										
Accounts payable and accrued expenses	1,057,768	14,972	10,179	691	-	1,083,610	149	1,083,759	15	1,083,774
Obligations under securities lending	2,376,906	33,808	22,976	1,558	-	2,435,248	-	2,435,248	-	2,435,248
Due to other funds (note 5)	16	-	9	-	(9)	16	-	16	-	16
Funds held for others	1,138	-	-	-	-	1,138	-	1,138	4	1,142
Total liabilities	3,435,828	48,780	33,164	2,249	(9)	3,520,012	149	3,520,161	19	3,520,180
<b>Net assets held in trust for pension benefits</b>										
	\$15,134,487	\$214,374	\$145,467	\$9,832	\$ -	\$15,504,160	\$968,923	\$16,473,083	\$ -	\$16,473,083

The accompanying notes are an integral part of these basic financial statements.

## Public Employees' Retirement System of Mississippi

### Statement of Changes in Fiduciary Net Assets – For the Year Ended June 30, 2009

(In Thousands)

	PERS	MHSPRS	MRS	SLRP	Eliminations	Total Defined Benefit Pension Plans	IRC 457 Plan MDC	Total Pension Trust Funds 2009
<b>Additions:</b>								
Contributions:								
Employer	\$ 713,569	\$ 9,066	\$ 17,415	\$ 458	\$ -	\$ 740,508	\$ 509	\$ 741,017
Employee	434,081	2,166	154	207	-	436,608	82,622	519,230
Total contributions	1,147,650	11,232	17,569	665	-	1,177,116	83,131	1,260,247
Net investment loss:								
Net depreciation in fair value	(4,245,528)	(60,386)	(41,039)	(2,783)	-	(4,349,736)	(135,845)	(4,485,581)
Interest and dividends	522,792	7,436	5,054	343	-	535,625	20,841	556,466
Total before lending activities	(3,722,736)	(52,950)	(35,985)	(2,440)	-	(3,814,111)	(115,004)	(3,929,115)
Securities lending:								
Net appreciation in fair value	12,753	181	123	8	-	13,065	-	13,065
Interest	50,324	716	487	33	-	51,560	-	51,560
Interest expense	(25,987)	(370)	(251)	(17)	-	(26,625)	-	(26,625)
Program fees	(5,433)	(77)	(53)	(4)	-	(5,567)	-	(5,567)
Net income from securities lending	31,657	450	306	20	-	32,433	-	32,433
Managers' fees and trading costs	(25,937)	(369)	(251)	(17)	-	(26,574)	-	(26,574)
Net investment loss	(3,717,016)	(52,869)	(35,930)	(2,437)	-	(3,808,252)	(115,004)	(3,923,256)
Other additions:								
Administrative fees	657	-	-	-	(657)	-	-	-
Other	-	3,208	-	-	-	3,208	-	3,208
Total other additions	657	3,208	-	-	(657)	3,208	-	3,208
Total	(2,568,709)	(38,429)	(18,361)	(1,772)	(657)	(2,627,928)	(31,873)	(2,659,801)
<b>Deductions:</b>								
Retirement annuities	1,465,500	23,098	35,848	790	-	1,525,236	55,195	1,580,431
Refunds to terminated employees	70,050	72	12	9	-	70,143	-	70,143
Total	1,535,550	23,170	35,860	799	-	1,595,379	55,195	1,650,574
Administrative expenses:								
Personal services:								
Salaries, wages and fringe benefits	7,806	-	-	-	-	7,806	-	7,806
Travel and subsistence	72	-	-	-	-	72	-	72
Contractual services	3,627	-	-	-	-	3,627	-	3,627
Commodities	318	-	-	-	-	318	-	318
Total administrative expenses	11,823	-	-	-	-	11,823	-	11,823
Depreciation	500	-	-	-	-	500	-	500
Administrative fees	-	181	467	9	(657)	-	-	-
Total	1,547,873	23,351	36,327	808	(657)	1,607,702	55,195	1,662,897
<b>Net decrease</b>	<b>(4,116,582)</b>	<b>(61,780)</b>	<b>(54,688)</b>	<b>(2,580)</b>	<b>-</b>	<b>(4,235,630)</b>	<b>(87,068)</b>	<b>(4,322,698)</b>
<b>Net assets held in trust for pension benefits:</b>								
Beginning of year	19,251,069	276,154	200,155	12,412	-	19,739,790	1,055,991	20,795,781
End of year	\$15,134,487	\$214,374	\$145,467	\$ 9,832	\$ -	\$15,504,160	\$ 968,923	\$16,473,083

The accompanying notes are an integral part of these basic financial statements.

# Public Employees' Retirement System of Mississippi

Notes to Basic Financial Statements – June 30, 2009

## 1. Plan Description

### (a) General

The Public Employees' Retirement System of Mississippi (System) is the administrator of six fiduciary funds, of which five are pension trust funds and one an agency fund, as listed below. The System is also the administrator of the Optional Retirement Plan, a defined contribution plan, but as explained in note 2, that plan is not part of the System's reporting entity.

Plan Name	Type of Plan
Public Employees' Retirement System of Mississippi (PERS)	Cost-sharing multiple-employer defined benefit plan
Mississippi Highway Safety Patrol Retirement System (MHSPRS)	Single-employer defined benefit plan
Municipal Retirement Systems and Fire and Police Disability and Relief Fund (MRS)*	Agent multiple-employer defined benefit plan
Supplemental Legislative Retirement Plan (SLRP)	Single-employer defined benefit plan
Government Employees' Mississippi Deferred Compensation Plan and Trust (MDC) <i>Formerly referred to as Government Employees' Deferred Compensation Plan (GEDCP)</i>	IRC 457 defined contribution plan
Flexible Benefits Cafeteria Plan (FBCP)	Agency

\*Closed to new members

The System's purpose is to provide pension benefits for all State and public education employees, sworn officers of the State Highway Patrol, other public employees whose employers have elected to participate in the System, and elected members of the State Legislature and the president of the Senate.

A summary of participating employers and members follows:

	PERS	MHSPRS	MRS*	SLRP	TOTAL
<b>Employers:</b>					
State agencies.....	113	2	–	5	120
State universities.....	9	–	–	–	9
Public schools.....	150	–	–	–	150
Community/junior colleges.....	15	–	–	–	15
Counties.....	82	–	–	–	82
Municipalities.....	239	–	17	–	256
Other political subdivisions.....	260	–	–	–	260
Total employers.....	868	2	17	5	892
<b>Members:</b>					
Active vested.....	109,235	412	35	130	109,812
Active nonvested.....	57,887	158	–	44	58,089
Total active members.....	167,122	570	35	174	167,901
Inactive vested.....	18,038	14	2	58	18,112
Inactive nonvested.....	108,486	33	–	9	108,528
Total inactive members.....	126,524	47	2	67	126,640
Retirees and beneficiaries.....	76,143	692	2,123	141	79,099
Total retired/inactive members.....	202,667	739	2,125	208	205,739
Total members.....	369,789	1,309	2,160	382	373,640
<b>Active members by employer:</b>					
State agencies.....	34,465	570	–	174	35,209
State universities.....	18,081	–	–	–	18,081
Public schools.....	67,174	–	–	–	67,174
Community/junior colleges.....	6,195	–	–	–	6,195
Counties.....	14,884	–	–	–	14,884
Municipalities.....	18,913	–	35	–	18,948
Other political subdivisions.....	7,410	–	–	–	7,410
Total active members.....	167,122	570	35	174	167,901

\*Information furnished for MRS is as of September 30, 2008.

(b) Membership and Benefit Provisions

(1) Public Employees' Retirement System of Mississippi

Membership in PERS is a condition of employment for those who qualify. Eligibility is granted upon hiring for qualifying employees and officials of the State of Mississippi (the State), State universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State, membership is contingent upon approval of the entity's participation in PERS by the System's Board of Trustees. If approved, membership is a condition of employment and eligibility is granted to those who qualify upon hiring. Members who terminate employment from all covered employers and who are not eligible to receive monthly retirement benefits may request a refund of their accumulated employee contributions plus interest.

Participating employees who are vested and retire at or after age 60 or those who retire regardless of age with at least 25 years of creditable service are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2 percent of their average compensation for each year of credited service up to and including 25 years, plus 2.5 percent for each year of credited service over 25 years. Average compensation is the average of the employee's earnings during the four highest compensated years of credited service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. For members who enter the System on or after July 1, 2007, benefits vest upon completion of eight years of membership service. For members who entered the System before July 1, 2007, benefits vest upon completion of four years of membership service. PERS also provides certain death and disability benefits. Benefit provisions are established by Section 25-11-1 et seq., Mississippi Code Ann. 1972 and may be amended only by the State of Mississippi Legislature.

A cost-of-living payment is made to eligible retirees and beneficiaries. The cost of living adjustment is equal to 3 percent of the annual retirement allowance for each full fiscal year of retirement prior to the year in which the member reaches age 55, plus 3 percent compounded for each year thereafter beginning with the fiscal year in which the member turns age 55. For the year ended June 30, 2009, the total additional annual payments were \$312,471,000.

(2) Mississippi Highway Safety Patrol Retirement System

Membership in MHSPRS is a condition of employment. Eligibility is granted upon hiring for all officers of the Mississippi Highway Safety Patrol who have completed a course of instruction in an authorized highway patrol training school on general law enforcement and who serve as sworn officers of the highway patrol in the enforcement of the laws of the State of Mississippi.

Participating employees who withdraw from service at or after age 55 with at least five years of membership service, or after reaching age 45 with at least 20 years of credited service, or with 25 years of service at any age are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.5 percent of their average compensation during the four highest consecutive years of earnings, reduced 3 percent for each year below age 55 or 3 percent for each year under 25 years of service, whichever is less. MHSPRS also provides certain death and disability benefits. Members who terminate employment from all covered employers and who are not eligible to receive monthly retirement benefits may request a refund of their accumulated employee contributions plus interest. Benefit provisions for MHSPRS are established by Section 25-13-1 et seq., Mississippi Code Ann. 1972 and may be amended only by the State of Mississippi Legislature.

A cost-of-living payment is made to eligible retirees and beneficiaries. The cost of living adjustment is equal to 3 percent of the annual retirement allowance for each full fiscal year of retirement prior to the year in which the member reaches age 60, plus 3 percent compounded for each year thereafter beginning with the fiscal year in which the member turns age 60. For the year ended June 30, 2009, the total additional annual payments were \$5,982,000.

(3) Municipal Retirement Systems

Membership in the two General Municipal Retirement Systems and the 17 Fire and Police Disability and Relief Systems was granted to all municipal employees, fire fighters and police officers who were not already members of PERS and who were hired prior to July 1, 1976. Two fire and police plans elected to extend the eligibility period for membership to July 1, 1987. Employees hired after these periods automatically become members of PERS. Municipal Retirement Systems were all closed to new members by July 1, 1987.

Participating employees who retire regardless of age with at least 20 years of membership service are entitled to an annual retirement allowance payable monthly for life in an amount equal to 50 percent of their average monthly compensation and an additional 1.7 percent for each year of credited service over 20 years, not to exceed 66.67 percent of average monthly compensation. Average monthly compensation for the two Municipal Retirement Systems

and the 17 Fire and Police Disability and Relief Systems is the monthly average for the last six months of service. Certain participating employers provide a minimum monthly retirement allowance. Benefits vest upon reaching 20 years of credited service. MRS also provides certain death and disability benefits. Members who terminate employment from all covered employers and are not eligible to receive monthly retirement benefits may request a refund of employee contributions. Benefit provisions are established by Sections 21-29, Articles 1, 3, 5 and 7, Mississippi Code Ann. 1972, as amended and annual local and private legislation. Statutes may be amended only by the State of Mississippi Legislature.

The retirees and beneficiaries of Municipal plans with provisions for additional payments, who are receiving a retirement allowance on July 1 of each fiscal year, may be entitled to an additional payment. This payment is equal to the annual percentage change of the Consumer Price Index not to exceed 2.5 percent of the annual retirement allowance for each full fiscal year of retirement. Certain Municipal plans may adopt an annual adjustment other than one linked to the change in the Consumer Price Index. These additional payments will only be made when funded by the employers. For the year ended June 30, 2009, the total additional annual payments were \$5,053,000.

(4) Supplemental Legislative Retirement Plan

Membership in SLRP is composed of all elected members of the State Legislature and the president of the Senate. This plan is designed to supplement the provisions of PERS. Those serving when SLRP became effective on July 1, 1989, had 30 days to waive membership. Those elected after July 1, 1989, automatically become members.

The retirement allowance is 50 percent of an amount equal to the retirement allowance payable by PERS, determined by credited service as an elected senator or representative in the State Legislature or as president of the Senate. Benefits vest upon completion of the requisite number of membership service years in PERS. SLRP also provides certain death and disability benefits. Members who terminate employment from all covered employers and who are not eligible to receive monthly retirement benefits may request a refund of their accumulated employee contributions plus interest. Benefit provisions for SLRP are established by Section 25-11-301 et seq., Mississippi Code Ann. 1972 and may be amended only by the State of Mississippi Legislature.

Retirees and beneficiaries of SLRP may receive additional amounts calculated identically to PERS retirees and beneficiaries. For the year ended June 30, 2009, the total additional annual payments were \$276,000.

(5) Government Employees' Mississippi Deferred Compensation Plan and Trust

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The term "employee" means any person, whether appointed, elected, or under contract, providing services for the State, State agencies, counties, municipalities, or other political subdivisions, for which compensation is paid. The plan permits employees to defer a portion of their income until future years. The deferred compensation is available to employees at termination, retirement, death, unforeseeable emergency, or can be rolled over to the retirement system for purchase of eligible service credit.

The PERS Board of Trustees amended the plan to provide that all assets and income of the plan shall be held in trust for the exclusive benefit of participants and their beneficiaries in order to comply with amendments to Section 457 of the Internal Revenue Code.

The System has no liability for losses under the plan but does have the duty of due care that would be required of a prudent investor. At June 30, 2009, total plan assets aggregated \$969,072,000 with 39,802 participants.

(6) Flexible Benefits Cafeteria Plan

Section 25-17-3, Mississippi Code Ann. (1972), authorizes any State agency to adopt a benefit plan which meets the requirements of a cafeteria plan as defined in Section 1-25 et seq. of the Internal Revenue Code of 1954, and regulations thereunder, for the benefit of eligible employees and their dependents. The FBCP was established as an agency fund to account for transactions related to those employees of the System who participate in the cafeteria plan.

(c) Employee and Employer Obligations to Contribute

Employees covered by PERS and MHSPRS are required to contribute 7.25 percent of their salary. Members of SLRP are required to contribute 3 percent of their compensation in addition to the 7.25 percent required by PERS. If an employee covered by PERS, MHSPRS, or SLRP leaves employment, accumulated employee contributions plus interest are refunded to the employee upon request. The interest paid on employee accounts was 3.5 percent in 2009. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Each

employer contributes the remaining amounts necessary to finance the plan. Contribution provisions are established by Mississippi Code Ann. 1972 Section 25-11-1 et seq. for PERS, Section 25-13-1 et seq. for MHSPRS, and Section 25-11-301 et seq. for SLRP. These statutes may be amended only by the State of Mississippi Legislature.

Employees covered by MRS are required to contribute amounts varying from 7 percent to 10 percent of their salary, depending on the actuarial soundness of their respective plans. Any increase to the 7 percent base contribution rate is made in increments not to exceed 1 percent per year. If an employee leaves covered employment, accumulated employee contributions are refunded to the employee upon request. Employees covered by MRS do not receive interest on their accumulated contributions. Each employer contributes the remaining amounts necessary to finance participation of its own employees in MRS. Contribution provisions are established by Sections 21-29, Articles 1, 3, 5 and 7, Mississippi Code Ann. (1972) and annual local and private legislation. Statutes may be amended only by the State of Mississippi Legislature.

## 2. Summary of Significant Accounting Policies

### (a) Financial Reporting Entity

The reporting entity for the System and its component units consists of five pension trust funds and one agency fund. The pension trust funds are PERS, MHSPRS, MRS, SLRP, and MDC. These financial statements are included in the financial statements of the State of Mississippi. The agency fund is the FBCP. The component units of the System are included in the System's reporting entity due to their financial relationships. Although the component units are legally separate from the System, they are reported as if they were part of the System because the governing boards of each are identical. The System is considered a component unit of the State of Mississippi reporting entity in accordance with Governmental Accounting Standards Board (GASB) 14, *The Financial Reporting Entity*.

The membership of the Optional Retirement Plan (ORP) is composed of teachers and administrators of institutions of higher learning appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. Title 25, Article 11 of the Mississippi Code states that the Board of Trustees of the System will provide for administration of the ORP program. ORP participants direct the investment of their funds among three investment vendors. Benefits payable to plan participants are not obligations of the State of Mississippi. Such benefits and other rights of participants or their beneficiaries are the liability of the vendors and are governed solely by the terms of the annuity contracts issued by them. As such, ORP is not considered part of the System's reporting entity for financial reporting purposes.

### (b) Basis of Presentation – Fund Accounting

Fiduciary funds are used to account for assets held by the System in a trustee capacity or as an agent. Fiduciary funds include PERS, MHSPRS, MRS, SLRP, and MDC pension trust funds. Agency funds are custodial in nature and do not involve measurement of results of operations. FBCP is accounted for as an agency fund.

### (c) Basis of Accounting

PERS, MHSPRS, MRS, SLRP, and MDC use the accrual basis of accounting and the economic resources measurement focus. Employee and employer contributions are recognized as revenue when due pursuant to formal commitments, as well as statutory requirements; investment income is recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when incurred. Investments for PERS, MHSPRS, MRS, SLRP, and MDC are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds are valued based on yields currently available on comparable securities from issuers of similar credit ratings. Mortgage securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Short-term investments are reported at fair value when published prices are available, or at cost plus accrued interest, which approximates fair value. The fair value of commingled real estate funds is based on independent appraisals, while Real Estate Investment Trusts (REIT) traded on a national or international exchange are valued at the last reported sales price at current exchange rates. For individual investments where no readily ascertainable fair value exists, the System, in consultation with its investment advisors and custodial bank, has determined the fair values.

### (d) Budgetary Data

Annual budgets are legally adopted on a modified cash basis for the administrative expenditure portion of the pension trust funds. The System uses the following procedures in the budgetary process:

- Approximately one year in advance, the System prepares a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- At the beginning of August, the proposed budget for the fiscal year commencing the following July is submitted to the Department of Finance and Administration and the Joint Legislative Budget Committee. Budget hearings are conducted by these bodies resulting in recommendations for changes.
- In January, the proposed budget and the recommendations proposed by the Department of Finance and Administration and the Joint Legislative Budget Committee are presented to the State Legislature. The State Legislature makes any revisions it deems appropriate and then legally enacts the System's budget in the form of an appropriation bill.
- The System is authorized to transfer budget amounts between major expenditure classifications on a limited basis subject to approval by the Department of Finance and Administration.
- Spending authority lapses for appropriated funds that remain undisbursed at August 31.

(e) Capital Assets

Capital assets used for administering the plans are carried at historical cost. Depreciation is provided using the straight-line method. The following schedule summarizes estimated useful lives by asset classification:

Asset Classification	Estimated Useful Life	Estimated Salvage Value
Building	40 years	20%
Improvements	20 years	20%
Furniture and equipment	5-15 years	1%
Computer equipment	3 years	1%
Vehicles	3-10 years	10%

(f) Accumulated Personal Leave and Major Medical Leave

Section 25-3-97, Mississippi Code Ann. (1972), authorizes a lump-sum payment for a maximum of 30 days of accrued personal leave upon termination of employment. No payment is authorized for accrued major medical leave unless the employee presents medical evidence that his or her physical condition is such that the employee no longer has the capacity to work in State government. Accumulated personal leave (including fringe benefits) of employees directly related to the administration of the System is paid from the pension trust funds and is accrued in the financial statements when earned, up to a maximum of 30 days per employee. The System does not accrue accumulated major medical leave since it is not probable that the compensation will be paid and since the leave vests only upon termination for medical disability.

(g) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at June 30, 2009, and the reported amounts of additions to and deductions from net assets during the year then ended. Actual results could differ from those estimates.

3. Cash, Cash Equivalents and Investments

a) Legal Provisions

The System is authorized by Section 25-11-121, Mississippi Code Ann. (1972), to invest in the following:

- Bonds, notes, certificates and other valid general obligations of the State, or of any county, city or supervisor's district of any county of the State.
- School district bonds of the State.
- Notes or certificates of indebtedness issued by the Veterans' Home Purchase Board of Mississippi.
- Highway bonds of the State.
- Corporate bonds rated by Standard and Poor's Corporation or Moody's Investors Service.

- Short-term obligations of corporations, or of wholly-owned subsidiaries of corporations, whose short-term obligations are rated A-3 or better by Standard and Poor's Corporation (S&P) or rated P-3 or better by Moody's Investors Service. The Board of Trustees has established a policy which further limits investments of this type to only those corporations whose short-term obligations are rated A-2 or P-2 by Standard and Poor's Corporation or Moody's Investors Service, respectively.
- Bonds of the Tennessee Valley Authority.
- Bonds, notes, certificates and other valid obligations of the United States of America, or any Federal instrumentality that issues securities under authority of an Act of Congress and are exempt from registration with the U.S. Securities and Exchange Commission.
- Bonds, notes, debentures and other securities issued by any Federal instrumentality and fully guaranteed by the United States of America.
- Bonds, stocks and convertible securities of established foreign companies which are listed on primary national stock exchanges of foreign nations; and in foreign government securities. The System is authorized to hedge such transactions through foreign banks and generally deal in foreign exchange through the use of foreign currency, interbank forward contracts, futures contracts, options contracts, swaps and other related derivative instruments.
- Interest-bearing bonds or notes which are general obligations of any other state in the United States of America or any city or county therein, provided such city or county had a population as shown by the Federal census next preceding such investment of not less than 25,000 inhabitants, and provided that such state, city or county has not defaulted for a period longer than 30 days in the payment of principal or interest on any of its general obligation indebtedness during a period of ten calendar years immediately preceding such investment.
- Shares of common and/or preferred stock of corporations created by or existing under the laws of the United States of America or any state, district or territory thereof.
- Covered call and put options on securities traded on one or more of the regulated exchanges.
- Pooled or commingled funds managed by a corporate trustee or by a U.S. Securities and Exchange Commission registered investment advisory firm and shares of investment companies and unit investment trusts registered under the Investment Company Act of 1940. Such pooled or commingled funds or shares are comprised of common or preferred stocks, bonds, money market instruments or other authorized investments.
- Pooled or commingled real estate funds or real estate securities managed by a corporate trustee or by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the Board of Trustees of the System.
- Up to ten percent of the total book value of investments can be types of investments not specifically authorized by this section, if the investments are in the form of a separate account managed by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the Board; or a limited partnership or commingled fund.

The System is also authorized by its Board of Trustees to operate a securities lending program, and has contracted with its custodian to reinvest cash collateral received from the transfer of securities in any investment instrument authorized by Section 25-11-121, Mississippi Code Ann. (1972).

Section 25-11-121, Mississippi Code Ann. (1972) requires the System's Board of Trustees to determine the degree of collateralization necessary for both foreign and domestic demand deposits in addition to that which is guaranteed by Federal insurance programs. These statutes also require that, when possible, the types of collateral securing deposits be limited to securities in which the System itself may invest. The Board of Trustees has established a policy to require collateral equal to at least 100 percent of the amount on deposit in excess of that which is guaranteed by Federal insurance programs to the credit of the System for domestic demand deposit accounts. No collateral is required for foreign demand deposit accounts, and at June 30, 2009, the System had no deposits in foreign demand deposit accounts.

(b) Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Mississippi Code of 1972, Section 25-11-121, provides that the deposits of the System in any bank of the United States shall, where possible, be safeguarded and guaranteed by the posting of bonds, notes, and other securities as security by the depository. The System's Board of Trustees has formally adopted a short-term investment policy that requires that the market value of securities guaranteeing the deposits shall at all times be equal to 100 percent of the amount of funds on deposit.

The amount of the System's total cash and cash equivalents at June 30, 2009, was \$343,389,000. Cash deposits in bank accounts totaled \$2,067,000 which were covered by federal depository insurance. At June 30, 2009, the System held \$344,998,000 in cash equivalents. Cash equivalents are created through daily sweeps of excess cash by the System's custodial bank into a bank-sponsored short-term investment fund. This fund is a custodial bank-sponsored commingled fund which is invested in short-term U.S. Government securities, including Agency discount notes, repurchase agreements, and U.S. Treasury bills. The average S&P short-term quality rating of the fund was A-1 at June 30, 2009.

As of June 30, 2009, the System's cash equivalents were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	–
Uninsured and collateral held by custodial bank not in the System's name		<u>344,998,000</u>
Total		<u>\$ 344,998,000</u>

(c) Investments

All of the investment assets of MHSPRS, MRS, and SLRP are combined with those of PERS and invested in short-term and long-term debt securities, public equity securities, private equity, absolute return investments, and real estate. These investments are accounted for as part of the PERS pension trust fund and are allocated to MHSPRS, MRS, and SLRP based on their equitable interest in the PERS fund. All investments are reported at fair value.

All investments are governed by the Board's policy of the prudent person rule. The prudent person rule establishes a standard for all fiduciaries, to act as a prudent person would be expected to act, with discretion and intelligence, while investing for income and preservation of principal.

In October 2002, the Board of Trustees adopted real estate as part of the System's long-term asset allocation. The Mississippi Code Section 25-11-121 allows the System to invest up to 10 percent of the total portfolio in real estate only via real estate securities and commingled funds. Direct ownership of real estate assets is prohibited. The System funded its first real estate investments in June 2003. The portfolio is divided between core commingled and value added real estate fund investments, which directly invest in properties, and in managed portfolios of Real Estate Investment Trusts (REIT). REITs are exchange traded securities which provide indirect exposure to real estate properties and real estate management companies. Fair values of commingled fund properties are based on the most recent independent appraisal values. Independent appraisal firms, which are Members of Appraisal Institute (MAI), are required to conduct valuations at least annually.

In fiscal year 2009, PERS began investing in private equity and absolute return investments. The Board adopted the current long term policy asset allocation target in 2006 that includes 5.0 percent private equity and 5.0 percent absolute return strategies. Private equity was adopted to provide returns in excess of those provided through publicly traded stocks and bonds. Absolute return strategies provide returns that are not correlated with the public equity markets.

The following table presents the fair value of investments by type at June 30, 2009 (in thousands):

Investment type:	Fair Value
Commercial paper.....	\$ 789,402
Repurchase agreements.....	214,729
International currency.....	4,159
U.S. Government agency obligations.....	213,921
U.S. Treasury obligations.....	1,121,386
Collateralized mortgage obligations.....	505,889
Corporate bonds.....	1,837,901
Mortgage pass-throughs.....	1,231,056
Municipals.....	82,883
Asset backed securities.....	777,330
Yankee/Global bonds.....	49,669
Domestic equity securities.....	7,205,777
International equity securities.....	3,275,811
Real estate.....	668,847
Private equity.....	12,816
Absolute return.....	10,863
Money market fund.....	23,892
Fixed income funds.....	39,496
Asset allocation funds.....	35,601
Fixed and variable funds.....	478,603
Life insurance contracts.....	335
Equity funds.....	293,669
Total.....	\$18,874,035

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty or b. the counterparty's trust department or agent but not in the government's name. The Mississippi Code of 1972, Section 25-11-121, requires that all investments be clearly marked as to ownership and to the extent possible, shall be registered in the name of the System.

Of the defined benefit pension funds' \$17.9 billion in investments at June 30, 2009, \$2.4 billion were exposed to custodial credit risk. These are cash collateral reinvestment securities held in the name of the custodian whom acquired them as the lending agent/counterparty. This is consistent with the System's securities lending agreement in place with the custodian.

The fair value of cash collateral securities as of June 30, 2009, are presented by type below (in thousands):

	Fair Value
Commercial paper.....	\$ 789,402
Repurchase agreements.....	159,668
Corporate bonds.....	863,783
Asset backed securities.....	587,117
Total.....	\$2,399,970

## Interest Rate Risk

As of June 30, 2009, the System had the following debt security investments and maturities:

Investment Type:	Fair Value (in thousands)	Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Asset backed securities .....	\$ 777,330	\$ 626,803	\$ 9,351	\$ 15,162	\$ 126,014
Collateralized mortgage obligations .....	505,889	40,728	7,021	15,641	442,499
Commercial paper .....	789,402	789,402	-	-	-
Corporate bonds .....	1,837,901	885,609	330,697	375,808	245,787
Mortgage pass-throughs .....	1,231,056	12	1,652	36,970	1,192,422
Repurchase agreements .....	214,729	214,729	-	-	-
State and local obligations .....	82,883	-	5,599	-	77,284
U. S. Government agency obligations .....	213,921	16,643	134,244	54,774	8,260
U. S. Treasury obligations .....	1,121,386	-	503,535	374,481	243,370
Yankee/Global bonds .....	49,669	-	17,213	19,884	12,572
<b>Total .....</b>	<b>\$6,824,166</b>	<b>\$2,573,926</b>	<b>\$1,009,312</b>	<b>\$892,720</b>	<b>\$2,348,208</b>

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Derivative securities, variable rate investments with coupon multipliers greater than one, and securities with long terms to maturity are examples of investments whose fair values may be highly sensitive to interest rate changes. These securities are reported at fair value in the Statement of Fiduciary Net Assets. Inverse floaters and variable rate investments with coupon multipliers greater than one are prohibited under the System's derivatives policy.

Section 25-11-121, Mississippi Code Ann. (1972) provides for the acquisition of derivative instruments by the System. Additionally, the System adopted a formal policy in February 1996 which established guidelines for investing in derivatives. During fiscal year 2009, the investments in derivatives by the System were exclusively in asset/liability based derivatives such as interest-only (IO) strips, collateralized mortgage obligations, and asset-backed securities. The System reviews fair values of all securities on a monthly basis and prices are obtained from recognized pricing sources. Derivative securities are held, in part, to maximize yields.

Interest-only and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The System held IOs valued at \$11 thousand at fiscal year end. The System's derivatives policy limits IO and PO strips to 3 percent of the investment portfolio.

Collateralized mortgage obligations (CMOs) are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with that CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and, thus a decline in the fair value of the CMO security. Rising interest rates may cause an increase in interest payments, thus an increase in the fair value of the security. The System held \$506 million in CMOs at June 30, 2009. Of this amount, \$166 million were tranches that are highly sensitive to future changes in interest rates. CMO residuals are prohibited under the System's derivatives policy.

Asset-backed securities (ABS) are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivable paper sells it to a specially created trust,

which repackages it as securities. Similar to CMOs, asset-backed securities have been structured as pass-throughs and as structures with multiple bond classes. Of the \$777 million in ABS that the System held at June 30, 2009, \$141 million are highly sensitive to changes in interest rates. ABS which are leveraged structures or residual interests are prohibited by the System's derivatives policy.

At June 30, 2009, the System has invested in \$1,231 million in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

#### Credit Risk

The System's exposure to credit risk as of June 30, 2009, is as follows (fair value in thousands):

Investment Type	S&P Quality Ratings											
	A	AA	AAA	B	BAA	BB	BBB	C	CC	CCC	D	NR
Asset backed securities.....\$	4,463	\$ 76,435	\$ 627,968	\$59,075	\$ -	\$ -	\$ 7,902	\$ -	\$ 246	\$ -	\$143	\$1,098
Collateralized mortgage obligations...	9,194	7,774	437,754	11,771	4,220	1,782	9,916	289	-	1,734	-	-
Commercial paper.....	789,402	-	-	-	-	-	-	-	-	-	-	-
Corporate bonds.....	614,503	662,885	167,057	-	-	67,073	324,333	14	1,092	218	-	727
Mortgage pass-throughs.....	-	-	1,173,692	-	-	-	-	-	-	-	-	-
Repurchase agreements.....	-	-	214,729	-	-	-	-	-	-	-	-	-
State and local obligations.....	21,356	38,258	12,727	-	2,098	-	5,702	-	-	-	-	2,742
U.S. Government agency obligations..	-	-	213,921	-	-	-	-	-	-	-	-	-
Yankee/Global bonds.....	25,820	3,348	14,782	-	-	-	5,719	-	-	-	-	-
Total .....	<u>\$1,464,738</u>	<u>\$788,700</u>	<u>\$2,862,630</u>	<u>\$70,846</u>	<u>\$6,318</u>	<u>\$68,855</u>	<u>\$353,572</u>	<u>\$303</u>	<u>\$1,338</u>	<u>\$1,952</u>	<u>\$143</u>	<u>\$4,567</u>

State law requires a minimum quality rating of A-3 by Standard and Poor's or P-3 by Moody's for corporate short-term obligations. This law also requires corporate and taxable municipal bonds to be of investment grade as rated by Standard and Poor's or Moody's.

PERS' Board of Trustees has adopted a short-term investment policy which further restricts commercial paper to be of corporations with long-term debt to be rated A or better by Standard and Poor's or Moody's, and whose short-term obligations are of A-2 or P-2 or better ratings by Standard and Poor's and Moody's, respectively. This applies to all short-term investments of the System.

In addition to the short-term investment policy, a policy adopted for the internally-managed short-term account requires that for any amount above the established core of \$30 million, no more than 25 percent be invested in any issue having a rating lower than AA or A1P1.

Credit risk for derivatives held by the System results from the same considerations as other counterparty risk assumed by the System, which is the risk that a borrower will be unable to meet its obligation. The System's policy requires that the credit quality of the underlying asset must be rated A or better by Moody's or Standard and Poor's.

The System's lending agent is permitted to purchase asset-backed securities for the cash collateral fund that are only AAA rated.

## Foreign Currency Risk

The System's exposure to foreign currency risk at June 30, 2009, was as follows:

Currency	%	Fair Value (in thousands)
Australian Dollar .....	4.44%	\$ 133,507
Brazilian Real .....	3.37%	101,480
Canadian Dollar .....	2.26%	68,045
Czech Koruna .....	0.09%	2,832
Danish Krone .....	0.47%	14,221
Egyptian Pound .....	0.91%	27,458
Euro .....	30.11%	905,655
Hong Kong Dollar .....	3.39%	101,964
Hungarian Forint .....	0.01%	329
Indian Rupee .....	1.39%	41,964
Indonesian Rupiah .....	0.64%	19,310
Japanese Yen .....	15.80%	475,420
Malaysian Ringgit .....	0.30%	9,099
Mexican Peso .....	0.18%	5,297
Israeli Shekel .....	0.83%	24,973
New Taiwan Dollar .....	1.05%	31,574
New Turkish Lira .....	1.51%	45,479
New Zealand Dollar .....	0.04%	1,175
Norwegian Krone .....	0.66%	19,770
Pakistani Rupee .....	0.17%	5,070
Polish Zloty .....	0.01%	445
Pound Sterling .....	17.60%	529,450
Singapore Dollar .....	1.04%	31,356
South African Rand .....	2.89%	87,052
Korean Won .....	2.54%	76,315
Swedish Krona .....	1.72%	51,688
Swiss Franc .....	6.09%	183,208
Thailand Baht .....	0.49%	14,720
Total .....	<u>100.00%</u>	<u>\$ 3,008,856</u>

All foreign currency-denominated investments are in equities and foreign cash. The System's investment asset allocation policy limits non-U.S. investments to 16.0 percent. At June 30, 2009, the current position is 21.0 percent. The Investment Committee of the Board of Trustees evaluates the actual investment asset allocation quarterly, in accordance with the adopted phase-in policy. Based on current market conditions, the Board adjusts the allocation as necessary.

## Commitments

As of June 30, 2009, the System had real estate, private equity, and absolute return investments legally structured as limited partnerships. The System was one of the limited partners within each fund, with the investment managers serving as the general partners. As part of the limited partnership agreements, PERS agrees to potentially invest up to the committed amounts during the stated fund investment period.

At fiscal year end, PERS had the following outstanding investment commitments:

### Commitments—Alternative Investments June 30, 2009

	Committed Capital	Capital Contributed	Outstanding
Real Estate .....	\$ 300,000,000	\$ 176,505,464	\$ 123,494,536
Private Equity .....	1,500,000,000	14,002,537	1,485,997,463
Absolute Return .....	50,000,000	10,000,000	40,000,000
Total .....	<u>\$ 1,850,000,000</u>	<u>\$ 200,508,001</u>	<u>\$ 1,649,491,999</u>

Within its Alternative Investment Program, the System has investments, that due to their long term nature, do not provide immediate liquidity. The commingled real estate fund investments allow for quarterly liquidity. As of June 30, 2009, the total fair value of the commingled real estate portfolio was approximately \$404 million. The closed-end real estate funds, timber fund and private equity fund investments are all ten to twelve-year commitments. These funds have limited liquidity due to their long investment time horizon, but will make periodic distributions throughout the term of the investment as assets are sold. As of June 30, 2009, the fair value of these investments totaled \$142.4 million. The absolute return portfolio also has limited liquidity, but has a shorter three to four-year investment horizon. As of June 30, 2009, the System held \$11 million in assets for the absolute return portfolio.

(d) Securities Lending Transactions

The System accounts for securities lending transactions in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, which established standards of accounting and financial reporting for securities lending transactions.

The following table details the net income from securities lending for the period ended June 30, 2009 (in thousands):

	PERS	MHSPRS	MRS	SLRP	TOTAL
Interest income.....	\$ 50,324	\$ 716	\$ 487	\$ 33	\$ 51,560
Net appreciation.....	12,753	181	123	8	13,065
Income from securities lending.....	63,077	897	610	41	64,625
Less:					
Interest expense.....	25,987	370	251	17	26,625
Program fees.....	5,433	77	53	4	5,567
Expenses from securities lending.....	31,420	447	304	21	32,192
Net income from securities lending.....	\$ 31,657	\$ 450	\$ 306	\$ 20	\$ 32,433

The Board of Trustees has authorized the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian, pursuant to a written agreement, is permitted to lend all long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. There have been no significant violations of the provisions of the agreement during the period of these financial statements. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan at June 30, 2009 are long-term U.S. government and agency obligations, corporate bonds, REITS, and domestic and international equities. At the initiation of a loan, borrowers are required to provide collateral amounts of 102 percent (domestic securities) and 105 percent (international securities) of the fair value and accrued income of the securities lent. In the event the collateral fair value falls to less than 102 or 105 percent of the respective fair value of the securities lent, the borrower is required to provide additional collateral by the end of the next business day. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan. The System cannot pledge, lend or sell securities received as collateral unless the borrower defaults.

The maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. All securities loans can be terminated on demand by either the System or the borrower, although the average term of these loans was 4.5 days at June 30, 2009. Cash collateral was invested in repurchase agreements, commercial paper, corporate bonds, and asset-backed securities at June 30, 2009. The weighted average final duration of all collateral investments at June 30, 2009, was 154 days with a weighted average maturity of 32 days.

Securities lent at year-end for cash collateral are presented by type in note 3 (c); securities lent for securities collateral are classified according to the custodial credit risk category for the collateral. There were no securities lent for securities collateral as of June 30, 2009. The investments purchased with the cash collateral are also presented in note 3 (c) in the discussion of custodial credit risk, since the custodian, as agent, is the counterparty in acquiring these securities in a separate account for the System.

At year-end, the System had no credit risk exposure to borrowers because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

The securities lending total assets of \$2,402,157,000, which include the related accrued interest, and the related total liabilities of \$2,435,248,000, which include the related expenses, on the Statement of Fiduciary Net Assets do not equal at June 30, 2009. The difference of negative \$33,091,000 is due to the collateral investment fund's market depreciation and the earnings receivable until the final distribution takes place the following month.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2009 (in thousands):

Securities Lent	Fair Value Including Accrued Income	Cash Collateral Received
Lent for cash collateral:		
Debt securities .....	\$ 1,028,849	\$ 1,051,675
Domestic equities .....	1,117,391	1,148,703
International equities .....	164,168	183,360
REITs .....	50,235	51,510
Total securities lent .....	<u>\$ 2,360,643</u>	<u>\$ 2,435,248</u>

(e) Commission Recapture Program

The Board of Trustees has authorized the System to enter into a commission recapture program. This program allows the System to recapture a portion of the commissions paid to broker/dealers with which the System has entered into an agreement. Earnings for the fiscal year ended June 30, 2009 were \$531,000.

4. Capital Assets

The following table shows amounts for capital assets as of June 30, 2009 (in thousands):

Description	2009
Land .....	\$ 508
Building .....	18,459
Improvements .....	25
Furniture and equipment .....	<u>1,177</u>
Total capital assets .....	<u>20,169</u>
Less accumulated depreciation .....	
Building .....	3,257
Improvements .....	20
Furniture and equipment .....	<u>1,078</u>
Total accumulated depreciation .....	<u>4,355</u>
Net capital assets .....	<u>\$ 15,814</u>

5. Due To Other Funds

The following is a summary of due to/due from other funds as of June 30, 2009 (in thousands):

Due To Other Funds:		
Receivable Fund	Payable Fund	Amount
Information Technology Services	PERS	<u>\$ 16</u>
	Total Due To	<u>\$ 16</u>

## 6. Funding Status and Progress

### (a) Actuarial Asset Valuation

Actuarial values of assets for PERS, MHSPRS, SLRP and MRS are based on a smoothed fair value basis that recognizes 20 percent of the unrecognized and unanticipated gains and losses. The actuarial valuation of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are recognized in equal increments over a five-year period beginning with the current year.

The following table presents the actuarial change in asset valuation for the year ended June 30, 2009 (in thousands):

	PERS	MHSPRS	MRS	SLRP	TOTAL
Valuation assets June, 2008** .....	\$20,814,720	\$298,630	\$213,432	\$13,412	\$21,340,194
Contributions and other revenue ....	1,147,650	14,440	16,306	665	1,179,061
Benefit payments .....	(1,535,550)	(23,170)	(35,911)	(799)	(1,595,430)
Administrative expenses .....	(11,823)	(181)	(323)	(9)	(12,336)
Investment expenses* .....	(25,937)	(369)	–	(17)	(26,323)
Net new money .....	(425,660)	(9,280)	(19,928)	(160)	(455,028)
Expected total investment					
return for 2009 (8%) .....	1,550,034	22,105	17,691	1,004	1,590,834
Adjustment towards market (20%) ..	(1,341,513)	(19,133)	(2,716)	(870)	(1,364,232)
Valuation assets June, 2009** .....	\$20,597,581	\$292,322	\$208,479	\$13,386	\$21,111,768

\* This amount is based on a proportionate share of the total investment expense of the commingled assets. The ratio of this number to the total investment expense is equal to the ratio of a fiscal year average market value of assets for this fund to a fiscal year average market value of the total commingled assets.

\*\* Information for MRS is presented as of September, 2007 and 2008, respectively.

Significant actuarial assumptions used to compute contribution requirements for PERS, MHSPRS, SLRP, and MRS are the same as those used to compute the standardized measure of the actuarial accrued liability described in the Notes to Required Supplemental Schedules. The significant assumptions include:

	PERS	MHSPRS	MRS	SLRP
Valuation date	June 30, 2009	June 30, 2009	September 30, 2008	June 30, 2009
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent open	Level percent open	Level dollar closed	Level percent open
Remaining amortization period	30 years	29.3 years	26 years	26.2 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected salary increases	4.5-15.0%	5.0-10.52%	4.5-6.0%	4.50%
Wage inflation rates	4.25%	4.25%	4.0%	4.25%
Increase in benefits after retirement	3.0% <sup>1</sup>	3.0% <sup>2</sup>	2.0-3.75% <sup>3</sup>	3.0% <sup>1</sup>

<sup>1</sup>Calculated 3% simple interest to age 55, compounded each year thereafter. <sup>2</sup>Calculated 3% simple interest to age 60, compounded each year thereafter. <sup>3</sup>Varies depending on municipality.

### (b) Actuarial Experience Review

An actuarial survey of the mortality, service, withdrawals, compensation experience of members and valuation of assets and liabilities is performed annually to determine the actuarial soundness of the System. To validate that the assumptions recommended by the actuary are in the aggregate reasonably related to actual experience, the System requests the actuary to conduct an experience investigation every other year.

An experience review was last performed as of June 30, 2008. As a result of this study, the Board of Trustees adopted new assumptions for PERS which revised rates of salary increase, withdrawal, pre-retirement mortality, and disability and service retirement for active members. Also adopted, was a change in post-retirement mortality tables. New assumptions for MHSPRS were adopted which changed retirement decrements and post-retirement mortality tables. A change in salary scale, as well as post-retirement mortality tables was adopted for SLRP. The assumptions for wage inflation and price inflation were changed for PERS, MHSPRS and SLRP. The benefit provision for maximum reportable earned compensation increased

for PERS and SLRP, and the twenty percent corridor around the market value of assets used to develop the actuarial value of assets was eliminated for PERS, MHSPRS and SLRP. Changes resulting from the experience for PERS, MHSPRS and SLRP were used in the actuarial valuations as of June 30, 2009.

Due to MRS fiscal year ending on September 30, 2008, changes from the previous experience review were applied to the actuarial valuation as of September 30, 2008. The June 30, 2006 experience review recommended the mortality table for females change from set forward 2 years to set forward 3 years. This change was adopted and used in the valuations for MRS as of September 30, 2007 and 2008.

## 7. Contributions Required and Contributions Made

Funding policies for PERS, MHSPRS, and SLRP provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates are established, by the Board of Trustees, for PERS, MHSPRS, and SLRP in accordance with actuarial contribution requirements determined through the most recent valuation.

The annual required contribution rate (ARC) is set two years in advance. Based on the June 30, 2007 valuation, the consulting actuary recommended an employer contribution rate for PERS of 11.85 percent, effective for fiscal year 2009. The Board of Trustees adopted the actuary's recommendation to assure a sufficient funding level to maintain the unfunded accrued liability amortization period within 30 years. For fiscal year 2010, the Board of Trustees approved an increase to 12 percent beginning July 1, 2009. In the June 30, 2009 actuarial valuation report, the consulting actuary recommended the PERS' required contribution rate change to 13.56 percent in order to remain within a 30-year amortization period. This rate increase is scheduled to begin July 1, 2010.

Costs to administer plans are financed from investment earnings. In addition, employers of MRS, MHSPRS, and SLRP contribute an administrative fee to the System.

### Required Contributions (Dollars in Thousands)

System	Contribution Requirements				Contributions Made						
	Normal Cost		Unfunded Cost		Total Required Contributions	Total Actual Contributions	Member		Employer		
	Amount	Percent of Covered Payroll	Amount	Percent of Covered Payroll			Amount	Percent of Covered Payroll	Amount	Percent of Covered Payroll	Amount
PERS	\$656,978	11.27%	\$490,672	7.83%	\$657,048	\$1,147,650	\$434,081	7.25%	\$713,569	11.85%	\$5,831,864
MHSPRS	7,067	23.63	4,165	13.92	11,668*	14,440	2,166	7.25	12,274*	30.30	26,390
SLRP	476	6.90	189	2.75	449	665	207	3.00	458	6.65	6,803
<b>Total</b>	<b>\$664,521</b>	<b>-</b>	<b>\$495,026</b>	<b>-</b>	<b>\$669,165</b>	<b>\$1,162,755</b>	<b>\$436,454</b>	<b>-</b>	<b>\$726,301</b>	<b>-</b>	<b>\$5,865,057</b>

\* Due to Senate Bill No. 2659 enacted in 2004, an estimated additional contribution of \$2,700,000 (9.1% of payroll) was used to calculate total required contributions for MHSPRS. The actual amount received in 2009 was \$3,208,000.

Funding policies for MRS, established by Mississippi statutes, provide for a property tax to be levied within each municipality and deductions from salaries of members, at rates sufficient to make the plans actuarially sound. An actuarial valuation is performed on an annual basis to determine the rates necessary to make the System actuarially sound. However, Mississippi statutes limit any increase in the property tax levy for pension contributions to one-half mill per year. Given this constraint on employer contribution increases, there is a possibility, depending upon future experience, that one or more of the funds under MRS will be exhausted at some point in the future. Such an event would lead to at least a temporary reduction in benefits paid until the affected fund's cash flow position improved.

The Mississippi Code Ann. (1972) provides that a municipality may fund or assist in funding MRS through the use of revenue bonds in order to make the funds under MRS actuarially sound by July 1, 2000. During the fiscal year ended June 30, 1998, a participating municipality issued \$50 million in Pension Obligation Bonds. The proceeds of the bond issuance were transferred to MRS in lieu of employer contributions. The millage levied by this municipality for MRS employer contributions was used by the municipality to retire the bond indebtedness. Beginning October 2009, the municipality will resume submitting employer contributions.

An actuary is used to determine the implications of the statutory limited contribution levels. At September 30, 2008, aggregate contributions for MRS were equivalent to 106.0 percent of the required annual contributions. Certain municipalities will have a contribution deficiency after the maximum one-half mill per year increase.

The employer contribution millage rates required for each municipality ranged from 0.71 to 8.79 mills, totaling \$16,132,000 in actual contributions. The employee contribution rates ranged from 7 percent to 10 percent of covered payroll, totaling \$173,212 in actual contributions.

(a) Legally Required Reserves

Provisions for reserves, in which all assets of the System are to be credited according to their purpose, are established by Section 25-11-123, Article 3, Mississippi Code Ann. (1972) and may be amended only by the State of Mississippi Legislature. The annuity savings account accumulates the contributions made by members and accumulated interest. The annuity reserve represents the actuarial value of all annuities in force. The reserve account that accumulates contributions made by the employers, and where all retirement allowances and other benefits are charged, is referred to as the employer's accumulation account.

The following table presents the reserve account balances and the unfunded actuarial accrued liability as of June 30, 2009 (in thousands):

	PERS	MHSPRS	MRS*	SLRP
Annuity savings account .....	\$ 4,235,466	\$ 20,136	\$ 2,688	\$ 2,327
Annuity reserve .....	2,904,307	25,998	-	1,235
Employer's accumulation account .....	13,457,808	246,188	205,791	9,824
Unfunded actuarial accrued liability (UAAL)....	9,996,965	102,308	159,652	3,149
Actuarial accrued liability .....	<u>\$30,594,546</u>	<u>\$394,630</u>	<u>\$368,131</u>	<u>\$16,535</u>
Percent funded .....	67.3%	74.1%	56.6%	81.0%
Annual covered payroll .....	\$ 5,831,864	\$ 26,390	\$ 1,713	\$ 6,803
UAAL as a percentage of annual covered payroll .....	171.4%	387.7%	9,320.0%	46.3%

\*The annuity reserve for MRS is reflected as of the September 30, 2008 valuation date.

8. Retirement Plan of System Employees

System employees are members of PERS. The payroll for System employees covered by PERS for the year ended June 30, 2009, was \$5,965,000; the System's total payroll expense was \$7,806,000. System contributions for the years ended June 30, 2009, 2008 and 2007, were \$704,000, \$656,000 and \$567,000, respectively. The contributions for 2009, 2008 and 2007 were 100, 97 and 90 percent of required contributions, respectively. Refer to note 7 to the basic financial statements for more information regarding contributions made for fiscal year 2009. System contributions represent less than one percent of total contributions required for all participating employers.

## Required Supplementary Information

### Schedules of Funding Progress – Last Ten Fiscal Years

(In Thousands) • (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b - a)/c)
<b>Public Employees' Retirement System of Mississippi</b>						
6/30/2000	\$ 14,899,074	\$ 18,052,096	\$ 3,153,022	82.5%	\$ 4,090,596	77.1%
6/30/2001	16,191,631	18,494,207	2,302,576	87.5	4,112,238	56.0
6/30/2002	16,823,185	20,180,347	3,357,162	83.4	4,220,539	79.5
6/30/2003	16,979,457	21,485,838	4,506,381	79.0	4,431,600	101.7
6/30/2004	17,103,285	22,847,260	5,743,975	74.9	4,617,273	124.4
6/30/2005	17,180,705	23,727,098	6,546,393	72.4	4,786,280	136.8
6/30/2006	18,321,063	24,928,464	6,607,401	73.5	4,971,974	132.9
6/30/2007	19,791,564	26,862,636	7,071,072	73.7	5,196,295	136.1
6/30/2008	20,814,720	28,534,694	7,719,974	72.9	5,544,705	139.2
6/30/2009	20,597,581	30,594,546	9,996,965	67.3	5,831,864	171.4
<b>Mississippi Highway Safety Patrol Retirement System</b>						
6/30/2000	\$ 244,331	\$ 251,937	\$ 7,606	97.0%	\$ 21,314	35.7%
6/30/2001	259,713	250,621	(9,092)	103.6	21,972	(41.4)
6/30/2002	263,255	285,548	22,293	92.2	20,339	109.6
6/30/2003	259,746	302,134	42,388	86.0	21,052	201.3
6/30/2004	256,481	316,570	60,089	81.0	22,683	264.9
6/30/2005	253,477	335,117	81,640	75.6	22,343	365.4
6/30/2006	265,637	350,638	85,001	75.8	24,499	347.0
6/30/2007	284,626	371,233	86,607	76.7	27,037	320.3
6/30/2008	298,630	381,578	82,948	78.3	29,597	280.3
6/30/2009	292,322	394,630	102,308	74.1	26,390	387.7
<b>Municipal Retirement Systems*</b>						
9/30/1999	\$ 235,221	\$ 369,118	\$ 133,897	63.7%	\$ 9,440	1,418.4%
9/30/2000	253,713	375,059	121,346	67.6	8,485	1,430.1
9/30/2001	262,260	381,782	119,522	68.7	7,350	1,626.1
9/30/2002	259,586	393,011	133,425	66.1	5,980	2,231.2
9/30/2003	250,640	399,622	148,982	62.7	4,584	3,250.0
9/30/2004	235,198	393,061	157,863	59.8	3,675	4,295.6
9/30/2005	217,140	387,386	170,246	56.1	2,909	5,852.4
9/30/2006	213,553	383,355	169,802	55.7	2,223	7,638.4
9/30/2007	213,432	379,584	166,152	56.2	1,953	8,507.5
9/30/2008	208,479	368,131	159,652	56.6	1,713	9,320.0
<b>Supplemental Legislative Retirement Plan</b>						
6/30/2000	\$ 8,199	\$ 9,973	\$ 1,774	82.2%	\$ 5,856	30.3%
6/30/2001	9,124	10,302	1,178	88.6	5,941	19.8
6/30/2002	9,730	11,328	1,598	85.9	5,988	26.7
6/30/2003	10,196	12,220	2,024	83.4	6,289	32.2
6/30/2004	10,323	12,934	2,611	79.8	5,794	45.1
6/30/2005	10,634	13,402	2,768	79.3	6,530	42.4
6/30/2006	11,620	14,064	2,444	82.6	6,354	38.5
6/30/2007	12,722	15,054	2,332	84.5	6,554	35.6
6/30/2008	13,412	15,615	2,203	85.9	6,753	32.6
6/30/2009	13,386	16,535	3,149	81.0	6,803	46.3

\*Valuation information furnished for MRS is as of September 30.

See Notes to Required Supplementary Schedules.

## Required Supplementary Information

### Schedules of Employer Contributions – Last Ten Fiscal Years

(In Thousands) • (Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
<b>Public Employees' Retirement System of Mississippi</b>		
2000	\$ 361,889	100.0%
2001	398,833	100.0
2002	400,943	100.0
2003	411,503	100.0
2004	432,081	100.0
2005	482,967	100.0
2006	514,525	100.0
2007	621,497	90.0
2008	636,546	97.0
2009	657,048	100.0
<b>Mississippi Highway Safety Patrol Retirement System</b>		
2000	\$ 5,182	100.0%
2001	5,576	100.0
2002	3,452	100.0
2003	5,321	100.0
2004	5,928	100.0
2005	9,088	100.0
2006	8,692	100.0
2007	10,023	100.0
2008	10,492	100.0
2009	11,668	100.0
<b>Municipal Retirement Systems*</b>		
1999	\$ 13,803	99.8%
2000	12,364	114.5
2001	11,276	125.9
2002	10,823	132.5
2003	11,989	116.6
2004	13,286	104.5
2005	14,091	100.6
2006	15,397	101.5
2007	15,426	97.1
2008	15,219	106.0
<b>Supplemental Legislative Retirement Plan</b>		
2000	\$ 373	100.0%
2001	371	100.0
2002	376	100.0
2003	379	100.0
2004	398	100.0
2005	367	100.0
2006	413	100.0
2007	423	100.0
2008	436	100.0
2009	449	100.0

\*Valuation information furnished for MRS is as of September 30.

See Notes to Required Supplementary Schedules.

## Public Employees' Retirement System of Mississippi

### Notes to Required Supplementary Schedules – June 30, 2009

1. Schedules of Funding Progress

The funding percentage of the actuarial accrued liability is a measure intended to help users assess each of the plan's funding status on a going-concern basis and assess progress being made in accumulating sufficient assets to pay benefits when due. The actuarial value of assets is determined on a market-related basis that recognizes 20 percent of the current year's unrecognized and unanticipated gains and losses (both realized and unrealized), as well as 20 percent of the prior years' unrecognized and unanticipated gains and losses (both realized and unrealized). For the June 30, 2009 valuation of assets, the 20 percent corridor around the market value of assets was eliminated.

Allocation of the actuarial present value of projected benefits between accrued and future service liabilities is based on service using the entry age actuarial cost method. Assumptions, including projected pay increases, are the same as used to determine the plan's annual required contribution. For additional information regarding this schedule, refer to note 6, Funding Status and Progress.

2. Schedules of Employer Contributions

The required employer contributions and percent of those contributions actually made are presented in this schedule.

Employer contribution rates for PERS, MHSPRS, and SLRP are set by State statute. The adequacy of these rates is assessed annually by individual actuarial valuations. Unfunded actuarial accrued liabilities are amortized as a level percent of the active member payroll, over a fixed period of future years which produces the statutory employer contribution rate. The employer contribution rate so computed, expressed as a percent of active member payroll, is designed to accumulate sufficient assets to pay benefits when due. For MRS, the unfunded actuarial accrued liability is being amortized on a closed basis as a level percent over a period of 30 years. The current financing arrangement provides for a contribution determined as a percentage of each city's assessed property valuation. Actual MRS employer contributions were \$16,132,000, which was 106.0 percent of required contributions for the valuation period ending September 30, 2008.

Beginning with fiscal year 2007, the Governmental Accounting Standards Board (GASB) Statement No. 25 required a maximum acceptable amortization period for the total unfunded actuarial liability of not more than 30 years. In order to comply with the GASB statement, the consulting actuary recommended, in the June 30, 2006 actuarial valuation report, a PERS employer contribution rate of 12.25 percent effective July 1, 2007. To mitigate the financial impact to the State of Mississippi, the Board of Trustees agreed to transition employer contribution rate increases in 0.55 percent increments until the funding level was reached to maintain the liability payment period within 30 years. As a result, the employer contribution rate was increased to 11.85 percent effective July 1, 2007. Due to favorable investment performance in previous years, coupled with prior year increases in employer contribution rates, the consulting actuary decreased the recommended employer contribution rate to 11.85 percent in the June 30, 2007 actuarial valuation report. For fiscal year 2010, the Board of Trustees approved a .15 percent increase to 12 percent, based on the June 30, 2008 actuarial valuation. This increase is effective July 1, 2009. At June 30, 2009, the actual employer contribution amount for PERS was \$713,569,000, which was 100 percent of required total contributions. Actual employer contributions for MHSPRS and SLRP remain at 100 percent of annual required contribution.

<b>2008/2009 Fiscal Year</b>	
<b>PERS Annual Required Contribution (ARC) – Based on the Valuation as of June 30, 2007</b>	
Annual Required Contribution (ARC)	Rate
Normal .....	4.02%
Accrued liability .....	7.83
Total .....	11.85%

3. Actuarial Assumptions

(a) Plan Overview

Based on the most recent actuarial valuation report dated June 30, 2009, the Board of Trustees adopted an employer contribution rate increase of 1.56 percent for PERS, from 12.00 percent to 13.56 percent effective July 1, 2010. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	PERS	MHSPRS	MRS	SLRP
Valuation date	June 30, 2009	June 30, 2009	September 30, 2008	June 30, 2009
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent open	Level percent open	Level dollar closed	Level percent open
Remaining amortization period	30.0 years	29.3 years	26 years	26.2 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected salary increases	4.5-15.0%	5.0-10.52%	4.5-6.0%	4.50%
Wage inflation rates	4.25%	4.25%	4.0%	4.25%
Increase in benefits after retirement	3.0% <sup>1</sup>	3.0% <sup>2</sup>	2.0-3.75% <sup>3</sup>	3.0% <sup>1</sup>

<sup>1</sup>Calculated 3% simple interest to age 55, compounded each year thereafter. <sup>2</sup>Calculated 3% simple interest to age 60, compounded each year thereafter. <sup>3</sup>Varies depending on municipality.

(b) Effects of Current Year Changes in Plan Requirements

Plan requirements may be affected by changes in actuarial assumptions, benefit provisions, plan provisions, actuarial funding methods or other significant factors.

The following amendments were incorporated into the actuarial valuations:

**PERS**

- The withdrawal rates, pre-retirement mortality rates, disability rates, and retirement rates have been revised to more closely reflect the actual experience of the System.
- The post-retirement mortality table used for service retirements and dependents of deceased pensioners has been changed from the 1983 Group Annuity Mortality Table, set forward one year for women, to the 1994 Group Annuity Mortality Table.
- The rates of salary increase for service periods on or after 13 years were lowered.
- The assumption for wage inflation has been changed from 4.00 percent to 4.25 percent, and the assumption for price inflation has been changed from 3.75 percent to 3.50 percent.
- The maximum reportable earned compensation was increased from \$230,000 to \$245,000 to coincide with the compensation limit set pursuant to Section 401(a)(17) of the Internal Revenue Code.
- The 20 percent corridor around the market value of assets used to develop the actuarial value of assets was eliminated.

**MHSPRS**

- Slight changes to the retirement decrements to better match the actual experience of the System.
- The post-retirement mortality table used for service retirements and dependents of deceased pensioners has been changed from the 1983 Group Annuity Mortality Table, set forward one year for women, to the 1994 Group Annuity Mortality Table.
- The 20 percent corridor around the market value of assets used to develop the actuarial value of assets was eliminated.
- Due to Senate Bill No. 2659 enacted in 2004, additional contributions are being made to the System. The estimate used for last year's valuation was \$2,700,000 annually. The actual additional contribution for 2009 is \$3,208,000. However, since previous years' additional contributions have not been consistent, the last three years have been averaged to provide 2009 valuation results, which total an anticipated amount of \$3,100,000 annually in the future.

**SLRP**

- The salary scale was lowered from 5.0 percent to 4.5 percent for all ages.
- The post-retirement mortality table was changed to the 1994 Group Annuity Mortality Table.
- The maximum reportable earned compensation was increased from \$230,000 to \$245,000 to coincide with the compensation limit set pursuant to Section 401(a)(17) of the Internal Revenue Code.
- The 20 percent corridor around the market value of assets used to develop the actuarial value of assets was eliminated.

**MRS**

- The retirees of the City of McComb were granted a COLA guaranteed at 2.5% of the annual benefit for each fiscal year in retirement after July 1, 2007, with a maximum COLA percentage of 10%.
- The post-retirement mortality table was changed for females to increase the set forward from 2 years to 3 years.

Changes due to normal amortization and actuarial experience had the following effect on the unfunded accrued liability amortization period. The unfunded actuarial accrued liability for MRS is amortized on a closed basis as a level dollar amount over a period of 40 years.

	PERS	MHSPRS	SLRP
Previously reported period of years	29.4	16.6	16.8
Change due to:			
Normal amortization	(1.0)	(1.0)	(1.0)
Actuarial experience	0.6	8.3	5.7
Assumption changes	0.8	3.4	4.4
Plan amendments	-	-	-
Method change	-	-	-
UAL contribution experience	0.2	2.0	0.3
Computed period of years	<u>30.0</u>	<u>29.3</u>	<u>26.2</u>

**Schedule of Administrative Expenses and Depreciation**

For the Year Ended June 30, 2009

*(In Thousands)*

Administrative expenses:	Amount
Personal services:	
Salaries and wages .....	\$ 5,999
Employee benefits .....	1,807
Travel and subsistence .....	<u>72</u>
Total personal services .....	<u>7,878</u>
Contractual services:	
Professional services (See Schedule 3) .....	1,946
Communications .....	569
Data processing installation, training and licensing .....	272
Rent of building space and office equipment .....	162
Utilities .....	196
Repair and maintenance of building and equipment .....	162
Bank charges .....	125
Janitorial .....	83
Security .....	64
Insurance .....	31
Other contractual services .....	<u>17</u>
Total contractual services .....	<u>3,627</u>
Commodities:	
Printing, binding and padding .....	169
Office supplies and expendable repair parts .....	80
Office equipment (not capitalized) .....	41
Business meeting supplies .....	10
Fuel .....	9
Other commodities .....	<u>9</u>
Total commodities .....	<u>318</u>
Total administrative expenses .....	<u>11,823</u>
Depreciation:	
Building .....	352
Furniture and equipment .....	<u>148</u>
Total depreciation .....	<u>500</u>
Total administrative expenses and depreciation .....	<u><u>\$ 12,323</u></u>

**Schedule of Administrative Expenditures/Expenses – Budget and Actual****(Non-GAAP Budgetary Basis) – For the Year Ended June 30, 2009***(In Thousands)*Budget Comparisons

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
Administration expenditures:			
Personal services:			
Salaries, wages, and fringe benefits .....	\$ 8,413	\$ 7,786	\$ 627
Travel and subsistence .....	85	81	4
Contractual services* .....	4,087	3,906	181
Commodities .....	317	281	36
Capital outlays – other than equipment .....	-	-	-
Capital outlays .....	56	50	6
Subsidies, loans, and grants .....	-	-	-
Total .....	<u>\$ 12,958</u>	<u>\$ 12,104</u>	<u>\$ 854</u>

\*Contractual Services budget includes \$400,000 for initial phases of the pension administration computer system replacement.

The budget and actual (non-GAAP budget basis) schedule presents a comparison of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on a budgetary basis sometimes differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. Therefore, a reconciliation of the resulting differences is presented below for the year ended June 30, 2009.

Reconciliation of Budgetary Basis Administrative Expenditures to GAAP Basis Administrative Expenses

	Amount
Administrative expenditures (Budgetary Basis) .....	\$ 12,104
Adjustments:	
Compensated leave accrual .....	22
Bank service charges .....	125
Reclass cash transfer from fund 3533 for budgetary purposes .....	(4)
Capital asset purchases recorded as expenditures for budgetary purposes .....	(5)
Fiscal year 2009 budget expenditures paid during lapse period; expenses recorded in fiscal year 2010 ....	(744)
Fiscal year 2009 accruals to GAAP Basis .....	<u>325</u>
Administrative expenses (GAAP Basis) .....	<u>\$ 11,823</u>

## Schedule of Managers' Fees, Investment Global Out-Of-Pocket and Custodial Fees, and Professional Services Fees – For the Year Ended June 30, 2009

(In Thousands)

Investment managers' fees:	Amount
Private Equity Managers .....	\$ 2,965
Artisan Partners Limited Partnership .....	2,150
UBS Realty Investors .....	2,009
Principal Global Investors .....	2,002
INTECH .....	1,927
Lazard Asset Management .....	1,833
The Boston Company - mid cap equity .....	1,535
Dimensional Fund Advisors - EAFE .....	1,492
Eagle Capital Management, LLC .....	1,490
New Star Institutional Managers Limited .....	1,484
Pacific Investment Management Company - debt investments .....	1,484
Wellington Asset Management - small cap equity .....	1,453
Wellington Asset Management - mid cap equity .....	1,377
Fayez Sarofim & Company .....	1,177
Dimensional Fund Advisors - small cap equity .....	1,078
AllianceBernstein .....	1,047
Acadian Asset Management .....	1,019
The Boston Company - small cap equity .....	943
Jarislowsky Fraser Limited .....	909
Hancock Timber Resource Group .....	893
Aberdeen Asset Management .....	890
Capital Guardian Trust Company .....	722
AEW Partners .....	625
RREEF - REITs .....	517
Wellington Asset Management - REITs .....	445
Barclays Global Investors - debt investments .....	368
Delaware Investments .....	361
CIS, a Division of Dreyfus .....	242
Northern Trust Global Investment .....	225
Angelo Gordon & Company .....	221
Barclays Global Investors - international equity .....	194
State Street Global Advisors - equity .....	105
Heitman .....	81
State Street Global Advisors - debt investments .....	21
Absolute Return Managers .....	2
Total* .....	<u>35,286</u>
Custodial and global out-of-pocket fees - Bank of New York Mellon .....	86
Total managers' fees, out-of-pockets, and custodial fees .....	<u>\$ 35,372</u>
Securities lending fees - Bank of New York Mellon .....	<u>\$ 5,567</u>
Professional service fees:	
Fund evaluation - Mercer Investment Consulting, Inc .....	\$ 511
Medical fees - clinics, labs .....	269
Actuary - Cavanaugh Macdonald .....	249
Legal - Chapman and Cutler, Whiteford, Taylor and Preston .....	216
Legal - State of Mississippi - Office of the Attorney General, Other .....	200
System development consultant - L.R. Wechsler LTD .....	159
Audit - Department of Audit, KPMG LLP .....	118
Voting services - VR Election Services .....	81
Reorganization - Cornerstone Consulting .....	63
Mailing services - Postage Savers, Sourcelink .....	49
Graphic design - Maris, West & Baker .....	31
Total professional service fees .....	<u>\$ 1,946</u>

\* Includes fees of \$8,797,741 which are reflected in net depreciation on the Statement of Changes in Fiduciary Net Assets.

**Summary Schedule of Cash Receipts and Disbursements**  
**Pension Trust Funds – For the Year Ended June 30, 2009**

(In Thousands)

	Amount
Cash balance at beginning of year .....	\$ 253,821
Receipts:	
Contributions:	
Employee .....	520,025
Employer .....	738,023
Total contributions .....	1,258,048
Investments:	
Securities lending and reverse repurchase agreements .....	118,978,071
Investments matured and sold .....	25,811,660
Investment income .....	(950,283)
Total investments .....	143,839,448
Administrative receipts .....	659
Other receipts .....	9,741
Total cash receipts .....	145,107,896
Disbursements:	
Annuities and refunds:	
Retirement annuities .....	1,579,307
Refunds to terminated employees .....	70,572
Total annuities and refunds .....	1,649,879
Investments:	
Securities lending and reverse repurchase agreements .....	118,980,217
Investments purchased .....	24,312,067
Investment expenses .....	63,660
Total investments .....	143,355,944
Administrative expenses .....	12,399
Other disbursements .....	125
Total cash disbursements .....	145,018,347
Cash balance at end of year .....	\$ 343,370

Schedule 5

**Schedule of Investments Due to MRS from PERS – June 30, 2009**

(In Thousands)

Due to MRS:	Amount
Biloxi Municipal .....	\$ 1,804
Biloxi Fire and Police .....	7,026
Clarksdale Fire and Police .....	882
Clinton Fire and Police .....	6,362
Columbus Fire and Police .....	1,170
Greenville Fire and Police .....	3,411
Greenwood Fire and Police .....	2,453
Gulfport Fire and Police .....	8,243
Hattiesburg Fire and Police .....	18,154
Jackson Fire and Police .....	60,449
Laurel Fire and Police .....	2,729
McComb Fire and Police .....	1,007
Meridian Municipal .....	609
Meridian Fire and Police .....	6,335
Natchez Fire and Police .....	1,665
Pascagoula Fire and Police .....	6,258
Tupelo Fire and Police .....	5,922
Vicksburg Fire and Police .....	9,942
Yazoo City Fire and Police .....	594
 Total investments due to MRS .....	 \$ 145,015

Schedule 6

**Public Employees' Retirement System of Mississippi**

**Statement of Changes in Assets and Liabilities – June 30, 2009**

(In Thousands)

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
<b>Flexible Benefits Cafeteria Plan</b>				
<b>Assets:</b>				
Cash	\$ 24	\$ 85	\$ 90	\$ 19
Accounts Receivable	-	-	-	-
Total Assets	\$ 24	\$ 85	\$ 90	\$ 19
<b>Liabilities:</b>				
Accounts Payable	\$ 15	-	-	\$ 15
Funds Held for Others	9	85	90	4
Total liabilities	\$ 24	\$ 85	\$ 90	\$ 19