Claire McCaskill
Missouri State Auditor

September 2005

Missouri Department of Transportation and Highway Patrol Employees' Retirement System

Four Years Ended June 30, 2004

Office Of
Missouri State Auditor
Claire McCaskill

September 2005

YELLOW SHEET

The following problems were discovered as a result of an audit conducted by our office of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS).

In August 2003, after contracting with an external consultant to perform a salary study to determine market salary levels for its staff, the board provided its 11 employees with annual pay increases totaling approximately $52,000, effective July 1, 2004, in addition to cost-of-living adjustments (COLA) increases. These increases ranged from 1 percent to 21 percent, with the exception of the Chief Investment Officer who received only the standard COLA increase. Prior to July 2004, the board provided raises to its employees consistent with those provided to other state employees.

The board has contracted for legislative consulting services since 1997, without soliciting proposals for these services. The board also did not solicit proposals when hiring some consultants for specific projects. Without requesting proposals for all professional services, the board may be missing the opportunity to obtain similar or improved service at a better price, either from existing or new firms.

The MPERS spent approximately $68,000, $50,000, $56,000, and $25,000 on travel, meetings, and education during fiscal years 2004, 2003, 2002, and 2001, respectively. The board has not established limits for travel expenses, such as lodging and meals. The board should adopt reasonable lodging and meal rates and require a written explanation of reasons when costs are claimed that exceed these rates. Additionally, two of five expense reports reviewed did not contain adequate supporting documentation.

Adequate documentation of the search process for a building to relocate the MPERS office was not maintained. In addition, the board did not maintain adequate documentation justifying the need to purchase more office space than required.

Also included in the report are recommendations related to policies and procedures, and acceptance of gifts from third parties.

MISSOURI DEPARTMENT OF TRANSPORTATION AND
HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Board of Trustees
and
Norm Robinson, Executive Director
Missouri Department of Transportation and
Highway Patrol Employees' Retirement System
Jefferson City, MO 65102

The State Auditor is required under Section 104.190.4, RSMo 2000, to review the audits of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System. The system engaged Evers and Company, Certified Public Accountants (CPAs), L.L.C. to audit the system's financial statements for the years ended June 30, 2004, 2003, 2002, and 2001. We reviewed the reports and substantiating working papers of the CPA firm. The scope of our review included, but was not necessarily limited to, the years ended June 30, 2004, 2003, 2002, and 2001. The objectives of this review were to:

1. Review compliance with certain legal provisions.

2. Evaluate the economy and efficiency of certain management practices and operations.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the system, as well as certain external parties; testing selected transactions; and analyzing comparative data obtained from the system.

In addition, we obtained an understanding of internal controls significant to the review objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our procedures and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the review objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant

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instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our procedures and accordingly, we do not express such an opinion.

Our review was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the system's management and was not subjected to the procedures applied in the review of the system.

The accompanying Management Advisory Report presents our findings arising from our review of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System.

Claire McCaskill
State Auditor

April 25, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Douglas J. Porting, CPA
In-Charge Auditor:	Kim Spraggs, CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

MISSOURI DEPARTMENT OF TRANSPORTATION AND
HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Salary Increases

Despite recent state budget constraints, during fiscal year 2005 the Missouri Department of Transportation and Highway Patrol Employees' Retirement System's (MPERS) Board of Trustees (board) provided significant pay raises to its employees beyond the cost-of-living adjustments (COLA) given to all state employees.

In August 2003, the board contracted with an external consultant to perform a salary study to determine market salary levels for its staff. Based on the pay ranges recommended in the study, the board provided its 11 employees with annual pay increases totaling approximately $52,000, effective July 1, 2004, in addition to COLA increases. Individual employee pay increases in excess of the COLA increase ranged from 1 percent to 21 percent, with the exception of the Chief Investment Officer who received only the standard COLA increase due to previously agreed-upon future salary increases.

The raises were not available to other state employees, with the exception of the COLA increases. Prior to July 2004, the board provided raises to its employees consistent with those provided to other state employees. MPERS officials indicated they believed the raises were necessary to retain quality staff. Although Section 104.180, RSMo 2000 gives the board exclusive jurisdiction to set employee compensation, given the recent state budget constraints and that other state employees have generally not received such pay increases, the board should reevaluate the reasonableness and necessity for these raises.

WE RECOMMEND the Board of Trustees reconsider providing future pay increases over and above those provided to all other state employees.

AUDITEE'S RESPONSE

The Board of Trustees felt the salary increases were reasonable and justified based on the outcome of the job study. We acknowledge the auditor's concern and will take those concerns into consideration in the future.

2. Solicitation of Professional Services Contracts

The board did not formally solicit proposals for custodial bank search and transition consulting services, and salary consulting services. In addition, the board has not formally solicited proposals for legislative consulting services in recent years.

The board has contracted for legislative consulting services since 1997, without soliciting proposals for these services. The legislative consultant was paid $15,000 each year during the four years ended June 30, 2004, and the contract rate increased to $20,000 for fiscal year 2005.

The board also did not solicit proposals when hiring some consultants for specific projects. To assist in the selection and hiring of a new investment custodian in fiscal year 2003, the board paid one consultant approximately $54,000 for custodial bank search consulting services and an additional $15,000 for custodial bank transition consulting services. In addition, during fiscal year 2004, the board contracted with a consultant to perform a salary study at a total cost of approximately $9,000. The Executive Director indicated these consultants were hired because they had provided similar services to other local retirement systems, and those systems were satisfied with their performance.

Without requesting proposals for all professional services, the board may be missing the opportunity to obtain similar or improved service at a better price, either from existing or new firms.

WE RECOMMEND the Board of Trustees periodically solicit proposals for all professional services; or periodically review current market pricing levels to ensure fair pricing is obtained, and document these reviews.

AUDITEE'S RESPONSE

In the future, we will solicit proposals or review market pricing levels for professional services.

3. Policies and Procedures

The board has not required the development of comprehensive written policies and procedures for the operation of the system. For example, the system does not have an employee manual detailing personnel matters, such as vacation and sick leave policies, overtime and compensatory time policies, employee duties and responsibilities, lines of authority, travel policies, conflicts of interest, grievance procedures, and any other items of interest to employees. In addition, written policies and procedures have not been established regarding the selection and monitoring of professional consultants, and defining the required levels of approval on contracts.

Written policies and procedures, including a comprehensive personnel policy, would provide guidance and control for the effective and consistent management of the retirement system.

WE RECOMMEND the Board of Trustees require the preparation and maintenance of comprehensive policy and procedure manuals.

AUDITEE'S RESPONSE

We agree with the auditor's recommendation. Our goal is to have policies in place by January 1, 2007.

4. Travel Expenditures

As noted above, the system has not established travel policies. As a result, board members and employees do not have written guidance regarding allowable costs for travel, lodging, and meals or for submitting expense reports. The MPERS spent approximately $68,000, $50,000, $56,000, and $25,000 on travel, meetings, and education during fiscal years 2004, 2003, 2002, and 2001, respectively. We noted several instances where lodging and meal expenditures appeared excessive, and where expense reports were not adequately supported.

A. The board has not established limits for travel expenses, such as lodging and meals. We selected a total of five employee and board member expense reports paid during the period July 1, 2003 to April 18, 2005, to review. We noted several instances where lodging or meal reimbursements appeared excessive. In one instance, lodging costs related to a due diligence monitoring visit were over the federal per diem lodging rate. The Office of Administration has adopted the federal per diem rates established by the federal General Services Administration as guidelines for state employee travel. The charges for one night's lodging in Des Moines was $119 which exceeded the federal per diem rate of $67 for that city. The MPERS employee who took this trip indicated he stayed at the hotel within walking distance of the money manager to avoid transportation costs; however, the details supporting this justification were not documented.

   We also noted six instances when reimbursements for meal expenses were over the federal per diem meal rate. We noted reimbursements for breakfast of $24, $16, and $13, which exceeded the federal rate of $9 to $10; a lunch of $19, which exceeded the federal rate of $11; and a dinner of $30, which exceeded the federal rate of $26.

   The board should adopt reasonable lodging and meal rates and require a written explanation of reasons when costs are claimed that exceed these rates.

B. Two of five expense reports reviewed did not contain adequate supporting documentation. For example, the Executive Director was reimbursed for meal and transportation expenses he indicated also included other employees and board members. However, documentation did not identify the business purpose and/or the names of those individuals provided meals and transportation. In addition, some expenditures for cab fares and shuttle services were not supported by invoices or receipts.

Without adequate documentation supporting the expenses claimed, the board cannot determine the propriety of expense reimbursements.

WE RECOMMEND the Board of Trustees:

A. Establish reasonable lodging and meal rates and require a written explanation as to any reasons necessitating costs which exceed these rates.

B. Require adequate supporting documentation for expense reports, such as paid invoices or receipts, purpose, and participants be submitted prior to payment.

AUDITEE'S RESPONSE

A travel policy will be included in the development of our policy and procedure manual. We will reinforce the need to ensure supporting documentation is provided for expenses.

5. Acceptance of Gifts from Third Parties

MPERS officials indicated, and our follow up on expense reports confirmed, that board members and employees periodically receive paid meal expenses from investment managers while attending conferences or conducting monitoring reviews. The board has not established policies outlining the types of gifts (i.e. paid travel expenses, food, beverages, admission to social or sporting events, or other items or services of value), if any, that board members and employees can or cannot accept from third parties, such as investment managers or other vendors which do business with retirement systems. In addition, the board has not established a system for reporting and monitoring any gifts received.

Our review of five expense reports found several instances where meal costs were not claimed for overnight trips taken, and there was no documentation indicating how these meals were paid (i.e. included in conference registration or lodging fees, or paid for by a third party). In response to our inquiries, MPERS employees indicated some of the meals were provided by third parties. In some cases, MPERS employees were not able to clearly tell us who paid for the meals.

Section 104.210, RSMo 2000 states that any trustee or employee accepting any gratuity or compensation for the purpose of influencing his action with respect to the investment of the funds of the system shall thereby forfeit his office, and be subject to other penalties established by law. Accepting meal expenses or other gifts from entities with which the MPERS contracts or could potentially contract could give the appearance of a conflict of interest. Policies should be established outlining the types and limits of items, if any, that are allowable, and a system should be established for reporting and monitoring those items that are determined to be allowable. Records should document the name of the third party, their relationship to the MPERS, expenses paid or gifts received, the name of the recipient, the date, and the estimated value of the item received. These records should be periodically reviewed by the board and staff to ensure such items are reasonable.

WE RECOMMEND the Board of Trustees establish policies outlining the types of gifts, if any, which can be accepted from third parties and establish a system for reporting and monitoring these items for compliance with state law.

AUDITEE'S RESPONSE

We agree with the auditor's recommendation. A policy will be included in the development of our policy and procedure manual.

6. Building Purchase

Adequate documentation of the search process for a building to relocate the MPERS office was not maintained. In addition, the board did not maintain adequate documentation justifying the need to purchase more office space than required.

The board purchased its own building in May 2002, and the MPERS employees moved into the building in August 2002. Prior to the purchase, the retirement system was located within facilities owned by the Missouri Department of Transportation (MoDOT). The board purchased the building from the Missouri Local Government Employees Retirement System (LAGERS) for $637,500. The board had the property appraised, and the price paid for the building was slightly less than the appraised value.

We reviewed the actions and documentation regarding the decision to purchase the building. The Executive Director provided documentation indicating the board had, as early as June 2000, discussed the reasons justifying the need to relocate the MPERS office. The board renewed the discussion of moving when the LAGERS building became available for purchase. Most of the documentation surrounding the purchase focused on justifying why the purchase of the LAGERS building would be beneficial. While the Executive Director indicated he had evaluated other facilities on the market which were available for sale or lease at the time, as well as the possibility of new construction, documentation of other options considered or steps taken to identify other properties was not sufficient.

The building purchased has considerably more space than is currently needed by the MPERS. The MPERS uses approximately two-thirds of the space and leases the remaining one-third of the space to the MoDOT for approximately $2,600 per month. Although the MPERS was able to lease the unneeded space, the board did not prepare sufficient documentation justifying the purchase of a building that was considerably larger than needed. In addition, the board did not document an assessment of whether there would be a future need for the extra space. The Executive Director indicated the extra space could potentially be needed in the future to maintain some of its records.

To ensure office space is acquired in the most economical manner and that the acquisition process is adequately planned, complete documentation of the process, including an analysis of all the needs and options available, should be maintained.

WE RECOMMEND the Board of Trustees ensure all applicable alternatives are evaluated for future significant purchases and that documentation is maintained.

AUDITEE'S RESPONSE

We will evaluate and more thoroughly document the alternatives for future significant purchases.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

MISSOURI DEPARTMENT OF TRANSPORTATION AND
HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Highway and Transportation Employees' and Highway Patrol Retirement System was created under an act of the 68th General Assembly, commenced actual operations on September 1, 1955, and is governed by Chapter 104, RSMo 2000. Effective August 28, 2004, House Bill 1440 changed the official name of the retirement system to the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS).

The MPERS is a single-employer public employee retirement system for full-time (defined as anticipating at least 1,000 hours to be worked annually) employees of the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP). The MPERS is a defined benefit plan providing service retirement, death, and disability benefits to its members. Within the MPERS are two benefit structures known as the Closed Plan and the Year 2000 Plan.

The responsibility for the operation and administration of the retirement system is vested in the MPERS Board of Trustees, consisting of three members of the state Highways and Transportation Commission, the director of the MoDOT, the superintendent of the MSHP, one member of the Senate, one member of the House of Representatives, one active employee of the MoDOT, one active employee of the MSHP, and one retired member. The latter three members are elected by a plurality vote of the active, vested, and retired members of their respective departments to serve four-year terms. The Board of Trustees as of June 30, 2004, were as follows:

Name	Position	Membership	Term Expires
James B. Anderson	Chairman	Elected *	March 3, 2009
Colonel Roger Stottlemyre	Vice-Chairman	Superintendent, MSHP	Ex-Officio
Bill McKenna	Member	Elected *	March 1, 2007
Duane Michie	Member	Elected *	March 1, 2009
Harold Reeder	Member	Elected (MoDOT active member)	July 1, 2006
Lieutenant Juan Villanueva	Member	Elected (MSHP active member)	July 1, 2006
Bill Shaw	Member	Elected (Retired)	July 1, 2006
Dave Snider	Member	Interim Director, MoDOT	Ex-Officio**
Stephen Stoll	Senator	Appointed	***
Larry Crawford	Representative	Appointed	****

* Elected by the members of the state Highways and Transportation Commission.

** Effective September 15, 2004, Mr. Pete Rahn replaced Dave Snider as Director of the MoDOT.

*** Appointed by the President Pro Tem of the Senate. John Griesheimer replaced Stephen Stoll in February 2005.

**** Appointed by the Speaker of the House. Charles Schlottach replaced Larry Crawford in February 2005.

Norm Robinson serves as Executive Director and is responsible for the records of the system and the hiring of retirement system staff, subject to the direction of the Board of Trustees. The Executive Director reviews retirement policies, procedures, investments and legislation and informs the board on all matters pertaining to the system. The executive staff and their annual compensation as of June 30, 2004, were as follows:

Name	Position	Annual Compensation
Norm Robinson	Executive Director	$ 83,808
Susie Dahl	Assistant Executive Director	73,920
Larry Krummen	Chief Investment Officer	84,600
Dan Pritchard	Chief Counsel	(1)

(1) The Chief Counsel position was established January 1, 2005, with annual compensation of $71,316. Prior to January 2005, the Chief Counsel of the Highways and Transportation Commission furnished legal services to the MPERS.

The Board of Trustees has appointed Gabriel, Roeder, Smith & Co., of Southfield, Michigan as actuarial consultants. Summit Strategies, Inc., of St. Louis, Missouri serves as the system's general asset investment consultant. Northern Trust Company, of Chicago, Illinois serves as the system's master custodian and securities lending agent. Charlesworth & Associates, of Overland Park, Kansas serves as the system's risk management consultant. The Standard Insurance Company, of Portland, Oregon serves as the disability insurance administrator. Evers and Company, Certified Public Accountants (CPAs), L.L.C., of Jefferson City, Missouri serves as the system's independent auditor. Jack Pierce, of Jefferson City, Missouri serves as the system's legislative consultant.

As of June 30, 2004, the following firms managed external investments for the MPERS: Acadian Asset Management, of Boston, Massachusetts; Artisan Partners, of Milwaukee, Wisconsin; Barclays Global Investors, of San Francisco, California; Enhanced Investment Technologies (INTECH), of Palm Beach Gardens, Florida; Julius Baer Investment Management, of New York, New York; Principal Global Investors, of Des Moines, Iowa; RMK Timberland, of Winston-Salem, North Carolina; Rockwood Capital Advisors, LLC, of St. Louis, Missouri; Rothschild Asset Management, of New York, New York; Silchester International Investors Limited, of New York, New York; The Northern Trust Company, of Chicago, Illinois; and UMB Investment Advisors, of Kansas City, Missouri.

As of June 30, 2004, there were 9,002 active members; 6,731 retired members, disability recipients, and beneficiaries; and 1,285 terminated vested members of the MPERS.

Memberships, required contributions, and benefits provided under the MPERS are generally as follows:

Eligibility

All employees hired for the first time on or after July 1, 2000, whose position normally requires at least one thousand hours of work per year, and who are not simultaneously accumulating creditable service under another retirement program supported by state contributions (other than social security) are eligible and required to participate in the Year 2000 Plan. Those employees hired prior to July 1, 2000, who meet the requirements above, and do not elect to transfer to the Year 2000 Plan, participate in the Closed Plan. The MPERS active members, vested former members, and retirees and survivors under the Closed Plan may elect to transfer to the Year 2000 Plan within established guidelines.

Contributions

The MPERS is a non-contributory plan, with the entire cost paid by the State of Missouri. The contribution rate for non-uniformed members, as a percent of the membership payroll, was 25.54 percent for fiscal year 2004, and 23.29 percent for each of fiscal years 2003, 2002, and 2001. The contribution rate for uniformed members, as a percent of the membership payroll, was 38.40 percent for fiscal year 2004, and 34.94 percent for each of fiscal years 2003, 2002, and 2001.

Service Retirement Benefits

Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements. Service retirement benefits are the greater of an amount based on a formula which multiplies the average monthly pay of the highest thirty-six consecutive months of salary, by the applicable formula factor, by the years of creditable retirement service, and in the case of early retirement of non-uniformed members, by an age reduction factor, or $15 times the full years of creditable service.

Creditable service is a combination of the creditable prior service a member has accrued before becoming a member of the MPERS and the years and full months of service the member has as a member of the MPERS. Members are fully vested upon completion of five years of service.

NORMAL RETIREMENT

Closed Plan

Non-uniformed members may retire under the standard (.016) formula factor with full benefits at age sixty-five with four years of creditable service, age sixty with fifteen years of creditable service, or at age forty-eight or later if their combined age and service equal eighty (Rule of 80). Uniformed members may retire under the standard (.0213) formula with full benefits at age fifty-five with four years of creditable service, or when they qualify under the Rule of 80. Uniformed members are required to retire at age sixty with five years of experience.

Year 2000 Plan

Members may retire under the standard (.017) formula factor with full benefits at age sixty-two with five years of service, or at age forty-eight or later under the Rule of 80. Uniformed members are required to retire at age sixty with five years of experience. Members who retire under the Rule of 80 are eligible for a temporary benefit until they reach the age of sixty-two. The temporary benefit is calculated based on a formula which multiplies the average monthly pay of the highest thirty-six consecutive months of salary, by an 0.8 percent formula factor, and by the years of creditable service.

EARLY RETIREMENT

Closed Plan

Non-uniformed members age fifty-five who have completed at least ten years of creditable service qualify for a reduced benefit. The benefit is computed by using the same formula for full benefits and then is reduced by .006 for each month of service the employee is younger than the full benefit retirement age. There are no early retirement provisions for uniformed members.

Year 2000 Plan

Members may retire with reduced benefits at age fifty-seven with five years of service. The benefit is computed by using the same formula for full benefits and then is reduced by .005 for each month of service the employee is younger than the full benefit retirement age.

<u>BackDROP</u>

Effective January 1, 2002, a member may elect a BackDROP option at retirement that would allow for a lump sum payment in addition to the retirement benefits which are calculated as if the member had retired at a previous date. To be eligible to participate in the BackDROP, a member must be actively employed in a MPERS covered position on the date first eligible for normal retirement and have been eligible to retire under normal age and/or service conditions for at least two years. A retroactive starting date is selected by the member, which must be on or after the date first eligible for normal retirement benefits and within the five-year period immediately prior to the actual retirement date. This results in a BackDROP period of one to five years depending on the member's situation. The member is paid a lump sum in the amount of 90 percent of the value of the benefit payments that would have been paid during the BackDROP period beginning at retirement or as three equal annual installments beginning at the retirement date.

PAYMENT OPTIONS

A retiring member may elect to receive an unreduced benefit with a life income annuity (with no provision for survivorship) or a 50 percent joint-and-survivor option (this option provides for a reduced benefit under the Year 2000 Plan), or the member may elect to receive a reduced benefit with a 100 percent joint-and-survivor option. The survivor options provide survivor benefit coverage in varying degrees after the retiree's death.

Under any of the joint and survivor options that pay a reduced benefit, if the designated surviving spouse dies before the retiree, the retiree's benefit will "pop-up" or revert to the life income annuity amount effective the first of the month following the spouse's death.

These members may also choose an annuity with either 60 or 120 guaranteed monthly payments (120 or 180 for MSEP 2000 members). The member receives a reduced monthly benefit for life and if the member dies before receiving the designated number of payments, the beneficiary receives the remaining payments.

In all cases where the benefit is reduced to provide a survivorship, the reduction continues throughout the lifetime of the retiree.

Supplemental Pension

Uniformed members under the Closed Plan receive a special benefit of $90 per month reduced by any amount earned during gainful employment. This special benefit terminates at age sixty-five and is not applicable for uniformed members of the patrol hired after January 1, 1995.

Deferred Benefits

Employees with five years of service who terminate employment are entitled to deferred benefits when they attain the age qualifying them for early or normal retirement. Should a terminated vested member return to employment and complete one year of service, all prior service will be restored and future benefits will be computed on the total creditable service, average compensation, and law in effect at the time of subsequent termination or retirement.

Cost-of-Living Adjustments (COLA)

Annual COLAs are made effective October 1 of each year for retirees, normal and work-related disability recipients, and qualified surviving spouses who received benefits the preceding month. Employees hired before August 28, 1997, receive a COLA to the benefit amount based on 80 percent of the previous year's increase in the Consumer Price Index (CPI) with a minimum of 4 percent and a maximum of 5 percent until the total of such COLA increases reaches a cap of 65 percent of the member's initial benefit or the benefit at September 30, 1986, whichever is later.

After reaching this 65 percent cap, those members' annual COLA will be the same as for members who were hired after August 28, 1997, as discussed below.

Members hired after August 28, 1997, under the Closed Plan and the Year 2000 Plan, and those hired before August 28, 1997, who elect to transfer to the Year 2000 Plan, receive a COLA based strictly on 80 percent of the increase in the CPI, with no cumulative cap, no annual minimum, and a 5 percent annual maximum.

Disability Benefits

There are two categories of disability benefits:

> **Long-Term Disability:** Benefits for long-term disability are equal to 60 percent of the compensation immediately prior to the disability less primary Social Security and any benefits provided at the cost of the MoDOT or the MSHP, including Workers' Compensation indemnity benefits. The minimum long-term disability monthly benefit is 9 percent of the member's salary immediately prior to becoming disabled, or $50, whichever is greater.
>
> **Work-Related Disability:** Work-related disability benefits are equal to 70 percent of the compensation the employee was receiving at the time of the work-related injury; provided, however, that the benefit amount plus Social Security disability benefits should not exceed 90 percent of the employee's salary.

All disability benefits are reduced by any amount of weekly indemnity benefits paid to the member as a result of Worker's Compensation. In addition, disability benefits are discontinued if the member regains of his/her earning capacity. Creditable service in the retirement system will continue to accrue until retirement or until the member qualifies for full retirement benefits, whichever is earlier. Prior to September 1, 2003, a "normal" disability benefit was also available.

Death and Survivor Benefits

All members who retired or began receiving normal or work-related disability benefits on or after September 28, 1985, are provided a $5,000 death benefit payable to designated beneficiaries.

If a member is fully vested, dies prior to retirement, and the death is nonduty-related, a joint-and-100 percent survivor benefit, based on the member's accrued benefit, will be paid to the eligible surviving spouse. With no surviving spouse, the member's minor children will receive 80 percent of the fully vested member's accrued benefit. For Closed Plan members who die after completing at least three, but less than five years of service, the survivor benefit is calculated using 25 percent of the benefit the member would have received had the member retired on the date of the death. Survivors are eligible to receive COLAs.

If the death is duty-related, the eligible surviving spouse or children receive a benefit no less than 50 percent of the member's final average pay.

Reciprocity and Prior Service

The system allows for the transfer or purchase of creditable service of public employees who move from one position covered by one public employee retirement system to another. Under the Closed Plan, certain members of the uniformed patrol who had served as police officers for any city may purchase equivalent service for that time not to exceed four years.

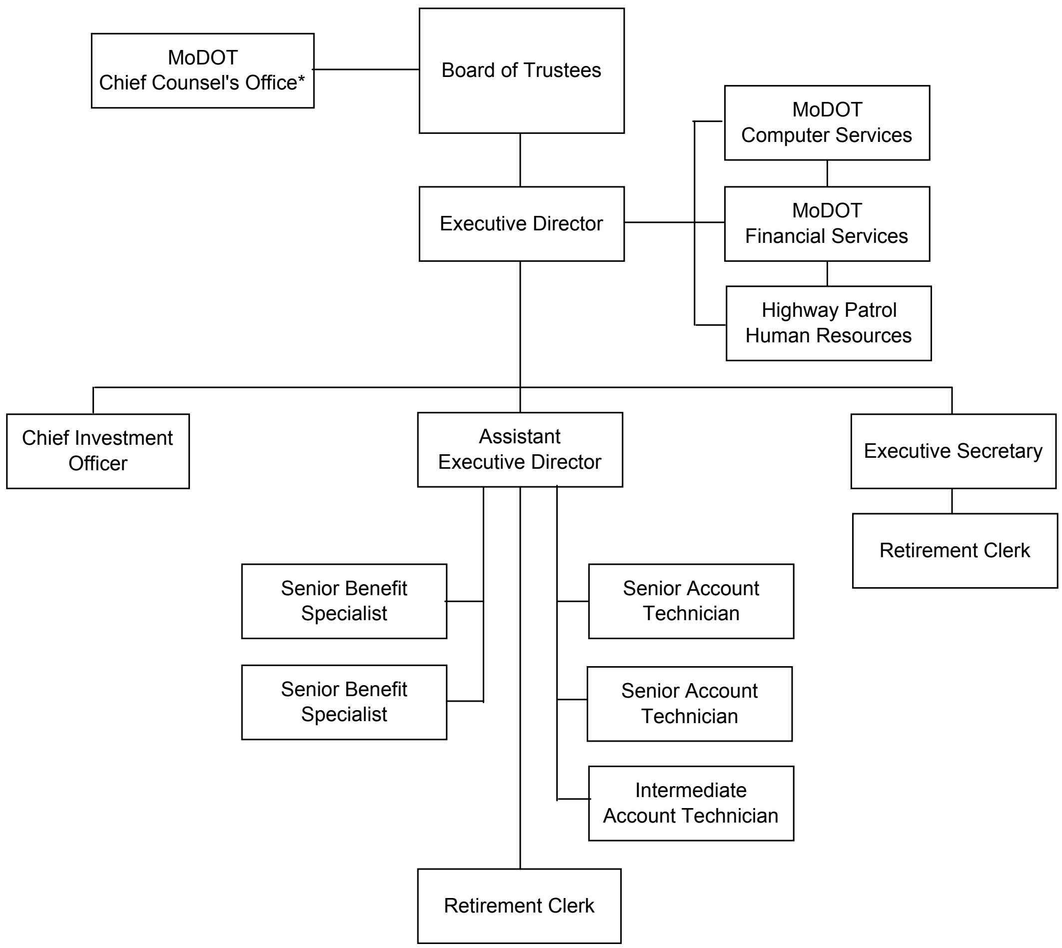
Subsequent Events

During the 2005 legislative session, House Bill 333 and Senate Bill 275 were introduced which proposed the consolidation of the Missouri State Employees Retirement System (MOSERS) with the MPERS. Such a consolidation could have resulted in a shift of costs and personnel, depending on how the consolidation was implemented. These bills did not pass during the 2005 legislative session.

System Staff

At June 30, 2004, the retirement system had 11 employees including the Executive Director. In addition to the system's 11 employees, some MoDOT and MSHP employees also perform retirement related duties for the MPERS. An organization chart follows:

MISSOURI DEPARTMENT OF TRANSPORTATION AND
HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
ORGANIZATION CHART
June 30, 2004



*Effective January 2005, the MPERS hired its own General Counsel, replacing the legal services provided by the MoDOT Chief Counsel's Office.