



POPULAR ANNUAL FINANCIAL REPORT

As of June 30, 2012

Good Stewardship. Greater Mississippi.

December 18, 2012

sixty years of balanced investment / decades of benefitting the state's economy

Dear Members and Retirees:



I am pleased to present the 2012 Popular Annual Financial Report (PAFR) of the Public Employees' Retirement System of Mississippi (the System).

Despite the uncertain and fragile economy, we have continued to provide secure retirement benefits to tens of thousands of retired Mississippi public employees, while expanding our technological efficiencies and directing ourselves toward financial sustainability well into the future. Reporting that we remain well prepared to provide secure benefits while carefully safeguarding the retirement future of our

members and retirees is my privilege. We trust that each of you will find this PAFR helpful in understanding your retirement system.

This report is a summary of our services, organization, funding, and investments, which are reported in detail in the Public Employees' Retirement System of Mississippi's Comprehensive Annual Financial Report (CAFR) for 2012.

The CAFR is prepared and presented in conformity with generally accepted accounting principles. The entire report may be found on the PERS website at www.pers.state.ms.us. For questions concerning any of the information presented in this report, contact the Public Employees' Retirement System

of Mississippi, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or visit us online.

Our mission is to help our members prepare for a solid, secure retirement. I am confident that the System will continue to provide secure benefits to our members, now and for their lifetime.

Sincerely,

Pat Robertson
Executive Director

The System's 163,000 active members dedicate their careers to a multitude of vital professions such as doctors, judges, firefighters, and public safety officers.



Membership

The System administers four defined benefit retirement plans that guarantee a specified retirement payment beginning at a certain age and after a specified period of service according to each plan's provisions. The plans included in the System are the Public Employees' Retirement System of Mississippi (PERS), the Mississippi Highway Safety Patrol Retirement System (MHSPRS), the Municipal Retirement Systems and Fire and Police Disability and Relief Funds (MRS), and the Supplemental Legislative Retirement Plan (SLRP). These plans serve members from state and local government, public schools, community and junior colleges, universities, and other governmental units across the state. The total number of active members has changed from 166,576 in fiscal year 2008 to a current count of 163,058 with a total of 894 participating employers.

The System is constantly seeking innovative ways to serve its members and receives high marks for its efforts to provide quality assistance to each member and employer.

We are proud of our contribution to helping provide retirement security for our retirees. Since 2008, the total number of inactive and retired members has grown from 202,623 to 220,998, with a current annual retirement benefit payroll of \$1.9 billion.

A combination of advances in technology, staff training, and improved vehicles of communication enables the System to assure that its participants are well informed and well served. The charts on page 3 illustrate active members, retirees and beneficiaries, and inactive members participating in the plans. Total membership in the System is 384,056, a 4.0 percent increase since fiscal year 2008.

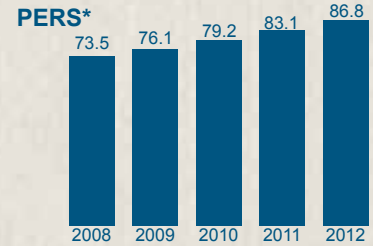
Currently eligible for retirement are an estimated 22,343 PERS, MHSPRS, and SLRP members.

Membership in the System is a condition of covered public employment in Mississippi. Membership in MRS was closed as of July 1, 1976. Two fire and police plans elected to extend the eligibility period for membership to July 1, 1987.

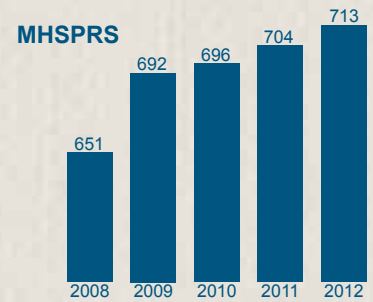
Employees hired after MRS closing periods automatically become members of PERS. SLRP is a supplemental plan to the provisions of PERS for members of the state Legislature. Those elected after July 1, 1989, automatically become members.

The average yearly PERS benefit of \$20,000 helps retirees avoid poverty and remain active, independent citizens. These benefits also help the state minimize public assistance costs.

Retiree Growth by Plan Fiscal Years Ending June 30



* Number of retirees in thousands



** As of September 30



Active Members by Plan

Fiscal Year Ending
June 30, 2012

PERS	99.54%	162,311
MHSPRS	0.34%	547
MRS*	0.01%	25
SLRP	0.11%	175
Total	100.00%	163,058

* As of September 30

Retired and Inactive Members by Plan

Fiscal Year Ending
June 30, 2012

PERS	98.63%	217,970
MHSPRS	0.35%	767
MRS*	0.91%	2,017
SLRP	0.11%	244
Total	100.00%	220,998

* As of September 30

Participating Employers

Fiscal Years Ending June 30



Summary of Participating Members

Fiscal Years Ending June 30

PERS Members	2008	2009	2010	2011	2012
Active vested	110,211	109,235	109,577	111,395	104,319
Active nonvested	55,522	57,887	55,319	50,281	57,992
Sub-total	165,733	167,122	164,896	161,676	162,311
Retirees/beneficiaries	73,540	76,143	79,168	83,115	86,829
Inactive members	126,008	126,524	129,243	129,360	131,141
Sub-total	199,548	202,667	208,411	212,475	217,970
Total	365,281	369,789	373,307	374,151	380,281
MHSPRS Members	2008	2009	2010	2011	2012
Active vested	423	412	387	402	427
Active nonvested	203	158	155	113	120
Sub-total	626	570	542	515	547
Retirees/beneficiaries	651	692	696	704	713
Inactive members	45	47	53	46	54
Sub-total	696	739	749	750	767
Total	1,322	1,309	1,291	1,265	1,314
MRS Members*	2007	2008	2009	2010	2011
Active vested	42	35	31	27	25
Active nonvested	-	-	-	-	-
Sub-total	42	35	31	27	25
Retirees/beneficiaries	2,167	2,123	2,090	2,056	2,016
Inactive members	3	2	2	2	1
Sub-total	2,170	2,125	2,092	2,058	2,017
Total	2,212	2,160	2,123	2,085	2,042
SLRP Members	2008	2009	2010	2011	2012
Active vested	132	130	134	133	113
Active nonvested	43	44	41	41	62
Sub-total	175	174	175	174	175
Retirees/beneficiaries	138	141	142	147	173
Inactive members	71	67	61	60	71
Sub-total	209	208	203	207	244
Total	384	382	378	381	419

* As of September 30

Financial

The summaries of assets and liabilities show how much the System holds in resources and how much is owed. Total fiscal year 2012 assets and liabilities were \$24.4 billion and \$4.2 billion, respectively. Net assets of the defined benefit pension plans for 2012 totaled \$20.2 billion while 2011 net assets totaled \$20.8 billion. Investments make up the largest portion of net assets, which are held in trust for pension benefits. Net assets result from the difference between total assets and total liabilities. The chart below illustrates the overall trend in net assets over the long term.

There are three primary sources of funding for the System: employer contributions, member contributions, and net investment income. Employer contributions totaled \$801.7 million for fiscal year 2012, an increase of \$46.4 million from fiscal year 2011. Member contributions totaled \$547.9 million, an increase of \$12.2 million from fiscal year 2011. The increase of \$58.6 million in total contributions over fiscal year 2011 was due to an increase in the employer contribution rates for PERS, MHSPRS, and SLRP.

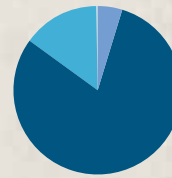
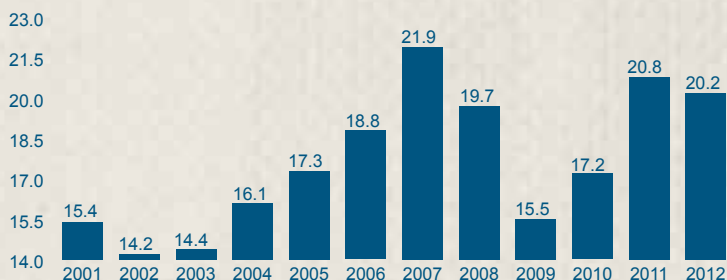
The System posted net investment income of \$60.9 million for 2012, compared to \$4.3 billion for 2011.

The System's primary expenses include payments of benefits to retirees and beneficiaries, refunds of contributions to former members, and the cost of administering the System. As shown in the bottom right table, the majority of expenses from 2012 were benefit payments to retirees and beneficiaries. These payments totaled \$1.9 billion for fiscal year 2012, an increase of \$130 million from 2011.

Refunds to former members were \$93.4 million for fiscal year 2012, compared to \$88.4 million for fiscal year 2011. The cost to administer the System for fiscal year 2012 was \$14.4 million, an increase of \$1.4 million from fiscal year 2011. This increase was due to increases in contractual services and personal services costs during the year. Expenses for administration of the System are funded from the trust.

Net Assets

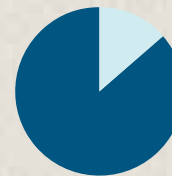
Fiscal Years Ending June 30
(In Billions)



Assets

Fiscal Years Ending June 30
(In Thousands)

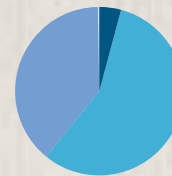
	2012	2011	2010
Cash, cash equivalents & receivables 4.87%	\$1,187,931	\$763,832	\$646,270
Investments, fair value 80.29%	19,578,388	20,314,222	16,767,425
Securities lending* 14.75%	3,597,774	3,223,611	4,077,792
Capital assets 0.09%	22,190	19,494	15,387
Total	\$24,386,283	\$24,321,159	\$21,506,874



Liabilities

Fiscal Years Ending June 30
(In Thousands)

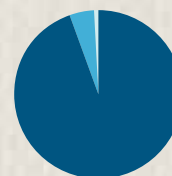
	2012	2011	2010
Payables 13.66%	\$568,972	\$256,307	\$241,729
Securities lending* liability 86.34%	3,596,835	3,223,856	4,082,776
Total	\$4,165,807	\$3,480,172	\$4,324,505



Revenues

Fiscal Years Ending June 30
(In Thousands)

	2012	2011	2010
Employers 56.71%	\$801,651	\$755,220	\$762,023
Members 38.75%	547,860	535,649	441,787
Investment income 4.31%	60,926	4,262,327	2,199,492
Other 0.23%	3,255	3,438	3,985
Total	\$1,413,692	\$5,556,634	\$3,407,287



Expenses

Fiscal Years Ending June 30
(In Thousands)

	2012	2011	2010
Benefits 94.70%	\$1,926,368	\$1,796,532	\$1,643,225
Refunds 4.59%	93,431	88,438	73,668
Administrative 0.71%	14,404	13,046	12,185
Total	\$2,034,203	\$1,898,016	\$1,729,078

Funding

Actuarial valuations are performed on an annual basis for all defined benefit plans administered by the System. Valuations are based on information as of June 30, 2012, with the exception of MRS, which is based on data as of September 30, 2011.

Funds are accumulated to meet future benefit payments to retirees and beneficiaries. This accumulated balance is referred to as the “net assets held in trust for pension benefits.” The unfunded actuarial accrued liability (UAAL) amortization period graphs shown at right depict the anticipated UAAL period for each plan within the System. In general terms, the UAAL is the difference between benefit payments owed to current and future retirees and beneficiaries and the amount of assets held by the System. The UAAL amortization period is the number of years it would take to completely pay the System’s projected benefit obligation. The funded ratio (as shown in the charts to the right) represents the amount of the System’s actuarial accrued liability that is covered by the actuarial value of assets, expressed as a percentage.

The Governmental Accounting Standards Board (GASB) requires a maximum amortization period for the UAAL of not more than 30 years. The charts at right show the UAAL period and percent funded for the last five fiscal years for each plan. The charts show a decrease in the percent funded for 2012. These results are attributed primarily to recognition of investment losses in 2008 and 2009 smoothed over a five-year period, as well as unfavorable investment performance at year-end. However, PERS investments are diversified to help mitigate the effects of an unsteady financial market and a fragile economy.

To comply with GASB requirements, the Board of Trustees approved increasing the PERS employer contribution rate from 12.93 percent to 14.26 percent. In addition, the Board approved an employer contribution rate increase for MHSPRS, from 35.21 percent to 37.0 percent. The employer rate for SLRP remained at 7.4 percent.

The employer contribution rate increases are effective as of July 1, 2012. Employee contribution rates remain at 9.0 percent for PERS, 7.25 percent for MHSPRS, and 3.0 percent for SLRP.

The Board adopted a revised funding policy that established the goal of stabilizing the employer contribution rate and reducing the amortization period for the unfunded actuarial accrued liability. Based on the revised funding policy and effective for July 1, 2013, the Board approved an employer contribution rate of 15.75 percent for PERS and a continued rate of 7.4 percent for SLRP. In addition, the consulting actuary recommended an employer contribution rate of 39.49 percent for MHSPRS.

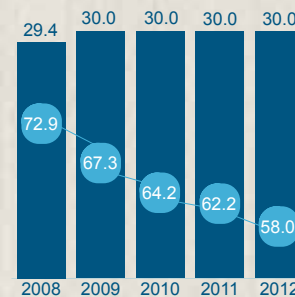
Member and employer contribution rates vary among the individual municipalities of MRS.

UAAL Period Graphs

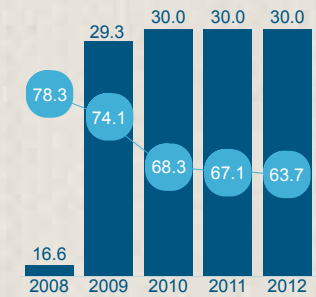
Fiscal Years Ending June 30

■ UAAL Period
● Percent Funded

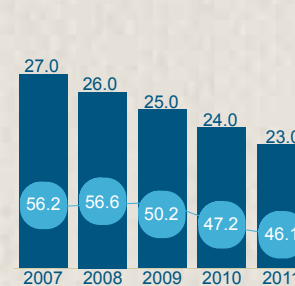
PERS



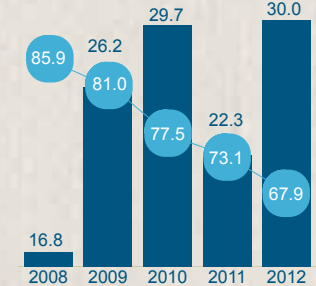
MHSPRS



MRS*



SLRP



* As of September 30

Employer Contribution Percentage Rates

Fiscal Year	2007	2008	2009	2010	2011	2012*
PERS	11.30	11.85	11.85	12.00	12.00	12.93
MHSPRS	30.30	30.30	30.30	30.30	30.30	35.21
SLRP	6.65	6.65	6.65	6.65	6.65	7.40

*Beginning January 1, 2012

PERS members, who retire based on years of service, work on average 31 years.

Investments

The System manages investments with prudent care, constant attention, specialized expertise, and a concern for the financial security of its membership. By maintaining a broadly diversified portfolio designed to minimize risk and maximize return over the long term, the System's investment program is designed to help provide funding for current and future pension obligations.

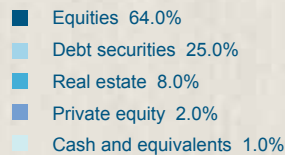
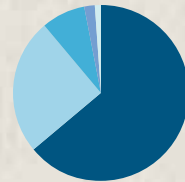
Investments before securities lending activities for 2012 were \$19.6 billion, a decrease of \$736 million from fiscal year 2011. Net investment income was \$61.0 million compared to \$4.3 billion at fiscal year end 2011.

One of the most critical decisions made by the System is that of the long-term asset allocation policy for the investment portfolio. In fiscal year 2012, the target asset allocation was 52.5 percent equities, 27.5 percent debt securities, and 10.0 percent real estate investments. Absolute return strategies were 5.0 percent and private equity was 5.0 percent. The System's asset allocation decisions are based on liability requirements and guidelines established by the Mississippi Code of 1972. At year end, 34 investment firms were managing 44 portfolios for defined benefit pension plans. Portfolio performance is carefully monitored by the Board of Trustees with the assistance of an investment management consulting firm and the System's chief investment officer.

The System experienced a 0.6 percent investment return this year, which was below the plan's benchmark return of 0.9 percent. The System operates on a long-term investment strategy resulting in a five-year rate of return of 1.3 percent, 10-year rate of 6.2 percent, and a 30-year rate of 9.6 percent.

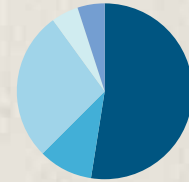
Asset Allocation at Fair Value

Fiscal Year Ending June 30, 2012



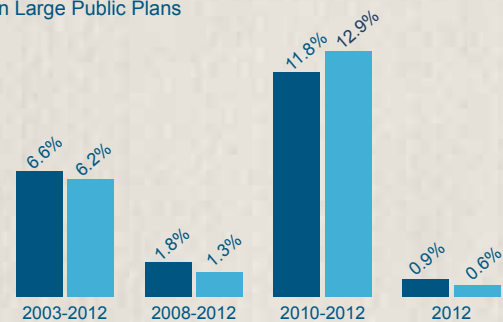
Long-Term Target Asset Allocation

Long-Term Target Asset Allocation



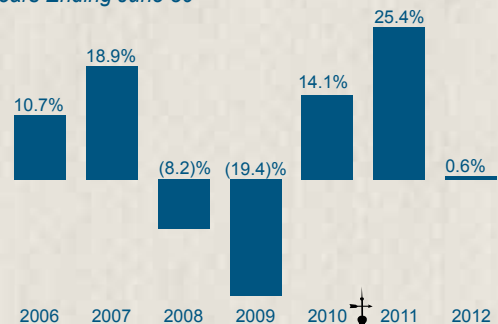
Large Public Plans: Annualized Rates of Return

Median Large Public Plans
PERS



Defined Benefit Plans Total Rates of Return

Fiscal Years Ending June 30



Expenditures from pensions support 14,442 jobs that pay \$510.5 million in wages and salaries annually.

Total Investments: Past 10 Fiscal Years (In Thousands)

2003	\$16,688,465	2008	\$24,953,445
2004	\$18,192,261	2009	\$17,911,472
2005	\$19,928,584	2010	\$20,845,217
2006	\$23,852,219	2011	\$23,537,833
2007	\$27,876,880	2012	\$23,176,162

Deferred Comp

Mississippi Deferred Compensation (MDC) is available to any employee, elected official, or independent contractor of the state of Mississippi or its political subdivisions. MDC is a supplemental retirement savings plan, also classified as a defined contribution plan, regulated under § 457 of the Internal Revenue Code. With this plan, not only are earnings tax deferred until withdrawal, current income taxes are reduced because compensation is partially deferred. No federal income taxes are due on the deferred amount until withdrawal, which usually occurs at retirement when the participant may be in a lower tax bracket.

A participant may defer as little as \$25 per month with a monthly maintenance fee of \$2.25. The participant is eligible to receive payment(s) from the plan at termination of employment, retirement, death, or unforeseen emergency, or contributions may be rolled over

to the System for purchase of eligible service credit. By June 30, 2012, total investments were \$1.3 billion. During the fiscal year, more than \$83.6 million was contributed to the plan by 39,372 participants.

The PERS Board of Trustees has selected a variety of investment options from which a participant may choose. Below is a graph listing the investment options and their annual rates of return. Rate of return is not applicable for Conseco Life Insurance Company.

The MDC office is located at 4450 Old Canton Road, Suite 107, Jackson, MS 39211. The office is open each business day from 8 a.m. to 5 p.m. Participants may call the office at 800-846-4551 or 601-364-9350. MDC participants may check balances and execute certain transactions 24 hours a day online at www.mdcplan.com or by calling 800-892-4352. Both online and telephone account access are password protected.

Defined Contribution Plan - Investment Summary - Fiscal Year Ending June 30, 2012

Fund Name of Assets	Fair Value of Assets	Percent of Total Portfolio	Annual Rates of Return
American Funds New Perspective Fund	\$25,468,089	1.98	(3.12)%
BlackRock Equity Index Fund	\$142,779,292	11.12	5.47%
BlackRock EAFE Equity Index	\$56,013	-	*
BlackRock US Debt Index Fund - Class T	\$23,303,688	1.81	7.49%
Boston Company Midcap Opportunistic Value Pooled Fund	\$165,539,961	12.89	(6.57)%
Conseco Life Insurance Company	\$341,224	0.03	N/A
Fayez Sarofim	\$143,628,806	11.18	11.01%
Fidelity Diversified International Fund	\$23,302,870	1.81	(11.35)%
Fidelity Small Cap Fund	\$23,632,181	1.84	(14.02)%
MDC Stable Value Fund	\$546,112,642	42.53	2.36%
Money Market Fund for EBT	\$23,433,323	1.83	0.27%
PIMCO Total Return Fund II - Institutional Class	\$31,518,749	2.45	6.64%
SSgA US Inflation Protected Bond Index Fund - Class C	\$11,932,178	0.93	11.56%
T. Rowe Price International Stock Fund	\$34,525,835	2.69	(11.47)%
Vanguard Target Retirement 2010	\$30,368,343	2.37	4.06%
Vanguard Target Retirement 2015	\$9,037,269	0.70	2.71%
Vanguard Target Retirement 2020	\$6,520,433	0.51	1.75%
Vanguard Target Retirement 2025	\$4,408,144	0.34	1.00%
Vanguard Target Retirement 2030	\$3,334,174	0.26	0.16%
Vanguard Target Retirement 2035	\$2,345,411	0.18	(0.68)%
Vanguard Target Retirement 2040	\$882,766	0.07	(0.91)%
Vanguard Target Retirement 2045	\$705,389	0.06	(0.83)%
Vanguard Target Retirement 2050	\$561,784	0.04	(0.85)%
Vanguard Target Retirement 2055	\$107	-	*
Vanguard Target Retirement Income	\$3,661,976	0.29	5.61%
Vanguard Windsor Fund	\$26,822,880	2.09	0.68%

*Return is not shown since fund has been included in defined contribution plan investment options less than one year.

Resources

Retirement Education Seminars

Full-day Retirement Education Seminars are held throughout the state to assist members with retirement planning. Topics include Social Security, Mississippi Deferred Compensation (MDC), and PERS. Schedules and registration are available at www.pers.state.ms.us.

Focus Sessions

Small group Focus Sessions assist members with retirement planning by providing each individual with an estimate of benefits and detailed information on retirement options. Schedules and registration are available at www.pers.state.ms.us.

Agency Training

Annual agency training seminars provide information to personnel responsible for benefits administration and reporting. Schedules, topics, and registration are posted at www.pers.state.ms.us.

Member Statements

Active and inactive members are mailed annual statements with account balances, designated beneficiaries, and unaudited estimates of benefits and years of service.

PERS on the Move

Hosted by employers, PERS on the Move seminars are held during or after office hours to provide members with information regarding PERS and MDC. Request forms are posted at www.pers.state.ms.us.

Newsletters

Our member, retiree, and employer newsletters provide pertinent information to constituents about their retirement plans and System. Electronic versions of the newsletters are available at www.pers.state.ms.us. Audio versions are available through the National Federation of the Blind of Mississippi.

Member Handbooks

Member Handbooks include information about PERS, its administered programs, retirement benefits, retirement options, and important contact information. Handbooks are available by request or can be downloaded from www.pers.state.ms.us.

Customer Service Center

PERS' Customer Service Center analysts assist callers with questions and concerns in a prompt, courteous manner. The center is open from 8 a.m. to 5 p.m. every weekday with the exception of state holidays.

PERS Website

Our website, www.pers.state.ms.us, provides an array of information and services to members, retirees, and the public.

GFOA Award for Popular Annual Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to PERS for its

Popular Annual Financial Report for the fiscal year ended June 30, 2011. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report with contents that conform to program standards of creativity, presentation, understandability, and reader appeal.

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

