

# COMPREHENSIVE ANNUAL FINANCIAL REPORT – 2010

A COMPONENT UNIT OF THE STATE OF MISSISSIPPI  
FISCAL YEAR ENDED JUNE 30





## BRINGING LIFE INTO FOCUS.

Where do you see yourself in five, fifteen, twenty-five years? Do you have a clear view of what's ahead? Well, in a very real way, that's what PERS helps you to do: get a good, sharp picture of your retirement.

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# **2010 Comprehensive Annual Financial Report**

A Component Unit of the State of Mississippi  
Fiscal Year Ended June 30

## **Prepared By:**

The Office of Administrative Services  
Public Employees' Retirement System of Mississippi

PERS Building  
429 Mississippi Street  
Jackson, Mississippi  
39201-1005



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December 21, 2010

Board of Trustees
Public Employees' Retirement System
429 Mississippi Street
Jackson, MS 39201-1005

Dear Board Members:

I am pleased to present the 2010 Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System of Mississippi (the System). 2010 was a year of significant achievement for the System as we accomplished milestones in benefits administration and enhanced technology, all toward our mission of providing secure retirement benefits and outstanding service to our members.

Profile of the System

The System was established to provide benefits for all state and public education employees, officers of the Mississippi Highway Patrol, elected members of the state Legislature, the President of the Senate, and other public employees whose employers have elected to participate. Plans administered by the System include the Public Employees' Retirement System (PERS), which was established by legislation in 1952; the Mississippi Highway Safety Patrol Retirement System (MHSPRS), established in 1958; the Mississippi Deferred Compensation Plan and Trust (MDC), established in 1973; the Supplemental Legislative Retirement Plan (SLRP), established in 1989; and the Municipal Retirement Systems (MRS), which came under the System's administration in 1987.

The Public Employees' Retirement System of Mississippi is administered by a 10-member Board of Trustees that includes the State Treasurer; one gubernatorial appointee who is a member of the System; two state employees; two retirees; and one representative each from public schools and community colleges, state universities, municipalities, and counties.

Table listing Board of Trustees members: Pat Robertson (Executive Director), Tom Lariviere (Municipal Employees Chairman), Virgil F. Belue (Retirees), Bill Benson (County Employees), Lee Childress (Public Schools, Comm./Jr. Colleges), Paul Hurst (Gubernatorial Appointee), Lester Herrington (Retirees), Ed LeGrand (State Employees), H.S. 'Butch' McMillan (State Employees), Joe Paul (Institutions of Higher Learning), and Tate Reeves (State Treasurer).

System of Mississippi operates under legislative mandate with respect to administrative budgets, human resources, and purchasing guidelines. The System is considered a component unit of the State of Mississippi for financial reporting purposes and, as such, the financial statements contained in this report are also included in the State of Mississippi Comprehensive Annual Financial Report.

Annual budgets are legally adopted for the administrative expenditure portion of the System's operations and are funded by earnings of the System. Our operating budget request for the upcoming fiscal year is prepared in conjunction with a review of our strategic long-range plan. A budget request is approved by the Board of Trustees and submitted to the state Legislature, which legally enacts the budget in the form of an appropriation bill during the subsequent legislative session. Transfers may be made between budget categories with approval of the Mississippi Department of Finance and Administration. However, certain categories and transfer amounts are restricted. A more detailed discussion of the budgetary process is presented in the Financial Section of this CAFR on page 31.

## **Financial Information**

Our staff issues a CAFR within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles and audited in accordance with generally accepted auditing standards, as well as standards applicable to financial audits contained in government auditing standards. The 2010 independent audit was conducted by KPMG LLP, a firm of licensed certified public accountants. The Independent Auditors' Report is presented in the Financial Section on page 15.

This CAFR consists of management's representations concerning the finances of the System. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented. The system of internal controls also includes written policies and procedures and an internal audit department that reports to the Board of Trustees. Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with this letter.

As the economy recovers from a deep and persistent recession, our capacity to provide retirement benefits to our members and retirees continues to remain stable and secure. Since the inception of the System, the Board of Trustees has focused on a prudent investment philosophy that emphasizes the fundamentals of a well-diversified portfolio of securities invested over the long term. Our asset allocation policy is strategically balanced to provide an expected level of return while incurring minimal risk, which over time will fund the liabilities of the System with the contribution rate at a level percent of payroll. The System earned a 14.1 percent rate of return on investments as of June 30, 2010, outperforming the System's benchmark return of 13.5 percent. As of September 2010, the Public Employees' Retirement System remains well positioned, ranking as the 65th largest among corporate and public pension plans in the United States and the 155th largest plan in the world.

The System is prepared for fluctuating market conditions, in part, through emphasis on the long-term perspective. Over the 30-year period since the System entered the stock market, we have experienced positive returns, as high as 31.2 percent, with the exception of four years – 2001, 2002, 2008, and 2009 – when negative returns were recorded. The average 30-year return, from 1980 through 2010, is 8.7 percent, which exceeds our expected return of 8.0 percent. Positive investment performance over the long term ensures that the System continues on firm financial ground. The System will continue to navigate through difficult economic conditions. The path forward may not always be smooth, but with a solid record of success and continued diligent effort, we will meet the tough challenges created by uncertainty in the global economy. A performance summary of rates of return compared to appropriate benchmark rates of return is located on page 60 of this report.

Annual actuarial valuations for PERS, MHSPRS, MRS, and SLRP are conducted by the consulting actuarial firm of Cavanaugh Macdonald Consulting, LLC. Actuarial assumptions and contribution rates are based on recommendations made by the actuary. Experience investigations are performed at least every other year by the actuary to determine that actuarial assumptions are reasonably related to actual experience. Additional information regarding the actuarial valuation is presented in the notes to the basic financial statements and in the Actuarial Section of this report.

The funding ratio is a measure of the actuarial value of assets to the actuarial accrued liability. Based on the most recent actuarial valuation, PERS is 64.2 percent funded, MHSPRS is 68.3 percent funded, MRS is 50.2 percent funded, and SLRP is 77.5 percent funded. Funding status and progress is presented in the Required Supplementary Information Schedules and accompanying notes beginning on page 44. Based on fiscal year-end valuation results, each of the System's plans continue in sound condition, presuming that future contributions will be made at the level necessary to ensure adequate funding and to meet accounting standards as certified in the Actuarial Section of this report.

Through passage of House Bill 1, the Mississippi Legislature increased the member contribution rate by 1.75 percent from 7.25 percent to 9.00 percent, effective July 1, 2010. The employer contribution rate remained unchanged during fiscal year 2010 at 12.0 percent. To help address the funded status of plans within the System, the Board of Trustees approved the recommendation of our consulting actuary to increase the PERS employer contribution rate from 12.0 percent to 12.93 percent, the MHSPRS employer contribution rate from 30.30 to 35.21, and the SLRP employer contribution rate from 6.65 percent to 7.4 percent. The Board's funding decisions are based on the System's funding policy, which states that the need for increases will be evaluated on an annual basis, in conjunction with recommendations made by our consulting actuary, in order to maintain the unfunded accrued liability (UAL) period within 30 years.

## **For the Future**

Information technology has been an area of careful consideration and review for the System over the past several years. In keeping with our efforts to provide high-quality pension benefits administration, the System embarked on a major project initiative with the aim of implementing a new pension and benefits administration solution. Our objectives are centered on developing a stable, state-of-the-industry solution consisting of the implementation of a fully integrated retirement system and customizations to that system capable of supporting PERS' mission well into the 21st century. PERS has received and evaluated responses to the Request for Proposals and selected the vendor deemed to provide a comprehensive solution that will address the needs of PERS for years to come. I am pleased to report that contracts have been awarded and the process has begun for full implementation of the new comprehensive technology system. The technology project three-year implementation phase began in late September 2010 with phase-one development of the PERS imaging system.

At its December 2009 meeting, the Board of Trustees established an ad hoc committee to review PERS' current benefit structure. The primary objective of the committee's efforts was to evaluate the sustainability of the current pension plan benefit structure and make recommendations for changes to the Mississippi Legislature in conjunction with the change from 25- to 30-year retirement eligibility. Final results of the committee's evaluation will be presented during the 2011 session.

## **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such financial reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The System has received a Certificate of Achievement for the last 23 consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA for evaluation.

The Public Employees' Retirement System of Mississippi's submission of a Popular Annual Financial Report to the Government Finance Officers Association of the United States and Canada resulted in an Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2009. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The Public Employees' Retirement System of Mississippi has received a Popular Award for the last seven consecutive fiscal years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

The Public Employees' Retirement System received the Public Pension Coordinating Council's (PPCC) Public Pension Standards 2010 Award in recognition of meeting professional standards for plan design and administration. The PPCC is a national confederation of state retirement associations whose standards are widely recognized benchmarks for public pension systems in the areas of plan design, funding, actuarial and financial audits, as well as member communications.

## Conclusion

This report is a product of the combined efforts of the System's staff and advisors functioning under your leadership. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship for the assets contributed by the System's members and their employers.

Copies of this report are provided to the Governor, State Auditor, and all member agencies. These agencies form the link between the System and its members, and their cooperation contributes significantly to our success. I hope all recipients of this report find it informative and useful. This report is also available to the general public on our website, [www.pers.state.ms.us](http://www.pers.state.ms.us).

I would like to express my gratitude to you, the staff, the advisors, and others who have worked so diligently to assure the continued successful operation of the System and to preserve the vision of a secure retirement future of our members and retirees.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Pat Robertson", with a large, stylized flourish at the beginning.

Pat Robertson  
Executive Director



**Pat Robertson**  
Executive Director



## 2010 Board of Trustees

*Left to Right*

**Edward Lee Childress, Ed.D.**

Elected by Public School and  
Community/Junior College  
Employees  
5/10 to 4/16

**Joseph S. Paul, Ph.D.**

Elected by IHL Employees  
2/09 to 12/10

**Edwin C. LeGrand III**

Elected by State Employees  
1/07 to 12/12

**Virgil F. Belue, Ed.D.**

Elected by Retirees  
7/07 to 6/13

**H.S. "Butch" McMillan**

Elected by State Employees  
8/09 to 6/14

**Paul Hurst**

Appointed by Governor  
7/09 to 4/12

**Tate Reeves**

State Treasurer, Ex Officio  
1/08 to 1/12

**Lester C. Herrington, Chairman**

Elected by Retirees  
5/05 to 4/11

**Bill Benson**

Elected by County Employees  
1/10 to 12/15

**Thomas J. Lariviere**

Elected by Municipal Employees  
1/09 to 12/14

## Outside Professional Services

### Fixed Income Managers

CIS, a Division of Dreyfus Corporation  
One Mellon Bank Center  
Pittsburgh, Pennsylvania 15258-0001  
Telephone: (412) 234-0168

Pacific Investment Management Company  
840 Newport Center Drive  
Newport Beach, California 92660  
Telephone: (949) 720-6000

BlackRock Institutional Trust Company, N.A.  
40 East 52nd Street  
New York, New York 10022  
Telephone: (212) 810-3729

UBS Global Asset Management  
209 South LaSalle Street, 12th Floor  
Chicago, Illinois 60604-1295  
Telephone: (312) 220-7100

Aberdeen Asset Management  
1735 Market Street, 37th Floor  
Philadelphia, Pennsylvania 19103  
Telephone: (215) 405-5700

State Street Global Advisors  
State Street Financial Center  
One Lincoln Street  
Boston, Massachusetts 02111-2999  
Telephone: (617) 664-4739

Loomis Sayles & Company, L.P.  
One Financial Center  
Boston, Massachusetts 02111  
Telephone: (617) 482-2450

Wellington Management Company, LLP  
75 State Street  
Boston, Massachusetts 02109  
Telephone: (617) 951-5000

### Equity Managers

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50 South LaSalle Street  
Chicago, Illinois 60675  
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Fayez Sarofim & Company  
Two Houston Center, Suite 2907  
Houston, Texas 77010  
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The Boston Company Asset  
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Boston, Massachusetts 02108  
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Wellington Management Company, LLP  
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Boston, Massachusetts 02109  
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Artisan Partners Limited Partnership  
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Milwaukee, Wisconsin 53202  
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Dimensional Fund Advisors, Inc.  
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Austin, Texas 78746  
Telephone: (512) 306-7400

State Street Global Advisors  
State Street Financial Center  
One Lincoln Street  
Boston, Massachusetts 02111-2999  
Telephone: (617) 664-4739

Eagle Capital Management  
499 Park Avenue, 21st Floor  
New York, New York 10022  
Telephone: (212) 293-4040

INTECH  
525 Okeechobee Boulevard, Suite 1800  
West Palm Beach, Florida 33401  
Telephone: (973) 276-9383

Lazard Asset Management  
30 Rockefeller Plaza  
New York, New York 10020  
Telephone: (212) 632-6000

Capital Guardian Trust Company  
333 South Hope Street, 55th Floor  
Los Angeles, California 90071-1406  
Telephone: (213) 486-9200

Jarislowsky Fraser Limited  
20 Queen Street West, Suite 3100  
Toronto, Ontario  
M5H 3R3  
Canada  
Telephone: (514) 842-2727

BlackRock Institutional Trust Company, N.A.  
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New York, New York 10022  
Telephone: (212) 810-3729

AllianceBernstein  
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New York, New York 10105  
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### Real Estate Managers

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Telephone: (617) 951-5000

RREEF  
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Atlanta, Georgia 30326  
Telephone: (404) 467-6542

Principal Global Investors  
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Des Moines, Iowa 50392-0490  
Telephone: (800) 533-1390

UBS Realty Investors, LLC  
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Heitman  
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Angelo Gordon & Company  
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### Private Equity Managers

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West Warwick, Rhode Island 02893  
Telephone: (401) 589-3402

Credit Suisse  
11 Madison Avenue, 16th Floor  
New York, New York 10010  
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### Absolute Return Managers

Pacific Investment Management Company  
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Newport Beach, California 92660  
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### Custodian-Investment Funds

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### Actuary

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### Auditor

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Jackson, Mississippi 39201  
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### Funds Evaluation Services and Asset Allocation/ Investment Policy Study

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Atlanta, Georgia 30305  
Telephone: (404) 442-3100

### Legal Counsel

Office of the Attorney General  
Margo Bowers, Special Assistant  
450 High Street  
P. O. Box 220  
Jackson, Mississippi 39205  
Telephone: (601) 359-3680

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Public Employees' Retirement System of Mississippi

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

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



President

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2010***

Presented to

***Public Employees' Retirement System of Mississippi***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

# Organizational Chart



