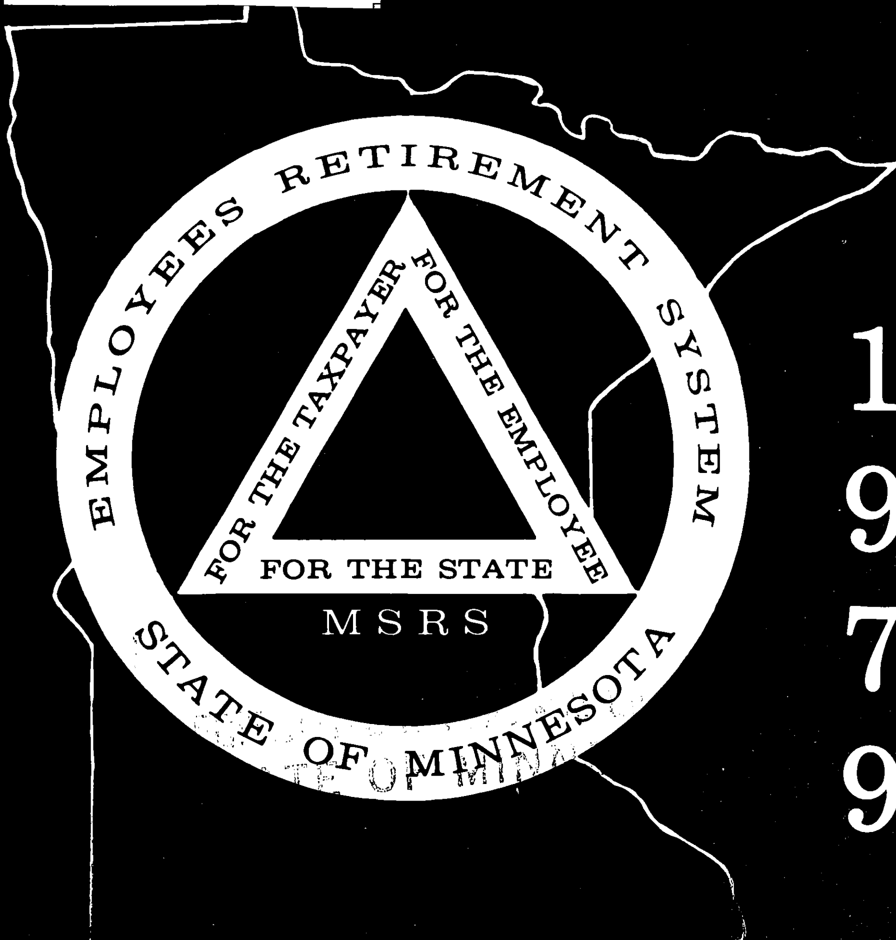

1979

STATEMENT TO EMPLOYEES
JUNE 30, 1979

MINNESOTA STATE RETIREMENT SYSTEM

MINNESOTA STATE RETIREMENT SYSTEM

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MINNESOTA STATE RETIREMENT SYSTEM

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FOREWORD

The Board of Directors of the Minnesota State Retirement System herewith submits a financial report for the fiscal year ending June 30, 1979 in accordance with the provisions of Minnesota Statutes, Section 356.20. A two year comparative statement of income and balance sheet accounts is included.

This report includes financial and statistical data on the General State Employee Retirement Plan, the Correctional Employee Retirement Plan, the Unclassified Employee Retirement Plan and the Deferred Compensation Plan. Separate reports were issued for the Highway Patrolmens Retirement Plan and the statewide Judicial Retirement Plan, both of which are administered by the Minnesota State Retirement System.

An actuarial valuation of the System was made as required by Minnesota Statutes, Chapter 356, by the firm of The Wyatt Company, Minneapolis, Minnesota, Allan J. Grosh and Alan J. Schutz, actuaries. Exhibits in this report are presented as prescribed in Chapter 356.

Respectfully submitted,

Francis D. Hage, Chairman

Paul L. Groschen, Executive Director

EQUAL OPPORTUNITY

It is the policy of the Minnesota State Retirement System to provide equal employment opportunity to all employees and job applicants without regard to age, color, national origin, physical health, political affiliation, religion or sex.

1979 LAW CHANGES

MANDATORY RETIREMENT AGE

The 1979 State Legislature made a number of modifications in the mandatory retirement age law passed in 1978 to comply with the federal law governing mandatory retirement. The most important change was moving the effective date of mandatory retirement, for most employees attaining the age of 70, from June 1 back to January 1, 1979. The law also allows any employee terminating employment after the age of 65 with as little as 3 years of service to be entitled to a proportionate annuity. (Laws 1979, Chapter 40)

The absolute mandatory retirement age for correctional employees was changed from 55 to 65 with age 55 retained as the conditional mandatory retirement age. For employment beyond age 55 as a correctional employee, the employee must, on an annual basis, undergo a medical examination and receive approval of the appointing authority. (Laws 1979, Chapter 296)

AMORTIZATION TARGET DATE

The statutorily required target date for amortization of the unfunded accrued liability was changed from the end of the fiscal year occurring in 1997 to 2009. In addition to this change, a method was provided to revise the amortization target date in the event that there is an increase in the unfunded accrued liability resulting from a benefit increase, a change in the actuarial assumptions used to value the fund or a change in the actuarial method used to value the fund. The new increment of unfunded accrued liability is amortized on its own separate 30 year amortization period and the periods for the new increment of unfunded accrued liability and the prior unfunded accrued liability are then weight-averaged to produce a new amortization target date. (Laws 1979, Chapter 184)

INVESTMENTS

The State Board of Investment is required to report to the 1980 Legislature on, the use of common stock investments in the MAFB Fund, the development of a program to invest in insured mortgages on residential property located in Minnesota from the assets of pension funds and a short term lending program to Minnesota banks. (Laws 1979, Chapter 333)

STATE INCOME TAX ON PENSIONS

The 1978 legislature made both public and private pensions subject to state income taxes subject to certain exclusions. The 1979 legislature changed the amount that is excluded from taxation from $7,200 to $10,000 which is reduced only by the amount that the individuals federal adjusted gross income exceeds $17,000 rather than $13,000 as in the 1978 law. The 1979 law also eliminated the reduction of the exclusion for social security and railroad retirement benefits. Also, all benefit payments were exempted from estate tax. (Laws 1979, Chapter 303)

LUMP SUM BENEFIT

A lump sum payment is provided for certain annuitants, disabilitants and survivors on December 1, 1979 and December 1, 1980. To be entitled to the payment, the benefit had to be computed under the laws in effect prior to July 1, 1973, the person had to be age 65 on or before July 1, 1979 and had to be receiving the benefit on November 30, 1979 for the December 1, 1979 payment and on November 30, 1980 for the December 1, 1980 payment. The payment is an amount equal to $15 for each full year of allowable service credit. Both payments are funded by a General Fund appropriation of $2,893,845. (Laws 1979, Chapter 293)

MINNESOTA ADJUSTABLE FIXED BENEFIT FUND

The Minnesota Adjustable Fixed Benefit Fund (MAFB Fund) is the investment medium for the reserves set aside to pay benefits to retired public employees. An amount of money determined necessary to fully fund the retirement annuity based on an actuarially estimated life expectancy and an assumption that the monies will earn at a rate of 5%, is transferred to the MAFB Fund at time of retirement by the participating retirement plan. The public retirement plans participating in the Minnesota Adjustable Fixed Benefit Fund are the following:

State Employees Retirement Fund (including correctional employees)
Highway Patrolmens Retirement Fund
Judges Retirement Fund
Legislators Retirement Plan
State Teachers Retirement Fund
Public Employees Retirement Fund (including police and fire)
Minneapolis Municipal Employees Retirement Fund

OWNERSHIP OF MAFB FUND

The organizations authorized to participate in the Minnesota Adjustable Fixed Benefit Fund own an undivided participation in all the assets of the fund. The extent of annual participation is determined by the ratio of each organization's contribution to total contributions of all participating organizations.

MORTALITY ADJUSTMENT

The actuarial tables used to determine amounts of money transferred to the Minnesota Adjustable Fixed Benefit Fund for a retired employee are based on a five percent interest assumption and average life expectancy. If a retired employee lives longer than expected, there is an actuarial loss; if death occurs sooner than anticipated in the tables, there is an actuarial gain.

Since the assets of the Minnesota Adjustable Fixed benefit Fund are owned by several retirement funds, the actuarially determined reserves are adjusted annually to the actual mortality experienced during the year by each participating fund.

MAFB FUND INCOME

Up to 50 percent of the Minnesota Adjustable Fixed Benefit Fund may be invested in common stock and an additional ten percent in convertible debentures. The balance is invested in fixed income debt securities. Corporate stocks accounted for 43.44% of the MAFBF investment portfolio at June 30, 1979 compared to 46.21% at June 30, 1978. Convertible debentures accounted for less than one percent of total invested assets in both years.

Income on stocks includes cash dividends and partial recognition of appreciation (or depreciation) in the market value of stocks. Normally, market value changes are "unrealized" until a stock is sold unless a method is developed to recognize such changes in investment income. The method used in the MAFB Fund is to include in income an average of the market-to-cost relationships of stock taken bi-monthly over a two year period.

CHANGES IN MAFB FUND PARTICIPATION

The participation in the Minnesota Adjustable Fixed Benefit Fund by the State Employees Retirement Fund changed as follows in the last two fiscal years:

	1979	1978
Beginning balances	$141,687,419	$130,188,933
MAFB Fund income	9,580,098	7,923,505
Reserve requirement — new retirees	24,704,775	19,772,351
Reserve requirement — MTC/TOD Transfer	14,239,691	
Benefits and refunds paid	(20,351,186)	(16,686,265)
Motality (gain) or loss	364,151	488,895
Ending balances	$170,224,948	$141,687,419

MAFB Fund income includes realized income (interest on debt securities, dividends on corporate stock, etc.) and also includes recognized unrealized income on corporate stock. Recognized unrealized income may be either positive or negative, depending on whether the market value of stocks is more than cost or less than cost.

In the MAFB Fund an average of the market-to-cost relationship of stock at two month intervals over a two year period is calculated. If the average market value exceeds cost, the appreciation in stock values is "recognized" and is added to realized income; if the average market value is less than cost the depreciation in stock values is subtracted from realized income.

MAFB Fund assets and realized income increased substantially in fiscal 1979 compared to fiscal 1978. Total income including recognized unrealized depreciation also increased substantially but at a lesser rate due to the fiscal 1978 market value erosion and the two year averaging used for valuation purposes. The average market-to-cost relationship of stock was on the upswing the last four valuation periods in fiscal 1979, thus promising an appreciation in recognized unrealized income for fiscal 1980 if it continues.

BENEFIT ADJUSTMENTS

An increase in benefit payments is possible if the value of the assets in the MAFB Fund exceeds the reserve requirement by two percent or more ("reserve requirement" is the actuarially determined liability for the benefits payable).

A decrease in benefit payments is possible, but never below the originally authorized amount, if the fund value is less than the reserve requirement.

An annuity stabilization reserve was established in the MAFB Fund for the purpose of eliminating any surplus or deficiency so that assets of the fund would equal the liability. The annuity stabilization reserve represents the amount by which the recognized value of the assets in the MAFB Fund are short of or exceed the required reserves.

The actuarially determined reserve requirement (the liability) for annuities in force as of June 30, 1979 was $179,101,216 or $8,876,268 more than the fund's share of the MAFB Fund assets.

Benefit increases can be paid only when the annuity stabilization reserve is at a positive level. There will be no increase in benefits in 1980 because the annuity stabilization reserve was negative as of June 30, 1979.

DISTRIUBUTION OF INVESTMENTS

The law provides that the aggregate of common and preferred stock investments may not exceed 50 percent of the total assets of a fund at any time. Corporate stocks constituted 45.00 percent of invested assets in the State Employees Retirement Fund at the end of fiscal year 1979 compared to 47.24 percent the previous year.

INVESTMENT INCOME

Income on investments is accounted for on an accrual basis and includes interest on debt securities (adjusted for amortization of premiums and accumulation of discounts), interest on short term investments, dividends on corporate stock, premiums on bonds called and the sum of these adjusted for amortization of the deferred yield adjustment account and for recognized unrealized appreciation or depreciation in stock. The deferred yield adjustment account represents the capitalized losses on bond sales to be written off against income over the remaining life of the bonds sold. Profit on sales of stock is excluded from net investment income in order to provide stability in comparative rates of return.

RETURN ON INVESTMENTS

In Minnesota, insurance companies calculate rate of return using the following formula:

$$\frac{2I}{A+B-I}$$

where, I = Net Investment Income
A = Sum of Invested Assets, Cash, Accrued Interest and Dividends at the beginning of the year
B = Same as A except sum is as of the end of year

Rates of return in the last three years, calculated according to the above formula, modified to include the deferred yield adjustment account and the recognized unrealized appreciation account in beginning and ending assets, were as follows.

Fiscal year:	1979	6.86%
	1978	6.01%
	1977	5.40%

RECOGNIZED UNREALIZED APPRECIATION IN STOCKS

The corporate stock portfolio may be valued at a total amount other than original book cost at the discretion of the Retirement Board if procedures set forth in Minnesota Statutes, Section 11.16, Subdivision 13 are used. The MSRS Board authorized use of such procedure in May, 1973.

The procedure provides for bi-monthly valuations of the corporate stock portfolio in February, April, June, August, October and December. Whenever the portfolio had shown a total market valuation exceeding original book cost by 15 percent for six consecutive, bi-monthly valuation dates, the book value of the portfolio would be increased by three percent for accounting and actuarial purposes; whenever the new adjusted values had been exceeded by 15 percent for six consecutive bi-monthly valuation dates, another three percent increase could be recognized, etc. Conversely, if market values were 15 percent below cost or adjusted basis for six consecutive bi-monthly valuation dates, the valuation of the stock portfolio would be reduced by three percent. Any increase or decrease was to be applied as an adjustment to income in the appropriate year. "Six consecutive bi-monthly valuation dates" was interpreted to mean that bi-monthly ratios could be used more than once by adding the next bi-monthly ratio to the last five ratios from the previous six ratios to arrive at a new series of consecutive bi-monthly valuation dates.

Later law amendments provided for recognition of increases or decreases whenever market value and original book cost or adjusted basis differed by 10 percent instead of 15 percent for six consecutive valuation dates and adjustments to income were spread out over a five year period. The statute is silent on treatment of realized gains or losses on sales of stock.

Because of law changes and ambiguity in application of existing statutes, the Board discontinued valuing stocks at other than cost in 1978.

ACTUARIAL VALUATIONS

An actuarial valuation of the State Employees Retirement Fund is conducted annually to determine if the contribution rates of the fund will adequately finance the benefits provided. The actuarial valuations are carried out on the basis of a 5% interest rate assumption, a 3-1/2% salary scale and other assumptions deemed appropriate by the System's actuary based upon the experience of the System. The assumptions necessary to a valuation include the rates of separation from active service because of termination with refund, retirement and mortality rates before and after retirement. An experience study is conducted every four years to determine if the assumptions used are valid. An experience study was performed as of June 30, 1979.

FUNDING RATIO

The usual funding ratio is determined by dividing the assets on hand by the total reserve requirement. A ratio of 100 percent indicates full funding. The funding ratios of the State Employees Retirement Fund for 1976-1979 were as follows:

Fiscal:	1976	62.3%
	1977	68.6%
	1978	68.6%
	1979	72.7%

In the above ratios, assets on hand include MAFB Fund assets as adjusted to reflect 100 percent funding of MAFB annuities and the total reserve requirement includes the actuarial present value of MAFB Fund annuities in force.

Another recognized funding ratio measures the degree of funding of the benefits earned to date. The MSRS actuary estimates the present value of benefits earned to June 30, 1979 by presently active and retired persons in the State Employees Fund to be $573,007,688. Applicable assets on hand, including the $8,876,268 due from the MAFB Fund, amount to $491,342,229. Thus as of June 30, 1979, 85.8 percent of the liability for the benefits earned to date have been funded.

UNFUNDED ACCRUED LIABILITY

The unfunded accrued liability is the total liability of a fund for benefits earned in the past as well as those earnable in the future, less the assets on hand, less the present value of future employee contributions and less the present value of future state entry age normal cost contributions. The unfunded liability of the State Employees Retirement Fund is calculated separately for the General Plan and the Correctional Plan. Comparative figures for 1976-79 are shown as follows (in thousands):

State Employees Retirement Fund

Fiscal Year	General Plan	Correctional Plan	Combined
1976	$168,759	$8,664	$177,423
1977	156,063	7,540	163,603
1978	178,518	8,253	186,771
1979	177,954	6,681	184,635

NORMAL COST

The entry age normal cost method of funding is required by statute. Under this method, a level contribution rate is determined, which, if contributed on behalf of all employees from date of entry into service to date of separation, will be adequate to provide the full funding of prospective benefits. Factors of great importance in such determination are the projected rate of earnings of the fund, the rates of separation from active service, salary progression scales and mortality rates.

Comparative normal cost figures, including administrative expense, and support rates in 1976-1979 are as follows:

	State Emp. Retirement Fund		
	Year	General Plan	Correctional Plan
Normal Cost	1976	7.44%	10.92%
	1977	7.23%	11.18%
	1978	7.20%	11.16%
	1979	6.67%	10.38%
Current Support			
Employee Contribution		4.00%	6.00%
Employer N. cost contribution		4.00%	9.00%
		8.00%	15.00%
Employer contribution for amortizing actuarial deficit		2.00%	5.00%

REVENUES

Employee and employer contributions for the State Employees Retirement Fund were $62,097,076 in fiscal 1979 compared to $53,944,014 in 1978. Investment income on the investment portfolio also increased to $19,759,354 in fiscal 1979 as compared to $14,388,843 in fiscal 1978. There was also a one-time revenue item for the transfer of assets from the Metropolitan Transit Commission/Transit Operating Division (MTC/TOD) of $21,242,839. Of the $8,153,062 increase in employee and employer contributions, approximately $4,948,000 was due to the transfer of the MTC/TOD participants. The rest of the increase was due to increased salaries as there was virtually no increase in participants otherwise.

The Metropolitan Transit Commission — Transit operating Division employees (Bus Drivers) retirement fund was transferred to MSRS on July 1, 1978. Transferred with the liabilities was an additional unfunded deficit of $7,260,518. Part of the agreement was that the MTC transfer the pension liabilities of the employees on the same funded basis as the rest of the state employees in the General plan. The statutes require the MTC/TOD to contribute an additional 3.8% of salary to amortize this deficit. The actuary estimated this deficit would be paid in 6 to 7 years.

The State Board of Investment invests the monies of the System which are certified to them as available for investment by MSRS. Funds which are not required for immediate use are invested so as to maximize the investment earnings of the respective retirement funds. Investment income accounts for a significant part of the funding of retirement benefits as indicated below. The income percentages do not include MAFB fund income, miscellaneous items and one time transfer of assets as indicated on the accounting statements.

Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Total
1979	29.3%	46.5%	24.2%	100%
1978	31.2%	47.7%	21.1%	100%

EXPENDITURES

Benefits payments and refundments were as follows in 1979 and 1978:

	1979	1978
Service Retirement Annuities	$19,114,814	$15,908,385
Disability Benefits	1,201,406	746,625
Survivor Benefits	28,434	34,061
Refundments	6,062,675	4,407,153

Supplemental benefits amounting to $77,354 in fiscal 1979 and $86,618 in fiscal 1978 were paid to certain SER Fund retirees from the State General Fund. Also, employees who had retired before the "5-high year" law received one-time lump sum payments in fiscal 1978 totaling $992,613. Such payments were in addition to the amounts shown above.

Operating expenses were $1,298,201 in fiscal 1979 compared to $1,099,528 in fiscal 1978, an increase of $198,673 or 18.1 percent. Data processing charges were $453,966 in fiscal 1979 compared to $327,036 the previous year, accounting for 63.9 percent of the total increase, or $126,930. An additional $38,500 or 19.4 percent of the increased costs went for a consultant review and evaluation of the Participants Account System (P.A.S.). Of the $453,966 in data processing charges during fiscal 1979, $368,938 or 81.3 percent was for the P.A.S. The P.A.S. is scheduled to be completed in December, 1980. Salary and fringe benefit increases in addition to filling vacant positions accounted for $33,515 or 16.7% of the total increased operating expenses. The remaining categories of operating expenses decreased from $190,549 in fiscal 1978 to $190,277 in fiscal 1979 for a net decrease of $272.00.

STATISTICAL DATA

"Average" as used in this report is defined as the arithmetic mean. "Median" is the mid-point, that is, one-half of the values are below and one-half are above the median point.

GENERAL EMPLOYEES RETIREMENT PLAN

YEAR END TOTALS	June 30, 1979	June 30, 1978
Active Employees	44,602	42,713
Inactive Employees	3,976	3,425
New Employees and Former Employees Returned	10,301	9,808
Refunds	5,714	5,940
Deaths	83	84
Service Retirements	558	562
Disabilities	104	65
MTC/TOD Employees whose Plan was Merged with the General Plan July 1, 1978	1,887	
Net Increase in Active Employees	1,889	2,251

ACTIVE EMPLOYEES

The average and median ages of the new employees hired during the fiscal years ending as of the dates shown were:

	MALE		FEMALE	
Date	Median	Average	Median	Average
6/30/77	28 yrs.	28.3 yrs.	26 yrs.	26.3 yrs.
6/30/78	28 yrs.	30.8 yrs.	26 yrs.	29.1 yrs.
6/30/79	28 yrs.	30.8 yrs.	26 yrs.	28.9 yrs.

The following averages compare all active employees as of the dates shown:

	Date	Average Age	Median Age	Average Credited Service	Accumulated Contributions
Male Employees	6/30/77	40.1 yrs.	38 yrs.	8.9 yrs.	$2,773.65
	6/30/78	40.2 yrs.	38 yrs.	8.9 yrs.	$3,028.51
	6/30/79	40.1 yrs.	37 yrs.	9.2 yrs.	$3,110.98
Female Employees	6/30/77	35.6 yrs.	30 yrs.	5.6 yrs.	$1,350.43
	6/30/78	36.2 yrs.	30 yrs.	5.5 yrs.	$1,488.36
	6/30/79	35.5 yrs.	31 yrs.	5.7 yrs.	$1,674.66

37.1% of the male active employees and 18.5% of the females, for a total of 12,243 of the active employees, had at least 10 years of credited service at June 30, 1979, compared to 11,151 in 1978 and 8,155 in 1977.

	1979	1978	1977	1976
Total active employees age 65 or older	435	394	374	362
Number of those eligible to retire with full annuity benefit	337	157	358	219

At 6/30/79, there were 1,884 employees over age 62. Beginning 7/1/73, employees age 62 or older with 30 or more years of service could retire with full benefits. There were 337 such employees less than age 65 at 6/30/79. Reduced benefits are also available at age 62 to employees with at least 10 years of service or at age 58 with at least 20 years service. There were 1,656 active employees eligible to retire with a reduced benefit at 6/30/79.

Laws of Minnesota 1978 Chapter 781 limits the amount of service credit that an individual may accumulate to 40 years or the amount held on April 6, 1978 if greater than 40 years. Fifteen males and 22 females are over that limit and are no longer accruing service credit.

REFUNDS

The average age and service forfeited by those who took refunds were:

	MALE		FEMALE	
Year Ending	**Age**	**Service**	**Age**	**Service**
6/30/77	31.7 yrs.	2.0 yrs.	30.7 yrs.	1.8 yrs.
6/30/78	32.0 yrs.	1.6 yrs.	30.0 yrs.	1.6 yrs.
6/30/79	32.5 yrs.	2.3 yrs.	30.9 yrs.	2.3 yrs.

During the 12 month period ending June 30, 1979, 1.8% of the 6,186 employees taking refunds forfeited 10 or more years of service compared to 1.3% in 1978 and 1.4% in 1977. During the fiscal year 152 refunds were repaid.

INACTIVES

Inactive accounts totaled 3,976 at June 30, 1979 compared to 3,425 at June 30, 1978 and 3,664 at June 30, 1977. 699 of the present inactives have sufficient service credit to be entitled to a deferred annuity. Except for those with a vested benefit or on an approved leave, those accounts inactive over five years are not counted.

A comparison of the inactives with vested benefits during the last three years is as follows:

	Year Ending	**Number**	**Avg. Age**	**Avg. Deferred Annuity**
Male	6/30/77	273	52.6 yrs.	$197.87
	6/30/78	307	53.0 yrs.	$204.00
	6/30/79	373	51.0 yrs.	$241.00
Female	6/30/77	246	55.2 yrs.	$158.51
	6/30/78	273	55.4 yrs.	$186.46
	6/30/79	326	54.6 yrs.	$169.40

RETIRED EMPLOYEES	**6/30/79**	**6/30/78**	**6/30/77**	**6/30/76**
Age and service annuitants	8,032	7,441	7,084	6,690
Disability benefits	608	436	401	348
Survivor benefits	319	23	24	24
Total	8,959	7,900	7,509	7,062
Benefits authorized during period	766	723	711	976
Deaths during period	396	307	291	296

On July 1, 1978, 634 annuitants, survivors and disabilitants from the MTC/TOD Plan were merged with the General Plan.

The average age, salary, service and benefit amounts of the new annuitants who retired during the last three fiscal years are given below:

	Date	Average Age at Retirement	Average Monthly Salary	Average Service	Average Benefit
Service	6/30/77	64.1 yrs.	$ 862.44	18.3 yrs.	$195.05
	6/30/78	64.0 yrs.	$ 899.26	18.3 yrs.	$203.84
	6/30/79	63.9 yrs.	$1,024.26	19.4 yrs.	$240.67
Disability	6/30/77	57.7 yrs.	$ 782.59	15.8 yrs.	$154.97
	6/30/78	58.9 yrs.	$ 839.85	14.8 yrs.	$153.53
	6/30/79	57.6 yrs.	$ 957.67	16.6 yrs.	$203.98

The average age at entry into state service, retirement age and attained age of all the retirees receiving as of June 30, 1979 is:

	Entry Age	Retirement Age	Present Age
Service	39.4 yrs.	65.1 yrs.	72.4 yrs.
Disability	36.6 yrs.	57.8 yrs.	63.9 yrs.

The average and median monthly benefits of all service and disability annuitants as of the dates shown are:

	Date	Average	Median
Service	6/30/77	$166.26	$118.33
	6/30/78	$175.72	$124.14
	6/30/79	$185.44	$134.70
Disability	6/30/77	$133.20	$107.58
	6/30/78	$138.82	$113.93
	6/30/79	$160.38	$138.26

In addition to the annuity from the State Retirement System, employees who have retired since 1957 are entitled to Social Security benefits as a result of State employment. Also, since 1967, certain retired employees have received a supplemental retirement benefit payable from the State General Fund.

The average median benefit including the employees primary Social Security Benefit for those entitled to a Social Security benefit is:

	Average	Median
Service	$531.45	$498.45
Disability	$480.31	$464.97

The average age at death and the average length of retirement for service and disability annuitants who died during the last three fiscal years were:

		MALE		FEMALE	
	Year Ending	Age	Retirement	Age	Retirement
Service	6/30/77	76.8 yrs.	10.7 yrs.	77.5 yrs.	11.0 yrs.
	6/30/78	77.3 yrs.	11.3 yrs.	78.6 yrs.	12.2 yrs.
	6/30/79	77.3 yrs.	12.0 yrs.	77.8 yrs.	12.3 yrs.
Disability	6/30/77	63.4 yrs.	4.4 yrs.	60.5 yrs.	3.7 yrs.
	6/30/78	59.8 yrs.	3.2 yrs.	66.1 yrs.	5.4 yrs.
	6/30/79	66.9 yrs.	9.6 yrs.	65.1 yrs.	6.4 yrs.

Of the 350 service annuitants who died in fiscal year 1979, 87.1% received annuity payments greater than their accumulated employee contributions. The average service annuitant received in annuity payments 4.6 times the amount contributed.

EARLY RETIREMENT AND OPTIONAL ANNUITIES

Since passage of the "high-5" law in 1973 providing retirement benefits, there has been an increase in the number of employees electing to receive a reduced benefit either by retirement before age 65 and/or by selection of a joint and survivor annuity. Benefits for early retirees are reduced from the full amount to adjust for the longer period the benefit will be paid. The joint and survivor benefit is actuarially reduced to provide continuing payments to a spouse or other beneficiary after death of the retiree. The following figures reflect the trend:

	1972	1973	1974	1975	1976	1977	1978	1979
Early retirement	66	89	314	272	282	323	313	257
Joint and survivor	31	28	100	83	92	78	94	103

CORRECTIONAL EMPLOYEE RETIREMENT PLAN

ACTIVE EMPLOYEES

At June 30, 1979, there were 964 active employees covered under the Correctional Employees Retirement Plan compared to 995 at June 30, 1978 and 932 at June 30, 1977. The following data pertains to active employees as of the dates shown:

	Date	Average Entry Age	Average Attained Age	Median Age	Average Service Credit	Average Accumulated Contributions
Male	6/30/77	28.8 yrs.	36.5 yrs.	33 yrs.	6.7 yrs.	$2,876.80
	6/30/78	28.3 yrs.	35.8 yrs.	33 yrs.	5.9 yrs.	$3,244.24
	6/30/79	28.0 yrs.	36.4 yrs.	35 yrs.	6.8 yrs.	$3,799.37
Female	6/30/77	28.8 yrs.	34.7 yrs.	31 yrs.	5.2 yrs.	$2,116.99
	6/30/78	29.1 yrs.	36.0 yrs.	34 yrs.	6.0 yrs.	$2,766.99
	6/30/79	28.8 yrs.	36.9 yrs.	33 yrs.	6.0 yrs.	$3,218.26

Twenty four and three tenths percent of the male active employees and 17.6% of the females, for a total of 227 employees had ten or more years of service credit at June 30, 1979, compared to 232 in 1978, and 226 in 1977.

	1979	1978	1977	1976
Total number of employees age 55 or older	56	49	57	80
Number of those eligible to retire	50	42	45	62

There were 139 new state employees eligible to the Correctional Plan. 117 male and 22 female.

The median and average ages of new employees during the past three fiscal years were:

	MALE		FEMALE	
Fiscal Year	**Median**	**Average**	**Median**	**Average**
1977	28 yrs.	29.8 yrs.	26 yrs.	28.8 yrs.
1978	26 yrs.	29.1 yrs.	29 yrs.	30.0 yrs.
1979	27 yrs.	28.5 yrs.	30 yrs.	31.0 yrs.

REFUNDS

In fiscal year 1979 there were 132 Correctional Plan accounts refunded while in 1978 there were 112 and 151 in 1977. The average age and service forfeited by those taking refunds were:

	MALE		FEMALE	
Year Ending	**Age**	**Service**	**Age**	**Service**
6/30/77	31.2 yrs.	1.8 yrs.	31.4 yrs.	1.9 yrs.
6/30/78	32.4 yrs.	2.0 yrs.	30.2 yrs.	1.3 yrs.
6/30/79	31.1 yrs.	2.3 yrs.	34.9 yrs.	2.8 yrs.

INACTIVES

As of June 30, 1979 there were 57 inactive accounts in the Correctional Employee Retirement Plan. Only 7 inactives have sufficient service credit to be entitled to deferred annuities.

EMPLOYEE DEATHS

There were 3 male correctional employees who died during the year. Their contributions were refunded to their beneficiaries.

RETIRED EMPLOYEES

During fiscal year 1979, 20 employees retired, 17 correctional employees retired in 1978 and 39 in 1977. Six annuitants died during the current fiscal year. This brings the total number of Correctional Plan annuitants to 225 service annuitants and 5 disabilitants compared to 213 and 3 at June 30, 1978.

The average age, service and monthly benefit of the 20 new service retirees was 57.9 years of age, 20.6 years of service and $609.33 average monthly benefit.

Averages pertaining to the service annuitants receiving as of the dates shown follows:

				Average Monthly Benefit	
Date	**Age at Retirement**	**Years of Service**	**Attained Age**	**Incl. Soc. Sec.**	**Excl. Soc. Sec.**
6/30/77	59.6 yrs.	19.5 yrs.	61.1 yrs.	$627.09	$381.78
6/30/78	59.3 yrs.	19.4 yrs.	61.7 yrs.	$630.93	$385.15
6/30/79	59.1 yrs.	19.5 yrs.	62.3 yrs.	$686.53	$395.49

MINNESOTA STATE RETIREMENT SYSTEM
UNCLASSIFIED EMPLOYEES RETIREMENT PLAN
STATISTICAL DATA
FISCAL YEAR 1979

Certain employees in the Unclassified State service who are eligible to coverage under the General Employees Retirement Plan participate in the Unclassified Employees Retirement Plan. Both the employee and employer contributions are used to purchase shares in the Supplemental Retirement Fund. They may elect coverage under the General Plan if they so desire. The following provides information on the activity within this plan during the fiscal year ending June 30, 1979.

CURRENT PARTICIPANTS

On June 30, 1979, there were 1,043 participants in the Unclassified Employees Retirement Plan with shares to their credit. Of the 1,043 participants, 710 were active on June 30, 1979, and 333 were inactive. Following is a breakdown of the shares owned by the participants at June 30, 1979.

	Number	Value
Income shares	512,085	$4,962,103.65
Growth shares	338,447	$2,122,062.69
Fixed return		$1,487,979.35

The distribution of participants selecting the various investment options follows:

100% Income shares	30.8%
75% Income shares, 25% Growth shares	14.1%
50% Income shares, 50% Growth shares	31.4%
100% Fixed return	15.6%
75% Fixed return, 25% Growth shares	8.0%

The average active participant was 38.1 years old and had 4.5 years of service credit at June 30, 1979.

WITHDRAWALS

During fiscal year 1979, there were 219 participants who withdrew employee and employer shares to their credit in the Unclassified Employees Retirement Plan compared to 189 in fiscal 1978.

ANNUITANTS

Four former participants are receiving monthly benefits from the Unclassified Employees Retirement Plan as of June 30, 1979. One retired in Fiscal 1975, one in 1976, one in 1978, and the other in 1979. Their average service credit at retirement was 6 years, 1 month and the average monthly benefit is $88.37. One of the four elected a 15 year period certain annuity.

MINNESOTA STATE RETIREMENT SYSTEM

DEFERRED COMPENSATION PLAN
STATISTICAL DATA
FISCAL YEAR 1979

All public employees and officials in the State of Minnesota are eligible to participate in a Deferred Compensation Plan administered by the Minnesota State Retirement System. State employees have been eligible since 1972 while political subdivision employees first began participating in 1976. Under this plan, the individual may defer receiving a part of his salary until after retirement and thus also postpone the income tax liability on such deferred salary until after retirement. Another advantage is that investment of deferred salary is made before tax dollars are deducted.

The deferred compensation is invested in the Income Share Account, Growth Share Account, or the Fixed Return Account of the Minnesota Supplemental Retirement Fund, or in various combinations of these accounts.

Investment of the deferred compensation was distributed as follows on June 30, 1979:

	Number	Value
Income Shares	630,608	\$6,110,591.52
Growth Shares	697,708	\$4,374,629.16
Fixed Return		\$8,919,726.34

On June 30, 1979, there were 2,503 active contributing participants in the Deferred Compensation Plan.

A total of 284 former participants had reached their specified age and were receiving payments over a five or ten year period as of June 30, 1979. There were 171 receiving as of June 30, 1978 and 124 as of June 30, 1977.

The following table shows the distribution of withdrawal ages selected for those participating as of June, 1979.

Withdrawal Age	Number participating
Under 55	90
55 - 59	321
60 - 64	863
65 and older	1,229
	2,503

There was a wide range in the amount deferred per month.

Amount	Number of participants
\$ 0 - \$ 99	767
100 - 199	697
200 - 299	283
300 - 399	326
400 - 499	151
500 - 599	62
600 and greater	217
	2,503

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
Veterans Service Building, 1st Floor West Wing
St. Paul, Minnesota 55155

ELDON STOEHR
Legislative Auditor

(612) 296-4708

Francis D. Hage, Chairperson
Board of Directors
Minnesota State Retirement System

and

Paul L. Groschen, Executive Director
Minnesota State Retirement System

We have examined the Chapter 356 Balance Sheet, the Schedule of Accrued Liability and Unfunded Accrued Liability, and the Accounting Balance Sheet of the State Employees Retirement Fund as of June 30, 1979, and the related statements of Income and Deductions from Income and Effect on the Unfunded Accrued Liability, and Revenues and Expenditures for the year then ended. We have also examined the Accounting Balance Sheets for the Unclassified Employees Retirement Plan and the Deferred Compensation Plan as of June 30, 1979, and the related statements of Receipts and Disbursements for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

1. Investments of the State Employees Retirement Fund are shown at amortized cost for bonds and at cost for common stock on the financial statements, with disclosure of the market value of common stock in note 1. A comparison of cost or amortized cost and market value at June 30, 1979, as computed by the State Board of Investment, for all investments is shown below:

	Cost or Amortized Cost	Market Value
Common Stock	$136,479,813	$142,911,068
Bonds	142,541,271	132,634,241
Short-Term Investments	24,296,275	24,495,908
Totals	$303,317,359	$300,041,217

2. Accounting for the fund and plans mentioned above is on the accrual basis, except for employee contributions in the Deferred Compensation Plan, which are accounted for on the cash basis. Because of the wide variation in payroll periods used by the participating units, full accrual may be impractical.

3. For both the Deferred Compensation Plan and the Unclassified Employees Retirement Plan, MSRS has used market values in reporting member participation in the Minnesota Supplemental Retirement Fund. Also, an amount has been included in both plans' Statement of Receipts and Disbursements to reflect the increase in market values of shares held or purchased prior to June 30, 1979. Currently, generally accepted accounting principles require the use of cost, not market values, in the financial statements and do not allow the recognizing of unrealized appreciation as an income item. One exception to this is if both plans were reported in accordance with the standards specified in the American Institute of Certified Public Accountants (AICPA) industry audit guide entitled "Audits of Investment Companies." Under this guide, market value reporting of investments and the recognition of unrealized appreciation in the financial statements is required. The current MSRS statements, however, do not comply with the requirements established by the guide for financial statement format or for the information to be presented in the financial statements and footnotes to the statements. Because of certain administrative difficulties in obtaining the necessary information to prepare the financial statements in accordance with the requirements of the audit guide, MSRS chose not to change the financial statements for the Deferred Compensation and the Unclassified Employees Retirement Plans for fiscal year 1979.

In our opinion, the aforementioned financial statements present fairly the financial position of the State Employees Retirement Fund at June 30, 1979, and the results of operations for the year then ended, in conformity with Minn. Stat. Section 356.20 and generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion, because of the effects of the matters discussed in paragraph 3, the aforementioned financial statements do not present fairly the financial position of the Unclassified Employees Retirement Plan or the Deferred Compensation Plan as of June 30, 1979, or the results of operations and changes in financial position for the year then ended in conformity with generally accepted accounting principles.

Eldon Stoehr

Eldon Stoehr
Legislative Auditor

June 9, 1980

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THE Wyatt COMPANY

ACTUARIES AND CONSULTANTS

PENSION PLANS | EMPLOYEE BENEFITS | COMPENSATION PROGRAMS | INTERNATIONAL BENEFITS | EMPLOYEE COMMUNICATIONS | RISK MANAGEMENT

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VANCOUVER

May 2, 1980

Board of Directors
Minnesota State Retirement System
529 Jackson at 10th Street
St. Paul, Minnesota 55101

Gentlemen:

We have performed an actuarial valuation and experience study of the Minnesota State Retirement System, State Employees Retirement Fund as of June 30, 1979.

The valuation and experience study were performed on the basis of accepted actuarial methods and procedures, in accordance with the applicable provisions set forth in Minnesota Statutes (Chapter 356) and stipulated in the Contract between the State of Minnesota and The Wyatt Company.

We hereby certify that on the basis of our valuation, contributions required from employees and the State under Minnesota Statutes (Chapter 352) are adequate to provide benefits payable from the Fund. Furthermore, the entry age normal cost method was utilized in determining the accrued liability for all benefits payable under the Fund.

Respectfully submitted,

THE WYATT COMPANY

Allan J. Grosh
Fellow, Society of Actuaries

Alan J. Schutz
Associate, Society of Actuaries

AJS:srw

Table 3(a)

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

CHAPTER 356 BALANCE SHEET AS OF JUNE 30, 1979

ASSETS AND UNFUNDED ACCRUED LIABILITY

A. ASSETS		
1. Cash in State Treasury		24,229.06
2. Cash in Bank (Imprest Cash)		200.00
3. Short Term Investments (at Cost)		24,296,275.28
4. Accounts Receivable:		
a. Accrued employee contributions	620,430.63	
b. Accrued employer contributions	991,202.22	
c. Employee buy-backs	201,216.74	
d. Due from other plans	55,549.87	
e. Other	1,760.07	1,870,159.53
5. Accrued Interest on Investments		3,011,297.59
6. Dividends Declared and Payable, but Not Yet Received		676,931.82
7. Investment in Debt Securities at Amortized Cost		123,425,160.50
8. Investment in G.N.M.A.'s at Amortized Cost		19,116,110.32
9. Investment in Equities at Cost		136,479,812.59
10. Equipment at Depreciated Cost		26,591.81
11. Deferred Yield Adjustment Account		3,949,077.96
12. Participation in the MAFB Fund		170,224,948.03
13. Total Assets		483,100,794.49
B. UNFUNDED ACCRUED LIABILITY		
1. Unfunded Accrued Liability to be Funded by Portion of Employee Contributions and State "Matching" Contribution in Excess of Entry Age Normal Cost Contribution and Operating Expenses		79,053,616.00
2. Unfunded Accrued Liability to be Funded by State's "Additional" Contribution		105,581,554.08
3. Total Unfunded Accrued Liability		184,635,170.08
4. TOTAL ASSETS AND UNFUNDED ACCRUED LIABILITY		667,735,964.57

CURRENT LIABILITIES AND RESERVES REQUIRED

C. LIABILITIES		
1. Accounts Payable:		
a. Security purchases	0.00	
b. Annuities	846.47	
c. Annuitant deposits	5,809.92	
d. Accrued expenses	64,372.36	
e. Overpaid dividends	1,785.00	
f. Transfer to unclassified retirement	190,075.35	
g. Due MAFB Fund, including transfer for Mortality Loss	364,326.56	627,215.66
2. Suspense Item: Unredeemed 6 Year Old Warrants		7,617.91
3. Total Liabilities		634,833.57
D. RESERVES REQUIRED		
1. Total Reserves Required per Attached Table 3(b)		667,101,131.00
2. TOTAL CURRENT LIABILITIES AND RESERVES REQUIRED		667,735,964.57

NOTE: Accumulated contributions, without interest, of members not yet retired amounted to $121,815,770.69 as of June 30, 1979 (includes accrued but unpaid contributions).

Table 3(b)

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

DETERMINATION OF ACCRUED LIABILITY AND
UNFUNDED ACCRUED LIABILITY AS OF JUNE 30, 1979

	(1) Present Value of Benefits	(2) Present Value of Applicable Portion of Normal Cost Contribution	(3) Accrued Liability Equals Reserves Required (1)-(2)
A. DETERMINATION OF ACCRUED LIABILITY			
1. Active Members			
a. Retirement benefits	682,265,279	253,186,666	429,078,613
b. Disability benefits	27,821,080	13,293,344	14,527,736
c. Refundments due to death or withdrawal	124,201,821	96,397,066	27,804,755
d. Surviving spouse benefits	24,129,080	8,773,911	15,355,169
2. Deferred Annuitants	9,051,737	———	9,051,737
3. Former Members Without Vested Rights	844,400	———	844,400
4. Survivors	213,773	———	213,773
5. Benefits Payable From MAFB Fund	179,101,216	———	179,101,216
6. MAFB Fund Annuity Stabilization Account	(8,876,268)	———	(8,876,268)
7. Total	1,038,752,118	371,650,987	667,101,131
B. DETERMINATION OF UNFUNDED ACCRUED LIABILITY			
1. Accrued Liability	———	———	667,101,131
2. Valuation Assets	———	———	482,465,961
3. Unfunded Accrued Liability [1 - 2]	———	———	184,635,170

Table 4

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND

ANALYSIS OF INCOME AND DEDUCTIONS FROM INCOME AND EFFECT ON THE UNFUNDED ACCRUED LIABILITY

A. INCOME		
1. From Employees		
a. Employee contributions	23,337,772.38	
b. Employee accrued contributions receivable	620,430.63	
c. Employee contributions, accounts receivable	55,739.49	24,013,942.50
2. From Employers		
a. Employer contributions	23,770,198.92	
b. Employer additional contributions	13,321,732.19	
c. Employer accrued contributions receivable	991,202.22	38,083,133.33
3. From Investments		
a. Interest on securities	12,043,409.04	
b. Dividends on corporate stock	6,924,568.56	
c. Recognized unrealized appreciation on stock	0.00	
d. Gain on sale of securities	635,789.62	
e. Interest on back payments by employees	155,586.72	19,759,353.94
4. From MAFB Fund Participation		
a. Participation on MAFB Fund Income		9,576,780.09
5. Other Revenues		
a. Miscellaneous	2,864.32	
b. Transfer of assets from MTC/TOD	21,242,839.41	
c. Prior year adjustment	3,318.15	21,249,021.88
6. TOTAL INCOME		112,682,231.74
B. DEDUCTIONS FROM INCOME		
1. Benefits		
a. Service retirement annuities	19,114,813.53	
b. Disability retirement benefits	1,201,406.06	
c. Survivor benefits (spouses)	28,433.58	20,344,653.17
2. Refundments (Employee Contributions)		
a. Left service	5,392,655.05	
b. Employee deaths	280,769.88	
c. Annuitant deposits	35,298.09	
d. Erroneous deductions	155,348.60	
e. Interest on Refundments	198,602.99	6,062,674.61
3. Transfer of Unclassified Employee Retirement		1,937,274.52
4. Operating Expenses 1/		1,041,312.08
5. Increase in Total Reserves Required		
a. Reserves required 6/30/78	585,941,142.00	
b. Reserves required 6/30/79	667,101,131.00	81,159,989.00
6. TOTAL DEDUCTIONS FROM INCOME		110,545,903.38
7. EXCESS OF INCOME OVER DEDUCTIONS FROM INCOME		2,136,328.36
C. REDUCTION IN UNFUNDED ACCRUED LIABILITY		
1. Unfunded Accrued Liability 6/30/78		186,771,498.44
2. Unfunded Accrued Liability 6/30/79		184,635,170.08
3. DECREASE IN UNFUNDED ACCRUED LIABILITY		2,136,328.36

1/ Represents .18% of average covered payroll for the period from July 1, 1978 to June 30, 1979.

MINNESOTA STATE RETIREMENT SYSTEM

STATE EMPLOYEES RETIREMENT FUND
ACCOUNTING BALANCE SHEET
FISCAL YEAR ENDED JUNE 30, 1979 AND 1978

ASSETS	1979	1978
Cash in State Treasury	$ 24,229.06	$ (24,116.01)
Cash in Bank (Imprest Cash)	200.00	200.00
Short Term Investments (At Cost)	24,296,275.28	10,420,140.42
Accounts Receivable:		
a) Accrued Employee Contributions	620,430.63	597,028.78
b) Accrued Employer Contributions	991,202.22	921,690.87
c) Employee Buybacks	201,216.74	196,521.06
d) Due from Other Plans	55,549.87	63,254.42
e) Other	1,760.07	2,852.27
Accrued Interest on Investments	3,011,297.59	2,402,605.80
Dividends Declared and Payable, not Yet Received	676,931.82	484,475.59
Investment in Debt Securities at Amortized Cost	123,425,160.50	100,874,950.50
Investment in G.N.M.A.'s at Amortized Cost	19,116,110.32	20,482,100.36
Investment in Equities at Cost (1)	136,479,812.59	117,990,616.22
Equipment at Depreciated Cost	26,591.81	14,263.16
Deferred Yield Adjustment Account	3,949,077.96	4,186,098.78
Participation in the MAFB Fund	170,224,948.03	141,687,419.09
Total Assets	$483,100,794.49	$400,300,101.31
LIABILITIES AND RESERVES		
Liabilities		
Accounts Payable:		
a) Security Purchases	$ 0.00	$ 345,018.09
b) Annuities	846.47	1,072.92
c) Annuitant Deposits	5,809.92	11,806.23
d) Accrued Expenses	64,372.36	91,196.19
e) Overpaid Dividends	1,785.00	1,785.00
f) Transfer to Unclassified Retirement	190,075.35	181,430.29
g) Due MAFB Fund	364,326.56	491,245.00
Suspence Item: Unredeemed 6 Year Old Warrants	7,617.91	6,904.03
Total Liabilities	$ 634,833.57	$ 1,130,457.75
Reserves		
Minnesota Adjustable Fixed Benefit Fund (2)		
Actuarial Reserve Requirement	$179,101,216.00	$151,273,385.00
Annuity Stabilization Reserve	(8,876,267.97)	(9,585,965.91)
Reserve for Benefits	$170,224,948.03	$141,687,419.09
Survivor Benefit Reserve	213,773.00	245,506.00
Employee Contribution Reserve	121,815,770.69	100,278,841.73
State Contribution Reserve	190,211,469.20	156,957,876.74
Total Reserves	$482,465,960.92	$399,169,643.56
Total Liabilities and Reserves	$483,100,794.49	$400,300,101.31

THE FOOTNOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

MINNESOTA STATE RETIREMENT SYSTEM

STATE EMPLOYEES RETIREMENT FUND
STATEMENT OF REVENUE AND EXPENDITURES
FISCAL YEARS ENDED JUNE 30, 1979 AND 1978

REVENUES	1979	1978
From Employees:		
Employee Contributions	$ 23,337,772.38	$20,648,216.89
Employee Accrued Contributions Receivable	620,430.63	597,028.78
Employee Contributions, Accounts Receivable	55,739.49	63,843.28
From Employers:		
Employer Contributions	23,770,198.92	21,109,903.65
Employer Additional Contributions	13,321,732.19	10,603,330.37
Employer Accrued Contributions Receivable	991,202.22	921,690.87
From Investments:		
Interest on Short Term, Mortgages and Debt Securities	12,043,409.04	8,849,417.25
Dividends on Corporate Stock	6,924,568.56	5,114,785.79
Recognized Unrealized Appreciation in Stock	0.00	(289,409.37)
Gain on Sale of Stock	635,789.62	537,109.35
Interest on Back Payments by Employees	155,586.72	176,940.24
From MAFB Fund Participation:		
Participation in MAFB Fund Income	9,576,780.09	7,923,505.14
Other Revenues:		
Miscellaneous	2,864.32	1,402.50
Transfer of Assets from MTC/TOD (3)	21,242,839.41	0.00
Total Revenues	$112,678,913.59	$76,257,764.74
EXPENDITURES		
Benefits:		
Service Retirement Annuities (4) (5)	$ 19,114,813.53	$15,908,384.62
Disability Retirement Annuities	1,201,406.06	746,625.16
Survivor Benefits (spouses)	28,433.58	28,560.60
Lump Sum Annuity Payments (spouses)	0.00	5,500.00
Refundments (Employee Contributions):		
Left Service	5,392,655.05	3,895,069.82
Employee Deaths	280,769.88	272,039.51
Annuitant Deposits	35,298.09	31,876.60
Erroneous Deductions	155,348.60	38,592.22
Interest on Refunds	198,602.99	169,575.23
Unclassified Employee Retirement:		
Transfer of Employee Contributions	785,286.98	858,969.58
Transfer of Employer Contributions	1,116,189.50	1,208,676.73
Transfer of Interest	35,798.04	27,549.14
Operating Expenses: (Exhibit A)		
Total Operating Expenses	1,041,312.08	910,925.69
Total Expenditures	$ 29,385,914.38	$24,102,344.90
Excess of Revenues Over Expenditures	$ 83,292,999.21	$52,155,419.84
Prior year adjustment (6)	3,318.15	0.00
NET DISTRIBUTION TO RESERVES	$ 83,296,317.36	$52,155,419.84

THE FOOTNOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

MINNESOTA STATE RETIREMENT SYSTEM
STATE EMPLOYEES RETIREMENT FUND
CHANGES IN INVESTMENTS
FISCAL YEARS ENDED JUNE 30, 1979 AND 1978

UNAUDITED

	1979	1978
CORPORATE STOCK (At Cost)		
Balances at June 30, P.Y.	$117,990,616.22	$101,040,866.37
Add: Purchases	21,389,985.50	18,772,461.33
	$139,380,601.72	$119,813,327.70
Deduct: Frac. & stock dividends sold	17,210.87	65.28
Stock Sold	2,883,578.26	1,822,646.20
Balances at June 30, C.Y.	$136,479,812.59	$117,990,616.22
Current Yield	5.3%	5.0%
Market value at June 30, C.Y.	$142,911,067.52	$116,210,538.43
DEBT SECURITIES (Par Value)		
Balances at June 30, P.Y.	$122,475,141.90	$ 99,423,544.30
Add: MTC/TOD transfers	4,714,047.67	0.00
Purchases	21,172,989.97	30,921,085.13
	$148,362,179.54	$130,344,629.43
Deduct: Maturities and calls	3,230,532.35	1,985,487.53
Debt securities sold	1,218,000.00	5,884,000.00
Balances at June 30, C.Y.*	$143,913,647.19	$122,475,141.90
Avg. Yield to Maturity	8.51%	8.31%
Book Value	$142,541,270.82	$121,357,051.00
Estimated Market Value	132,634,240.91	112,636,153.00
SHORT TERM INVESTMENTS (At Cost)		
Balances at June 30, P.Y.	$ 10,420,140.42	$ 6,264,295.47
Add: Purchases and transfers	216,118,774.56	260,646,041.57
	$226,538,914.98	$266,910,337.04
Deduct: Redemptions	202,242,639.70	256,490,196.62
Balances at June 30, C.Y.	$ 24,296,275.28	$ 10,420,140.42
*Distribution of Debt Securities:		
Municipals	$ 1,216,000.00	$ 1,833,000.00
U.S. Govt. Agency & Govt. Guar.	21,248,743.07	21,506,373.16
Canadian Govt. & Govt. Guar.	23,855,000.00	20,425,000.00
Corporate Obligations	97,593,904.12	78,710,768.74
	$143,913,647.19	$122,475,141.90

MINNESOTA STATE RETIREMENT SYSTEM

STATE EMPLOYEES RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS

1. The market value of equities at June 30, 1979 and 1978 was $142,911,068 and $116,210,538 respectively.

2. The actuarially determined reserve requirement for retired participants is calculated by the systems actuary. This is the amount that is needed to pay the benefits of those already retired. The difference between the reserve requirement and the systems share of the assets of the MAFB Fund is called the "Annuity Stabilization Reserve." The current deficit of the Annuity Stabilization Reserve is to be made up by future earnings in excess of the 5% required by the MAFB Fund. There is no liability to MSRS to make up this deficit. As long as there is a deficit, there can be no annuity increases granted.

3. The Metropolitan Transit Commission, Transit Operating Division. (MTC-TOD) employees retirement coverage was transferred to the State Employees Retirement Fund effective July 1, 1978. Assets of the MTC/TOD sufficient to fully fund the annuities in force on June 30, 1978 were transferred to the Minnesota Adjustable Fixed Benefit Fund (MAFBF) and the balance of the assets were transferred to the State Employees Retirement Fund. The MTC/TOD is required to pay three and eight-tenths percent of payroll in addition to the six percent of payroll applicable to other employers until the extra deficit plus interest at six percent on the average outstanding balance caused by the transfer is amortized. The systems actuary has estimated this deficit of $7,260,517 and interest to be paid in 6-7 years.

4. Annuitants who were receiving benefits at June 30, 1963 with at least 20 years of service have been entitled to supplemental benefits since July 1, 1967. Those who did not have social security coverage are entitled to $18 a month and those that did have social security coverage are entitled to $10 a month. These benefits are paid from the States General Fund and are in addition to the amounts shown on the financial statements. For the fiscal years ended June 30, 1979 and 1978, the supplemental benefits amounted to $77,354 and $86,618 respectively.

5. The 1977 legislature authorized a lump sum payment to annuitants who had retired prior to July 1, 1973. The payment was funded by fiscal 1977 MAFB fund income, was paid in December, 1977 (Fiscal Year 1978) and is in addition to the amount shown on the financial statements. The total amount of the lump sum payment was $992,612.50.

6. Adjustment to the funds fiscal 1978 participation in the MAFB Fund income. The adjustment was calculated due to an audit of the State Board of Investment by the Legislative auditor.

MINNESOTA STATE RETIREMENT SYSTEM

UNCLASSIFIED EMPLOYEES RETIREMENT PLAN (1)
ACCOUNTING BALANCE SHEET
FOR FISCAL YEARS ENDED JUNE 30, 1979 AND 1978

ASSETS	1979	1978 Unaudited
Deposits in State Treasury	$ 3,017.77	$ 2,839.65
Accrued employee contributions	97,010.32	91,157.97
Accrued employer contributions	90,483.47	89,743.34
Accrued interest receivable from SER Fund	2,581.56	528.98
Participation in Minnesota Supplemental Retirement Fund at market		
Income Account shares	4,962,103.65	4,048,335.08
Growth Account shares	2,122,062.69	1,711,996,00
Fixed Return Account	1,487,979.35	1,107,061.04
Total Assets	$8,765,238.81	$7,051,662.06
RESERVES		
Income Account shares	$4,962,103.65	$4,048,335.08
Growth Account shares	2,122,062.69	1,711,996.00
Fixed Return Account	1,487,979.35	1,107,061.04
Reserve for July 1 investments (2)	193,093.12	184,269.94
Total Reserves	$8,765,238.81	$7,051,662.06

	Income	Growth	Fixed Return
Number of shares at June 30, 1978	461,086	311,272	$1,107,061.04
Share values	8.78	5.50	
Market value of shares held at June 30, 1978	$4,048,335.08	$1,711,996.00	$1,107,061.04
Number of shares at June 30, 1979	512,085	338,447	$1,487,979.35
Share values	9.69	6.27	
Market value of shares held at June 30, 1979	$4,962,103.65	$2,122,062.69	$1,487,979.35

THE FOOTNOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

MINNESOTA STATE RETIREMENT SYSTEM

UNCLASSIFIED EMPLOYEES RETIREMENT PLAN
RECEIPTS AND DISBURSEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 1979 AND 1978

RECEIPTS	**1979**	**1978 Unaudited**
Employee contributions	$ 812,224.72	$ 872,366.47
Employer contributions	1,159,885.91	1,228,733.91
Interest on contributions	35,798.04	27,549.14
Fixed Return earnings	105,027.23	72,236.92
Appreciation in share values (3)	702,676.77	44,707.93
Total Receipts	$2,815,612.67	$2,245,594.37
DISBURSEMENTS		
Market value of shares withdrawn and paid out	$ 992,356.91	$ 508,189.51
Uninvested balances paid out	720.36	484.50
Earnings paid on Fixed Return withdrawals	3,719.38	2,287.88
Transfers to SER Fund	70,634.15	33,454.07
Administrative charge (4)	34,605.12	38,187.47
Total Disbursements	$1,102,035.92	$ 582,603.43
Net Distribution to Reserves	$1,713,576.75	$1,662,990.94

THE FOOTNOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Notes to financial statement.

1. During the F.Y. 1978 audit, the Legislative Auditor determined that the activity in this plan would be more appropriately displayed by the use of different financial statements. Thus the change from prior years. However, during the F.Y. 1979 audit, the auditor determined that this plan should be reported on a basis different from the 1978 recommendation. (See the auditors opinion). Both the Unclassified Employees Plan and the Deferred Compensation Plan participate in the Supplemental Retirement Fund. Threrfore, it is desireable to report both plans on a basis consistent with each other. Because of the inability to determine the *original cost* of shares remaining at fiscal year end for each participant in withdrawal status in the Deferred Compensation Plan, it is not possible to prepare the financial statements in a manner completely in accordance with Generally Accepted Accounting Principles (GAAP). For that reason and because of the differing recommendations on which financial statements should be presented, the auditor gave an adverse opinion on the F.Y. 1979 statements.

2. This reserve is for those employee and employer contributions accrued as of June 30. The statutes provide that purchase of shares in the Supplemental Retirement Fund be as of the first day of a month based on the prior months share values. The individual statements sent to members, however, reflect these contributions as June investments.

3. This is the net increase for the fiscal year in the market value of income and growth shares held or purchased prior to June 30 of the fiscal years indicated.

4. The adminstrative expense is set by statute at 1/10th of one percent of salary to be applied to both the employee and employer contributions for a total of 2/10ths of one percent of salary to be withheld for administrative expenses. Based on current contribution rates, this is equal to 2% of total employee and employer contributions.

MINNESOTA STATE RETIREMENT SYSTEM

DEFERRED COMPENSATION PLAN (1)
ACCOUNTING BALANCE SHEET
FOR FISCAL YEARS ENDED JUNE 30, 1979 AND 1978

ASSETS	**1979**	**1978 Unaudited**
Deposits in state treasury	$ 7,580.54	$ (7,741.57)
Short term investments (2)	200,000.00	240,000.00
Accrued interest on investments (2)	108.89	0.00
Participation in Minnesota Supplemental Retirement Fund at Market		
Income Account Shares	6,110,591.52	4,629,790.58
Growth Account Shares	4,374,629.16	3,115,469.50
Fixed Return Account	8,919,726.34	5,017,699.30
Total Assets	$19,612,636.45	$12,995,217.81
LIABILITIES AND RESERVES		
Liabilities		
Accounts Payable:		
Erroneous deductions	$ 150.00	$ 0.00
Total Liabilities	$ 150.00	$ 0.00
Reserves		
Reserve for future withdrawals	$19,404,853.24	$12,762,784.65
Reserve for undistributed Fixed Return earnings	93.78	174.73
Reserve for July 1 investments (3)	207,539.43	232,258.43
Total Reserves	$19,612,486.45	$12,995,217.81
Total Liabilities and Reserves	$19,612,636.45	$12,995,217.81

	Income	**Growth**	**Fixed Return**
Number of shares at June 30, 1978	527,311	566,449	$5,017,699.30
Share values	X8.78	X5.50	
Market value of shares at June 30, 1978	$4,629,790.58	$3,115,469.50	$5,017,699.30
Number of shares at June 30, 1979	630,608	697,708	$8,919,726.34
Share values	X9.69	X6.27	
Market value of shares at June 30, 1979	$6,110,591.52	$4,374,629.16	$8,919,726.34

THE FOOTNOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

MINNESOTA STATE RETIREMENT SYSTEM
DEFERRED COMPENSATION PLAN
RECEIPTS AND DISBURSEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 1979 AND 1978

RECEIPTS	**1979**	**1978 Unaudited**
Employee contributions	$5,568,713.00	$4,961,975.00
Interest on short term investments	32,551.44	18,068.21
Fixed Return earnings	567,164.63	255,095.16
Appreciation in share values (4)	1,036,786.38	87,788.44
Total Receipts	$7,205,215.45	$5,322,926.81
DISBURSEMENTS		
Income Shares withdrawn	$ 227,940.54	$ 209,325.89
Growth Shares withdrawn	100,367.21	84,906.20
Fixed Return withdrawn	89,860.39	57,623.79
Uninvested balances withdrawn	153.35	219.78
Salary deductions refunded — erroneous	1,480.00	2,734.00
Interest paid — Fixed Return withdrawals	1,414.93	1,406.47
Administrative charge (5)	166,730.39	99,184.82
Total Disbursements	$ 587,946.81	$ 455,400.95
Net Distribution to Reserves	$6,617,268.64	$4,867,525.86

THE FOOTNOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

MINNESOTA STATE RETIREMENT SYSTEM
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS

1. During the F.Y. 1978 audit, the Legislative Auditor determined that the activity in this plan would be more appropriately displayed by the use of different financial statements. Thus the change from prior years. However, during the F.Y. 1979 audit, the auditor determined that this plan should be reported on a basis different from the 1978 recommendation. (See the auditors opinion). Both the Unclassified Employees Plan and the Deferred Compensation Plan participate in the Supplemental Retirement Fund. Threrfore, it is desireable to report both plans on a basis consistent with each other. Because of the inability to determine the *original cost* of shares remaining at fiscal year end for each participant in withdrawal status in the Deferred Compensation Plan, it is not possible to prepare the financial statements in a manner completely in accordance with Generally Accepted Accounting Principles (GAAP). For that reason and because of the differing recommendations on which financial statements should be presented, the auditor gave an adverse opinion on the F.Y. 1979 statements.

2. Contributions can only be invested in the Supplemental Retirement Fund once a month. Therefore, the contributions are invested in short term securities until the transfer date to the supplemental fund. Pending legislation will allow transfers to the supplemental fund more frequently than once a month.

3. This reserve is for those contributions received prior to June 30, which have not been transferred to the supplemental fund. The statute provides that the purchase of shares in the Supplemental Retirement Fund be as of the first day of a month based on the prior months share values. The individual statements sent to members, however, reflect these contributions as June investments.

4. This is the net increase for the fiscal year in the market value of income and growth shares held at the beginning of each fiscal year, adjusted for withdrawals, plus the increase in market value for those shares purchased during the year.

5. The administrative charge is equal to 2% of contributions and is subject to change either up or down depending on the cost of administration. Of the $166,730.39 charge in fiscal 1979, $111,344.66 is the 2% charge. The remaining $55,385.73 is short term investment earnings which have accrued since January 1977. (See also Note 2). The short term earnings amounted to less than 4/10ths of one percent of contributions in fiscal 1978 and less than 6/10ths of one percent in fiscal 1979. There is a surplus of funds for administration including interest earnings of approximately $180,000 as of June 30, 1979. Recent rule changes by the Internal Revenue Service, and law changes are going to necessitate a major computer re-programming effort by MSRS and other changes in the plan. Once this effort is completed and the new rules fully implemented, a re-evaluation of the administrative charges will be performed.