

Diversification



The Key
to PERA's
Financial Strength

*Comprehensive Annual Financial Report
For the Year Ended June 30, 2003*

**Public Employees
Retirement Association**
of New Mexico



**Public Employees
Retirement Association**
of New Mexico

SANTA FE OFFICE

1120 Paseo de Peralta

Santa Fe, New Mexico 87501-2700

Mailing Address: P.O. Box 2123

Santa Fe, NM 87504-2123

(505) 527-4700 Voice ▪ (505) 827-4670 Fax

Toll Free in New Mexico 1-800-342-3422

ALBUQUERQUE OFFICE

2500 Louisiana Blvd. NE, Suite 101

Albuquerque, New Mexico 87110

(505) 883-4503 Voice ▪ (505) 883-4573 Fax

WEBSITE

www.state.nm.us/pera

Comprehensive Annual Financial Report

Public Employees Retirement Association of New Mexico
Pension Trust Funds of the State of New Mexico

For the Fiscal Year ended June 30, 2003

Prepared by PERA staff

SANTA FE OFFICE

1120 Paseo de Peralta
Santa Fe, New Mexico 87501-2700
Mailing Address: P.O. Box 2123
Santa Fe, NM 87504-2123
(505) 827-4700 Voice ▪ (505) 827-4670 Fax
Toll Free in New Mexico 1-800-342-3422

ALBUQUERQUE OFFICE

2500 Louisiana Blvd. NE, Suite 101
Albuquerque, New Mexico 87110
(505) 883-4503 Voice ▪ (505) 883-4573 Fax

WEBSITE

www.state.nm.us/pera

Table of Contents

Introductory Section	5
Board Mission Statement.....	6
Letter from the Board Chair.....	7
PERA Board Members.....	8
Letter of Transmittal from Executive Director.....	9
PERA Staff.....	12
Organization as of June 30, 2003.....	13
PERA at a Glance.....	14
Member Communications.....	15
Professional Consultants.....	16
Financial Section	17
Independent Auditors Report.....	18
Managements Discussion and Analysis.....	20
Basic Financial Statements:	
Statements of Plan Net Assets.....	23
Statements of Changes in Plan Net Assets.....	24
Notes to the Financial Statements.....	25
Required Supplementary Information:	
Schedules of Funding Progress.....	36
Schedules of Contributions.....	37
Notes to Required Supplementary Information.....	38
Additional Information:	
Schedule of Revenues, Appropriations and Expenses.....	39
Cash and Cash Equivalent Accounts.....	40
Schedule of Administrative and Investment Expenses.....	41
Investment Section	43
Report on Investment Activity.....	44
Investment Plan Summary.....	46
Asset Allocations.....	47
Comparative Investment Results.....	49
Investment Summary at Fair Value.....	49
List of Largest Assets Held.....	50
Schedule of Investment Fees and Commissions.....	51
Actuarial Section	53
Letter from Consultants.....	54
Summary of Assumptions and Methods.....	56
Rates of Retirement.....	57
Rates of Disability.....	58
Rates of Separation From Active Membership.....	58
Member and Employer Contribution Rates.....	59
Active Member Valuation Data.....	60
Schedule of Retirees and Beneficiaries.....	62
Solvency Test.....	64
Analysis of Financial Experience.....	66
Summary of PERA Plan Provisions.....	68
Statistical Section	73
Schedule of Revenues by Source.....	74
Schedule of Expenses by Type.....	75
Schedule of Retired Members by Type of Benefit Option.....	76
Schedule of Average Benefit Payments.....	77
Participating Employers.....	78
Deferred Compensation Plan.....	79
Deferred Compensation - Investment Results.....	80

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

New Mexico Public
Employees Retirement
Association

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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

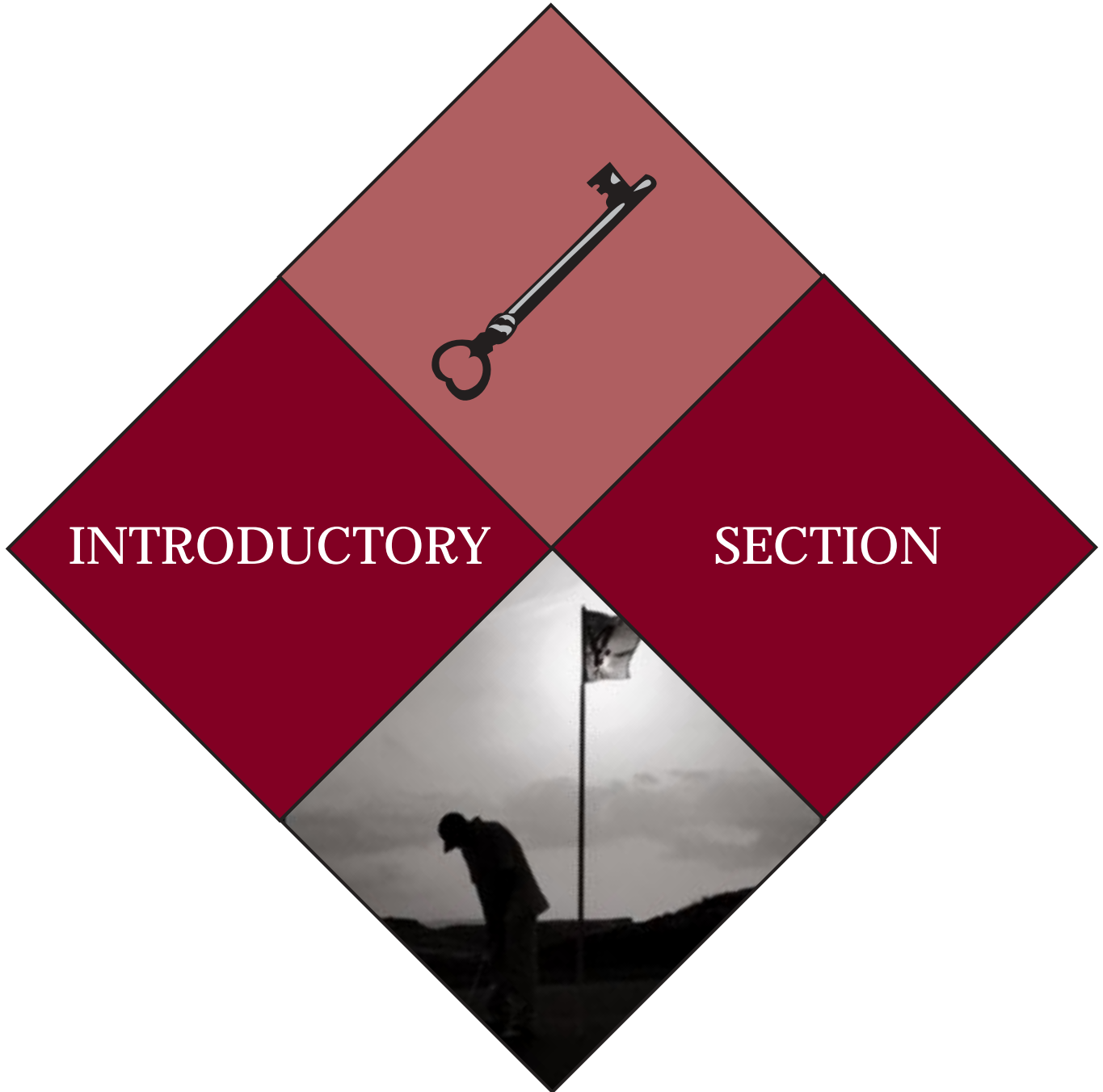


President

Executive Director



**Public Employees
Retirement Association**
of New Mexico



INTRODUCTORY

SECTION



The Mission

**of the Board of the
Public Employees Retirement Association
is to preserve, protect, and administer
the trust to meet its current
and future obligations
and provide quality services
to Association members.**



PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT BOARD

P.O. Box 2123
Santa Fe, New Mexico 87504-2123
(505) 827-4700 Voice (505) 827-4670 Fax
www.state.nm.us/pera/home.htm

JEFF A. VARELA, Chairman
State Member

TERRY SLATTERY, CEBS
Executive Director

November 17, 2003

Dear PERA Members:

It is with pleasure and confidence that the PERA Board and staff issue the annual Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003.

This annual financial report represents the sound financial position of the PERA fund and its operations. The PERA fund, its activities and services provide a public retirement system for New Mexico that covers 29 retirement plans affecting approximately 73,000 active and retired members.

For the fiscal year 2003 the fund had a positive return on investments of 3.71% bringing total assets to \$8.2 billion. This was attributable to a significant turnaround in the stock market that began late in the fourth quarter, and as a result of PERA's conservative investment policy, approved by the Board and administered by the Investment Officer and staff over the past three years, the fund weathered the stock market decline well. This approach, combined with PERA's extremely positive investment returns in 1998 and 1999, ranked PERA in the top quartile of large public pensions funds throughout the United States for the past three years, the top two percentile over the past five years and the number one ranking over the past seven- and ten-year periods.

In the 2003 legislative session, the Legislature created two new retirement plans, for State correctional officers and municipal detention officers, to become effective in July 2004. Legislation also made some changes in the conditions for PERA retirees to return to work and for active employees to purchase service credit. The Board will pay close attention to actuarial and funding concerns for these plans.

Your elected PERA Board members and ex-officio members along with PERA staff are very active on your behalf ensuring that the fund remains secure and that member services continue to improve.

It has been my pleasure to serve as chairman of the Board for the last two years and on behalf of the entire PERA Board, we extend our appreciation to the staff, the Legislature and the members for another year of success.

Sincerely,

Jeff A. Varela
PERA Board Chairman
State Member

PERA Board Members

State Member



Mr. Jeff Varela
Chair
State Personnel Office
476-7805

County Member



Mr. David Baca
Vice Chair
Bernalillo County
314-0440

Ex-Officio Member



Ms. Rebecca Vigil-Giron
Secretary of State
827-3600

Ex-Officio Member



Mr. Robert Vigil
NM State Treasurer
955-1122

State Member



Mr. Danny Sandoval
Children Youth & Families
827-8069

State Member



Mr. Michael Hansen
Energy, Minerals &
Natural Resources
476-3226

State Member



Mr. Hamish Thomson
Office of the
Attorney General
222-9020

Municipal Member



Ms. Susan Biernacki
City of Albuquerque
768-4537

Municipal Member



Mr. Lou Hoffman
City of Albuquerque
768-3396

Municipal Member



Ms. Cynthia Borrego
City of Albuquerque
924-3335

Retired Member



Mr. Jerry J. Rael
473-0267

Retired Member



Mr. Victor Montoya
474-3831



PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT BOARD

P.O. Box 2123
Santa Fe, New Mexico 87504-2123
(505) 827-4700 Voice (505) 827-4670 Fax
www.state.nm.us/pera/home.htm

JEFF A. VARELA, Chairman
State Member

TERRY SLATTERY, CEBS
Executive Director

November 14, 2003

To: Board of Trustees and Members of the New Mexico Public Employees Retirement Association

The Staff of the New Mexico Public Employees Retirement Association is pleased to present this Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2003. As the information in this report demonstrates, PERA continues to safeguard and strengthen your retirement benefits. This continues to be the primary goal of the staff and Board of Trustees.

Management is responsible for the accuracy of the data and the presentation contained in this report. To the best of our knowledge, the report is materially accurate and presents fairly the financial position and results of operations of PERA. The report includes all retirement plans administered by PERA covering the following public employees: State, Municipal, Legislative, Judicial, Magistrate and Volunteer Firefighters. (Note: the Educational Retirement Association administers the teachers' retirement plan.)

PERA was established by statute in 1947. For further discussion of the background of PERA, see the Notes to Financial Statements at page 25.

Fiscal Year 2003 Highlights

New federal legislation went into effect January 1, 2002 that enabled members to directly roll over funds from their deferred compensation plan to purchase service credit in PERA. This resulted in a significant increase in service purchases processed by PERA staff in Fiscal Years 2002 and 2003. Furthermore, legislation passed during the 2003 New Mexico legislative session permits PERA members to purchase up to 12 months of additional service credit independent of time worked ("air time"), subject to certain conditions. These purchases can be made with rollover deferred compensation funds. Although the effective date of the legislation was July 1, 2003, it is anticipated that the trend of increased service credit purchases will continue to rise as a result of the federal and New Mexico legislation.

Report Contents and Structure

The Report is presented in five sections.

- The Introductory Section, which contains general information regarding the operations of PERA. It includes the transmittal letter, the Board Chairman's letter and PERA's administrative organization.
- The Financial Section, which contains the financial statements, schedules and supplementary financial information regarding the funds administered by PERA, including the opinion of the independent certified public accountants and footnotes. This section also includes the Management's Discussion and Analysis at pages 20 to 22.
- The Investment Section, which contains information pertaining to the management of the investments of the pension trust funds. It includes an outline of investment policies, asset allocation and comparative returns, and a list of the largest holdings.
- The Actuarial Section, which contains information regarding the financial condition and financial position of the retirement plans administered by the system. It contains the independent consulting actuary's certification letter, summary of actuarial assumptions and methods, summary of plan provisions and other statistics.
- The Statistical Section, which contains general statistical information regarding system participants and finances.

Summary of Financial Information

The following schedule is a summary of the Fund's additions and deductions for the years ended June 30, 2003, and June 30, 2002.

	June 30, 2003	June 30, 2002
Additions	\$ 642,039,297	\$173,662,992
Deductions	(381,919,894)	(347,880,782)
Net Change	\$260,119,403	\$(174,217,790)

Additions increased by \$468,376,303 primarily due to an increase in net investment income of \$453,375,521.

Deductions increased by \$34,039,112 primarily due to an increase of \$30,737,122 in benefit payouts for the year.

Plan Financial Condition

The funding objective of PERA is to meet long-term benefit promises through contributions, which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on page 36. During the year ended June 30, 2003, the funded ratio of PERA, which covers approximately 73,000 participants, decreased from 103% to 97%, primarily as a result of plan investment experience. Additional information regarding the financial condition of the various component funds of PERA can be found in the Actuarial Section of this report.

Investment Activity

PERA's investment portfolio produced a total return, gross of expenses, of 3.71% for the year ended June 30, 2003. The policy benchmark return for the year was 4.21%. Except for this one-year period, the fund has achieved its goal of adding value over its policy benchmark and, for the longer term, has continued to meet the actuarial target rate on an 8% real return.

In FY03, the Board amended its Investment Plan to include both a Defensive Strategy and a Long-Range Policy. The Defensive Strategy allowed the Board to position the portfolio more conservatively in response to market conditions.

The Board receives formal reports twice monthly on the status of PERA's investments. The investments are tracked daily by the Investment Division staff. External investment managers who are underperforming can be asked to make special appearances before the Board to account for their underperformance and to describe remedial steps the manager proposes to take. Placement on a "watch list" and contract termination are further options for underperforming investment managers.

The investment return in FY 2003 was 3.71% as a result of the continuing bear market. However, PERA managed to beat most of the major investment performance benchmarks. It is also worth noting that total investment earnings over the past 10 years exceeded \$4.79 billion, based on invested assets of \$3,161,440,301 as of June 30, 1993, and the annualized return over the 10-year period was 9.67%.

Additional information regarding the investment results for the year is included in the Investment Section of this report.

Legislation Enacted During the 2003 Legislative Session

As mentioned above, in 2003 the New Mexico Legislature passed legislation allowing active PERA members to purchase up to 12 months of additional service credit for time not associated with working for a PERA affiliate by paying the full actuarial cost.

Several new retirement plans were also authorized by the Legislature, including retirement plans for adult correctional officers and adult correctional officer specialists employed by the State of New Mexico and for municipal detention officers. In both plans, actual credited service is increased by 20% each month.

On October 1, 2003, adult correctional officer members voted overwhelmingly to adopt State Police Member and Adult Correctional Officer Member Coverage Plan 1. Implementation of Municipal Detention Officer Member Coverage Plan 1 is contingent upon adoption of an enabling resolution by the governing body of each detention facility, followed by an election of the affected members. Both plans are effective July 1, 2004.

Legislation was also adopted to enhance legislative retirement. Legislators can make additional contributions for previous years in the legislature and pay increased member contributions while serving in the legislature to receive an enhanced pension. State Legislator Member Coverage Plan 1 applies to state legislators and lieutenant governors who held terms of office between January 1, 1960 and December 31, 2002. Retired legislators already receiving a pension are also eligible to enhance their benefits by making an additional contribution for each year of credited service. State Legislator Member Coverage Plan 2 applies to state legislators and lieutenant governors serving terms of office ending after December 31, 2002.

Finally, legislation was adopted to remove the \$15,000 earnings cap imposed upon PERA retirees who return to work for PERA-affiliated employers. As of July 1, 2003, in lieu of an earnings cap, both retirees and their employers are required

to make PERA contributions equal to the contributions required of corresponding active members.

Significant Long Term Project: Pension Administration System

PERA has retained Covansys, Inc. as its contractor to design and build a new pension administration system. L.R. Wechsler, Ltd. continues as PERA's external project manager to assist with this project. Covansys and Wechsler have been meeting continuously with PERA staff to oversee the design and construction of the system. Implementation of the Phase I of the new system is anticipated to occur in March, 2004. Senior management has been and will continue to be very involved and committed to this project. It is essential to the efficient and accurate processing of increasing member retirements and inquiries.

Actuarially Speaking

The funding objective of PERA pension trust funds is to meet long-term benefit promises through contributions, which remain approximately level as a percent of member payroll over decades of time. The actuarial reports are prepared by Gabriel, Roeder, Smith & Company based on data provided by PERA. GRS also serves as a technical advisor to staff on actuarial issues. More detailed information for all the plans can be found in the Actuarial Section of this report.

Independent Audit

An annual audit of PERA's Financial Statements has been performed the last six years by the independent accounting firm of Deloitte & Touche LLP in conjunction with the New Mexico State Auditor's Office. PERA once again received an unqualified opinion. The auditors' report on the financial statements is included in the Financial Section of this report.

CAFR for FY02

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the New Mexico Public Employees Retirement Association for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the third year that PERA had applied for the GFOA award and the third year that we received it. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Conclusion

I would like to acknowledge the Board's time, effort and support throughout the year, as they have provided direction and leadership to the system.

This report is a product of the combined efforts of the PERA staff and advisors functioning under the Board's guidance. It is intended to provide complete and reliable information, which will facilitate the management decision-making process, serve as a means for determining compliance with legal requirements and allow for the evaluation of responsible stewardship of the funds of the system.

I would like to acknowledge Ms. Lee Ann Rael, PERA Comptroller, for her work in coordinating the compilation of data, and Ms. Mary Frederick, PERA Deputy Director of Member Services, who prepared the design and layout of the report. I also want to thank our various consultants who worked closely with Ms. Rael and Robert Gish, PERA Director of Investments, to provide information presented in this report. There will be many challenges in the coming year. I believe we can meet the challenges and make them great opportunities.

Sincerely yours,



Terry Slattery, CEBS
Executive Director

PERA Staff

ADMINISTRATION

Terry Slattery, executive director
Mary Frederick, deputy director, member services
Kurt Weber, deputy director, operations
Jane Clifford, executive assistant
Athena Khalsa, liaison officer
Steve Voet, planning, policy and budget
vacant, administrative secretary

ADMINISTRATIVE SERVICES

Lee Ann Rael, comptroller
Lynn Coles, financial manager
Alex Coriz, accountant auditor
Mark Lovato, accountant auditor
Adriana Montoya, accountant auditor
Sharon Moya, accountant auditor
Art Trujillo, accountant auditor
Sheila Martinez, mailroom

ANNUITANT PAYROLL

Nora Solano, manager IV
Jessica Perea, office clerk

CONTRIBUTION ACCOUNTING

Herb Romero, bureau chief
Renee Baros, accountant auditor
Denise Vialpando, accountant auditor

CUSTOMER SERVICES

Patricia Thaxton, manager IV
Ramona Moore, clerk specialist
Linda Lujan, receptionist
Mandy Garcia, clerk specialist
vacant, clerk IV

DEFERRED COMPENSATION

JoAnn Garcia, manager

HUMAN RESOURCES

Arlene Coriz, human resource admin. senior

INFORMATION SYSTEMS

Greg Portillos, information systems mgr.
Mike Gonzales, programmer analyst II
Leonard Martinez, computer systems analyst
Michael Martinez, IS network administrator I
Fermin Montoya, IS manager II
Reyna Munoz, IS network specialist I
Kevin Payne, software engineer

INVESTMENTS

Robert Gish, director of investments
Fred Reynolds, deputy director of investments
Debbie O'Dell, investment officer
Barbara Montoya, investment officer
Sandy Perez, investment officer

LEGAL DIVISION

Susan Pittard, general counsel
Maryanne Reilly, assistant general counsel
Christopher Bulman, assistant general counsel
Judy Olson, administrator III
Theresa Vargas, legal assistant II

MAINTENANCE

Gene Powers, property manager
Lillian Baca, custodial worker
Becky Chavez, custodial worker
Victor M. Diaz, custodial worker
James Ferguson, maintenance and repair
Sergio Gutierrez, maintenance and repair
Ronald La Pointe, maintenance and repair
Leroy Chavez, custodial worker
Eric Martinez, maintenance and repair
Marie McClure, custodial worker
Nicole Montoya, office clerk
Chris Quintana, maintenance and repair
Rick Serna, custodial worker
vacant, custodial worker
Benny Vigil, custodial worker
David Wright, maintenance and repair
John Waterman, custodial worker
Joe Zamora, maintenance and repair

MEMBER SERVICES

Andrew Clark, bureau chief
Rose Ellen Guillen, management analyst
Vince Jaramillo, data base administrator I
Leslie Miller, comp. support specialist

QUALITY CONTROL

Monica Varela, quality control manager
Angela Romero, clerk specialist
Rose Rael, administrator II

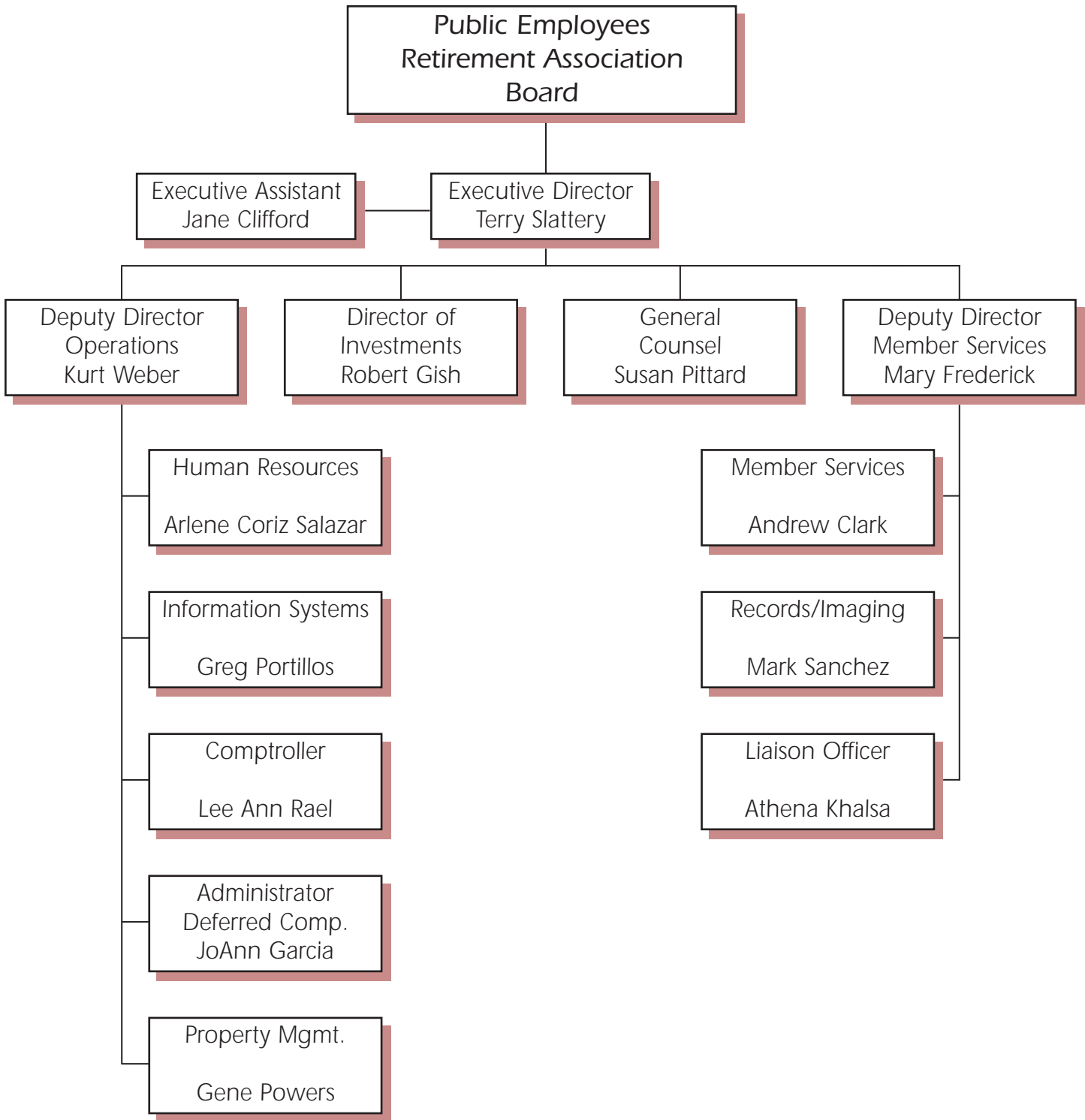
RECORDS

Mark Sanchez, records/imaging administrator
Joy Lujan, clerk IV
Albert Martinez, clerk IV
Vanessa Ytuarte, clerk specialist

RETIREMENTS

Claudine Serna, manager IV
Pam Bustos, financial specialist
Rose Butler, financial specialist
Brenda Cordova, financial specialist III
Joyce Rivera, financial specialist III

Organizational Chart



PERA at a Glance
June 30, 2003

PERA Members.....	49,583
State.....	22,624
Municipal.....	21,334
Judicial.....	84
Magistrate.....	67
Volunteer Firefighters.....	5,362
Legislative.....	112
Retired Members and Beneficiaries.....	20,095
State.....	11,032
Municipal.....	8,598
Judicial.....	87
Magistrate.....	46
Volunteer Firefighters.....	234
Legislative.....	98
Retirement Benefits.....	\$354,941,367
Contribution Refunds.....	\$25,985,842
Participating Employers.....	686
State.....	119
Municipal.....	75
Counties.....	33
Housing Authorities.....	22
Special Districts.....	30
Hospitals.....	1
Volunteer Fire Departments.....	373
Judicial.....	15
Magistrate.....	18
Contributions:	
Member contributions.....	\$147,158,261
Employer contributions.....	\$216,973,218
Total PERA Assets.....	\$8,198,255,352

Member Communications

Member Services

Providing quality customer service to our members is one of the most important functions of PERA. The Member Services Division staff serves PERA's active members and retirees. The benefits counselors and support staff provide information over the telephone, through written correspondence, by personal counseling appointments and through group presentations. PERA staff processed 1164 retirement applications in FY03.

The PERA staff is responsible for preparing benefit estimates, assisting members with understanding retirement procedures, preparing military service calculations, processing refund requests and assisting members with death benefit claims. Member Services also prepares adjustments to PERA retiree pension checks to reflect the yearly Cost-of-Living Adjustment (COLA). In the 2003 session, legislators passed a bill allowing vested PERA members to purchase up to 12 months of additional service credit, or "air time." PERA staff provided estimates of the cost of air time to over 1,400 members in a three-month period of time.

Publications

Approximately 65,000 copies of the PERA newsletter, La Voz, are distributed each quarter. La Voz informs members about their retirement plan, legislative updates, news from our Board and other relevant subjects. Special publications were distributed to active members and retirees after the legislative session, explaining the changes to PERA plans and how members and retirees would be affected.

Public Relations

Executive Director Terry Slattery has continued his mission of meeting with agency affiliates throughout the state. City and county managers, financial directors and governing commissions and councils were updated on the PERA fund status and legislative changes. The executive director visited the following affiliates: the cities and towns of Albuquerque, Taos, Red River, Questa, Santa Fe, Carlsbad, Lovington, Hobbs and Roswell and Lea, Chavez, Eddy, Taos, Santa Fe, Los Alamos and Rio Arriba counties. He also made a presentation at the annual meeting of the New Mexico Association of Counties to detention affiliates in Gallup.

Benefits Training

This year, the PERA liaison officers in the Santa Fe and Albuquerque offices conducted over 25 seminars statewide. PERA continues to expand training sessions for members and affiliates.

Annual Statements and 1099-R Forms

Annual statements are mailed directly to each active member in July. The statement is a summary of account transactions and member contribution balances. Member 1099-R forms are mailed each January to retirees followed by annual notifications of Cost-of-Living Adjustments (COLAs) in July.

PERA'S Website

PERA's website contains updated, valuable information concerning PERA current events, administration, investments and member services. Please visit the website at www.state.nm.us/pera.

PERA Call Center

The PERA Call Center allows members to speak directly to a benefits counselor. PERA strives to make the latest information available to its members, retirees and affiliates.

Professional Consultants

Actuary

Gabriel, Roeder, Smith & Co.
1000 Town Center, Suite 1000
Southfield, Michigan 58075

Auditor

Deloitte & Touche, LLP
Chase Tower, Suite 1600
Dallas, Texas 75201-6778

Investment Consultant

Callan Associates, Inc.
550 East 8th Avenue
Denver, Colorado 80203

Pension Administration System Consultant

L.R. Wechsler, Ltd.
10394 Democracy Lane
Fairfax, Virginia 22030



FINANCIAL

SECTION



INDEPENDENT AUDITORS' REPORT

Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
Santa Fe, New Mexico

We have audited the accompanying statements of plan net assets and statements of changes in plan net assets of the Public Employees Retirement Fund, Judicial Retirement Fund, Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund (collectively, the "Funds") administered by the Public Employees Retirement Association of New Mexico ("PERA") as of and for the year ended June 30, 2003, as listed in the foregoing table of contents. These financial statements are the responsibility of PERA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of PERA are intended to present the net assets and changes in net assets of only that portion of the funds of the State of New Mexico (the "State") which are attributable to the transactions of the Funds administered by PERA. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of PERA, as of June 30, 2003, and changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the individual financial statements of each Fund referred to in the first paragraph present fairly, in all material respects, the financial status of each of the individual Funds administered by PERA as of June 30, 2003, and changes in financial status of such Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Required Supplementary Schedules of Funding Progress and of Contributions from Employers and Other Contributing Entities are not a required part of the financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the individual Fund financial statements taken as a whole. The additional information listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Introductory, Investments, Actuarial and Statistical Sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion or other form of assurance on them.

Deloitte & Touche LLP

November 14, 2003

Management Discussion and Analysis

June 30, 2003

This discussion and analysis of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighter Retirement Fund (collectively, the "Funds") of the Public Employees Retirement Association of New Mexico (PERA) for the year ended June 30, 2003 provides a summary of the financial position of the Funds, including highlights and comparisons. For more detailed information regarding the PERA financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Financial Highlights

- ◆ Net assets held in trust for pension benefits (net assets) for all Funds in total increased during the fiscal year by \$262.8 million. All individual pension funds experienced an increase in net assets.
- ◆ The increase in net assets was due to a combination of contributions revenue of \$368.1 million and investment income of \$282.2 million then reduced by the cost of benefit payments, refunds, and other expenses.
- ◆ Total assets were reduced by \$234.1 million due primarily to a decrease in the securities lending asset amount.
- ◆ Benefit payments to retirees increased due to an increased number of retirees, and refunds of member contributions only slightly increased.

PERA Highlights

PERA received an appropriation of \$14.7 million to purchase and implement a retirement membership information system. PERA issued a request for proposals in the fall of 2000. Proposals were received and evaluated in the spring of 2001, but the RFP was subsequently cancelled. A new request for proposals was issued in January 2002 and the proposals were received in March 2002. As a result of this procurement, a contract for software and implementation services was signed in August 2002. Implementation will be done in two phases over a thirty-two month period. Phase 1 is on schedule for conversion March 1, 2004; the final phase is projected for conversion March 1, 2005. One major enhancement of the new system will be electronic reporting and editing of data by the employers.

Financial Statements

The financial statements of the Funds of PERA include Statements of Plan Net Assets and Changes in Plan Net Assets for the four retirement funds administered by the Agency. The financial statements also include notes that explain the history and purpose of the funds, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the funds.

The Deferred Compensation Plan available to state employees is administered by a contracted third party and therefore, the assets of that plan are not included in these financial statements. However the net operating account used to pay administration expenses for deferred compensation is included in the Public Employees Retirement Fund.

Comparative Summary Statements

The following table displays the total assets, liabilities, net assets, and changes in net assets for all four retirement funds in total:

ALL FUNDS	2003	2002
Assets	\$9,376,839,789	\$9,610,913,475
Liabilities	1,178,584,437	1,675,452,138
Net Assets	8,198,255,352	7,935,461,337
Change in Net Assets	262,794,015	(177,395,005)

The reduction in assets from fiscal year 2002 to fiscal year 2003 is due primarily to an decrease in cash and short-term investments, but the liability amount was reduced by a larger amount resulting in an increased net asset balance in fiscal year 2003. Liabilities are lower due to a decreased securities lending liability. The total net assets held by PERA increased during the fiscal year ended June 30, 2003 by \$262,794,015, primarily due to investment revenue and contributions offset by benefit and refund payments. All four funds participate in an investment pool and share in investment earnings based on the funds equity percentage in the pool.

The most significant pension plan administered by PERA included the following balances at the years ended June 30, 2003 and 2002:

PERA FUND	2003	2002
Cash & equivalents	\$428,728,707	\$995,401,845
Receivables	479,217,485	548,017,257
Investments	8,338,214,333	7,932,470,909
Property & Equipment	893,753	989,324
Other	26,255	26,255
Total Assets	9,247,080,533	9,476,905,590
Accounts Payable	931,706,951	941,860,508
Accrued Exp & Other Liabilities	230,424,546	710,215,449
Total Liabilities	1,162,131,497	1,652,075,957
Net Assets Held in Trust	\$8,084,949,036	\$7,824,829,633

The following schedule shows a comparison of changes in plan net assets for the major fund during fiscal years ended June 30, 2003 and 2002:

PERA FUND	2003	2002
ADDITIONS:		
Contributions	\$363,526,510	\$348,566,827
Invest Income (less Inv Exp)	238,606,301	255,839,522
Net (Depreciation)		
Appreciation of FV Invest	39,708,128	(430,900,616)
Other Income	198,358	157,259
Total Additions	642,039,297	173,662,992
DELETIONS:		
Benefit Payments	(349,178,208)	(318,441,086)
Refunds	(25,985,842)	(25,624,513)
Administrative Expenses	(6,755,844)	(3,815,183)
Total Deletions	(381,919,894)	(347,880,782)
Net Increase/(Decrease)	\$ 260,119,403	\$(174,217,790)

Individual Fund Comparative Balances

The individual funds increased their net assets due to the investment gains and contributions across the funds. The gains were offset by benefit and refund payments, as well as by other administrative expenses. Administrative expenses increased because of the professional services contracts to design and implement a new retirement system:

NET ASSETS	2003	2002	% Increase
Public Employees Retirement Fund	\$8,084,949,036	\$7,824,829,633	3.3 %
Judicial Retirement Fund	55,439,591	55,154,219	0.5 %
Magistrate Retirement Fund	29,659,210	28,762,930	3.1 %
Volunteer Firefighter Fund	28,207,515	26,714,555	5.6 %
Total – All Funds	\$8,198,255,352	\$7,935,461,337	

Budget Comparisons

There were no significant budgetary variations during the fiscal year ended June 30, 2003.

Capital Assets

The PERA Building is considered an investment to the PERA fund and therefore is not accounted for as a capital asset. The building was appraised in fiscal year 2002 at \$15,500,000 and is carried at that amount in the Investment section of the assets. The other capital assets are listed for the years ended June 30, 2003 and 2002:

Carrying Value (in thousands)	2003	2002
Property & Equipment	\$869,529	\$946,105
Computer Improvement Plan	24,224	43,219
Total	\$893,753	\$989,324

Long-Term Debt

There was no long-term debt activity.

Infrastructure

PERA has no infrastructure to report.

Financial Contact

Any questions regarding the financial statements of PERA should be directed to the PERA Comptroller, P.O. Box 2123, Santa Fe, NM 87504.

STATEMENTS OF PLAN NET ASSETS

June 30, 2003

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
ASSETS					
Cash and cash equivalents	\$428,728,707	\$3,026,610	\$1,757,335	\$1,552,939	\$435,065,591
Receivables:					
Accrued Investment income	30,476,937	209,580	111,351	106,707	30,904,575
Accounts receivable - brokers	428,958,416	2,944,152	1,567,869	1,502,475	434,972,912
Contributions receivable	17,676,293	193,091	96,890		17,966,274
Accounts receivable - other	1,877,751	2,670			1,880,421
Interfund receivable	228,089				228,089
Investments, at fair value:					
U.S. Government and agency securities	1,878,807,290	12,894,779	6,867,197	6,580,777	1,905,150,043
Corporate equity securities	4,023,590,194	27,615,877	14,706,462	14,093,078	4,080,005,611
Corporate obligations	956,223,833	6,563,034	3,495,055	3,349,282	969,631,204
International securities	1,234,306,678	8,471,653	4,511,464	4,323,298	1,251,613,093
Mortgage Investments	445,416				445,416
Total	8,093,373,411	55,545,343	29,580,178	28,346,435	8,206,845,367
Securities lending collateral investments	229,340,922	1,574,085	838,254	803,292	232,556,553
Investment in building	15,500,000				15,500,000
Total investments	8,338,214,333	57,119,428	30,418,432	29,149,727	8,454,901,920
Property and equipment, net	893,753				893,753
Other assets	26,255				26,255
Total assets	9,247,080,533	63,495,531	33,951,876	32,311,848	9,376,839,789
LIABILITIES					
Accounts payable - brokers	928,013,811	6,369,415	3,391,946	3,250,473	941,025,645
Accounts payable - other	3,693,139				3,693,139
Accrued expenses and other liabilities	1,269,702				1,269,702
Interfund payable	0	113,723	63,146	51,220	228,089
Securities lending liability	229,154,844	1,572,802	837,575	802,641	232,367,862
Total liabilities	1,162,131,497	8,055,940	4,292,666	4,104,333	1,178,584,437
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
	\$8,084,949,036	\$55,439,591	\$29,659,210	\$28,207,515	\$8,198,255,352

(A Schedule of Funding Progress for each fund is presented on page 36.)

See notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

June 30, 2003

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
ADDITIONS					
Contributions:					
Employer	\$213,712,566	\$2,117,778	\$1,142,874		\$216,973,218
Member	146,589,464	372,344	196,454		147,158,261
Appropriation from State of New Mexico Fire Protection Fund		-		\$750,000	750,000
Service credits purchased	3,224,480		8,483		3,232,963
Total contributions	363,526,510	2,490,122	1,347,810	750,000	368,114,442
Investment income:					
Interest	173,604,987	1,182,832	635,744	600,355	176,023,917
Dividends	77,226,707	535,976	281,730	269,806	78,314,218
Real estate operating income, net	641,074				641,074
Net appreciation in fair value of investments	39,708,128	208,350	50,094	189,160	40,255,732
Securities lending income	6,916,391	47,629	25,267	24,177	7,013,464
Subtotal	298,097,287	1,974,787	1,092,834	1,083,497	302,248,405
Less investment expense	(19,782,858)	(137,538)	(72,529)	(69,503)	(20,062,428)
Net investment income	278,314,429	1,837,249	1,020,306	1,013,993	282,185,977
Other Income	198,358				198,358
Total additions	642,039,297	4,327,370	2,368,116	1,763,993	650,498,777
DEDUCTIONS					
Benefit payments	349,178,208	4,029,986	1,462,139	271,034	354,941,367
Refunds to terminated employees	25,985,842				25,985,842
Administrative expenses	6,755,844	12,012	9,697		6,777,553
Total deductions	381,919,894	4,041,998	1,471,836	271,034	387,704,762
NET INCREASE	260,119,403	285,372	896,280	1,492,959	262,794,015
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	7,824,829,633	55,154,219	28,762,930	26,714,555	7,935,461,337
End of year	\$8,084,949,036	\$55,439,591	\$29,659,210	\$28,207,515	\$8,198,255,352

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS

General

The Public Employee Retirement Association ("PERA") was created by legislation enacted in 1947. Upon enactment, members were required to contribute 3.5% of their gross salary and their employers matched employee contributions with an equal amount. The maximum annuity any member could expect to receive was \$150 per month.

PERA is now the administrator of four pension plan funds, including the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund (collectively, the "Funds"), offering an array of retirement benefit plans to state, county, and municipal employees, police, firefighters, judges, magistrates, and legislators. The laws governing the administration of the Funds are set forth in Chapter 10 of the New Mexico Statutes Annotated 1978 ("NMSA 1978") and applicable Replacement Pamphlets. PERA also has limited administrative responsibilities with respect to the State of New Mexico Social Security Fund and the State of New Mexico Deferred Compensation Fund, as more fully discussed in Note 2.

PERA is directed by the Public Employees Retirement Board (the "Board") which consists of twelve members. Ten of the Board members are elected by PERA active and retired members under state and municipal coverage plans. Two Board members, the Secretary of State and the State Treasurer, are ex-officio members.

Reporting Entity

PERA is an agency of the State of New Mexico. The Funds administered by PERA are considered part of the State of New Mexico financial reporting entity and are pension trust funds of the State of New Mexico. The State of New Mexico Deferred Compensation Fund meets the criteria for exclusion from the PERA financial statements set forth in Statement No. 32 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, and, accordingly, is not presented in the financial statements. See Note 2 for information on the Deferred Compensation Fund and how to obtain financial statements of the Deferred Compensation Fund.

PERA has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of PERA should be included within its financial reporting entity. The criteria include, but are not limited to, whether PERA exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on this criteria, management of PERA has determined that no other such entities should be included in its financial reporting entity.

The DFA codes for the PERA funds are as follows:

- Public Employees Retirement Fund - CAS fund #606
- Public Employees Retirement Fund - Maintenance - CAS fund #370 *
- Judicial Retirement Fund - CAS fund #603
- Magistrate Retirement Fund - CAS fund #604
- Volunteer Firefighters Retirement Fund - CAS fund #607
- Deferred Compensation Account – Administration – CAS fund #755 *
- Social Security Fund – CAS fund # 608 *

* These accounts are combined with fund #606 in financial statements under "Public Employees Retirement Fund".

Description of the Funds

Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Hazardous Duty, Municipal General, Municipal Police, Municipal Fire, and State Legislative Divisions, and offers 18 different coverage plans. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement

Fund is set forth in 10-11-3, NMSA 1978. Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service. Members of the State Legislative Division may retire at any age with 14 years of credited service. Generally, the amount of normal retirement pension is based on final average salary, which is defined as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 100% of the final average salary, depending on the division. Legislative members who meet retirement eligibility requirements receive annual pensions equal to \$250 multiplied by the number of years of credited service. Benefits for duty and non-duty death and disability and for post retirement survivors' annuities are also available.

Current member contributions for all plans, except the State Legislative Division, are based upon a percentage of salary and range from 4.78% to 16.30%, depending upon the division and coverage plan. Employer contributions also vary with the different divisions and coverage plans and are based upon a percentage of salaries paid, ranging from 7.0% to 25.72%. Contribution rates are established by State statute for all members. Members of the State Legislative Division contribute \$100 for each year of credited service; employer contributions for members of the State Legislative Division are determined annually by the actuary. The total employer contribution for the State Legislative Division for the fiscal year ended June 30, 2003, was determined by the actuary to be between \$179,000 and \$266,000.

Judicial Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. Eligibility for membership in the Judicial Retirement Fund is set forth in 10-12B-4 NMSA 1978. Every judge or justice becomes a member in the Judicial Retirement Fund upon election or appointment to office, unless an application for exemption has been appropriately filed or unless specifically excluded.

Benefits are available at age 64 or older to anyone having served a minimum of five years and at age 60 to anyone having served at least 15 years. The annual pension amount for those members covered prior to July 1, 1980, is determined as 75% of the salary received during the last year in office prior to retirement multiplied by the number of years of service, not to exceed 10 years divided by 10. For those individuals who became members subsequent to July 1, 1980, the annual pension amount is determined as 75% of salary received during the last year in office prior to retirement multiplied by 5% of the number of years in service, not exceeding fifteen years, plus five years. Early retirement provisions apply to members retiring between ages 50 and 60. The plan also provides for survivors' allowances and disability benefits.

Members contribute at a rate of 5% of their salaries and the member's court contributes at a rate of 9% of the member's salary. Additionally, the district court contributes \$38 for each civil case docket fee paid. Contribution rates are established by State statute.

Magistrate Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. Eligibility for membership in the Magistrate Retirement Fund is set forth in 10-12C-4 NMSA 1978. Every magistrate becomes a member in the Magistrate Retirement Fund upon election or appointment to office, unless an application for exemption has been appropriately filed or unless specifically excluded.

Benefits are available at age 64 or older to any member having served as a magistrate for a minimum of 5 years. Retirement is available at age 60 to any magistrate or former magistrate having served at least 15 years or at any age with 24 or more years of service credit. The annual pension amount is determined by multiplying 75% of the salary received during the last year in office prior to retirement by 5% of the number of years of service, not exceeding 15 years, plus 5 years.

Member contributions are based on 5% of salaries and the State of New Mexico, through the administrative office of the courts, contributes at a rate of 9% of the members salary. Additionally, the magistrate or metropolitan courts contribute \$25 for each civil case docket fee paid and \$10 for each civil jury fee paid. Contribution rates are established by State statute.

Volunteer Firefighters Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan with a special funding situation. Eligibility for membership in the Volunteer Firefighters Retirement Fund is set forth in NMSA 1978 10-11A-2. Any volunteer nonsalaried firefighter who is listed as an active member on the rolls of a fire department and who meets certain age and service credit requirements set forth in the statute is eligible for membership in the Volunteer Firefighters Retirement Fund, unless specifically excluded.

Benefits are available at age 55 or older to any member having served as a volunteer fire fighter for a minimum of 10 years. Benefits are \$100 per month with at least 10 but less than 25 years of service or \$200 per month with 25 or more years of service. Benefits for post retirement surviving spouse annuities are also available.

Members of the Volunteer Firefighters Retirement Fund do not make contributions. State statutes required that the State Treasurer transfer \$750,000 during the 2003 fiscal year from the Fire Protection Fund to the Volunteer Firefighters Retirement Fund.

Membership

At June 30, 2003, the number of participating government employers were:

State Agencies	119
Cities	75
Counties	33
Special Districts	30
Housing Authorities	22
Hospitals	1
<u>Total</u>	<u>280</u>
Judicial Retirement Fund	15
Magistrate Retirement Fund	18
Volunteer Firefighters Retirement Fund	373

At June 30, 2003, membership was as follows:

	PERA Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Retirees and Beneficiaries receiving benefits	19,728	87	46	234
Terminated Plan Members not yet receiving benefits	3,168	15	14	N/A
Active Plan Members	44,070	84	67	5,362

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The financial statements of the Funds presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in NMSA 1978.

Cash and Cash Equivalents - Cash and cash equivalents include demand deposit accounts and all short-term instruments with maturities at purchase of 90 days or less. Cash and short-term investments are stated at amortized cost, which approximates fair value.

Investments - Allowable investments are set forth in NMSA 1978 Subsection 10-11-132. PERA primarily invests in obligations of the United States Treasury, obligations of federal agencies guaranteed by or for which the credit of the United States government is pledged for payment of principal and interest, corporate bonds, stocks, and international securities. Security transactions and any resulting gains or losses are accounted for on a trade date basis.

All investment securities are reported at fair value as determined by the custodial agent. The agents determination of fair values includes, among other things, published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investments degree of risk. The investment in building is stated at fair value based on an appraisal performed during fiscal year 2002.

There are certain market risks, credit risks, foreign exchange currency risks, or event risks which may subject the Funds' investment portfolios to economic changes occurring in certain industries, sectors, or geographies.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income, securities lending income, rental income, and total investment expense, which includes investment management and custodial fees, securities lending expense, building maintenance expense, and all other significant investment related costs.

In an effort to maximize the benefits of investment diversification and investment earnings, the Judicial, Magistrate, and Volunteer Firefighters Retirement Funds participate with the Public Employee Retirement Fund in an investment pool. The fair value of PERAs investments in short-term investment pools is the same as the value of the pool shares. All investments in the short-term investment pool are either SEC registered or are exempt from SEC registration under exemption 3a3 or 4(2) of SEC regulations. Each funds equity percentage in the pool is based on that funds investment in the pool and will only increase or decrease by additional deposits or withdrawals. Ownership percentages (rounded to the nearest hundredth of a percent) at June 30, 2003, are as follows:

	Pool
Public Employees Retirement Fund	98.62%
Magistrate Retirement Fund	0.36
Judicial Retirement Fund	0.68
Volunteer Firefighters Retirement Fund	0.34
Total	100%

Property and Equipment - Property and equipment costing in excess of \$1,000 used in the plan operations consist of furniture and equipment, which are recorded at historical cost less accumulated depreciation. All such assets are depreciated over five to ten years, depending on the nature of the asset, using the straight-line method of depreciation.

Accrued Compensated Absences - Accumulated vacation and sick leave earned but not taken at June 30 is recorded as a liability and expense in the Public Employees Retirement Fund.

Interfund Receivables and Payables - During the course of operations, numerous transactions occur between the Funds for goods provided and services rendered. These receivables and payables are expected to be repaid in the subsequent fiscal year and are not eliminated in the financial statements.

Required Reserves - New Mexico Statutes Annotated 1978 Subsections 10-11-123, 10-12B-3, and 10-12C-3 set forth required accounting policies for reserves to be maintained within net assets available for benefits for the Public Employees Retirement Fund, the Judicial Retirement Fund, and the Magistrate Retirement Fund, respectively. State statutes do not specifically require separate accounting for the Volunteer Firefighters Retirement Fund. The funds to be maintained are as follows:

Member Contribution Fund represents the accumulated contributions deducted from members' compensation, less refunds and transfers of contributions as provided for in the statute. Annually on June 30, the members' accounts are credited with interest on member contributions and previously earned interest at a rate determined by the Board. The rate for the 2003 fiscal year was 5.25%.

Employers Accumulation Fund represents the accumulated contributions made by affiliated public employers. Each year following receipt of the report of the annual actuarial valuation, the excess, if any, of the reported actuarial present value of benefits to be paid over the balance in the Retirement Reserve Fund, discussed below, is transferred to the Retirement Reserve Fund from the Employers Accumulation Fund.

Retirement Reserve Fund represents the accumulated balance available to pay pension benefits to retired members and eligible survivors of deceased members or retirees and to pay residual refunds due to eligible beneficiaries and survivors as provided for in the statute.

Income Fund represents the accumulation of interest, dividends, rents, and other income of PERA, less administrative expense paid out of this fund. At least annually, the balance in this fund is transferred to other funds in a manner determined by the Board. The distribution rate of interest as determined by the Board for fiscal year 2003 was 5.25% of member account balances to the Member Contribution Fund. The remaining balance of the Income Fund was distributed to the Retirement Reserve Fund.

Fund Balances as of June 30, 2003 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
Member Contribution Fund	\$1,433,663,965	\$4,108,598	\$1,650,781
Employers Accumulation Fund	2,041,513,469	21,798,620	15,350,827
Retirement Reserve Fund	4,609,771,602	29,532,373	12,657,602
Total	\$8,084,949,036	\$55,439,591	\$29,659,210

Social Security Account - The Social Security Account was established to account for moneys collected by PERA from the State of New Mexico and its political subdivisions and instrumentalities on behalf of the Social Security Administration. As of January 1, 1987, PERA was no longer responsible for making these collections. Activity subsequent to January 1, 1987, relates primarily to adjustments, refunds, and rebates of previously collected amounts. At June 30, 2003, the Social Security Fund had assets of \$502,828. This amount is recorded in assets and liabilities in the Public Employees Retirement Fund.

Deferred Compensation Plan - The State of New Mexico offers its employees a deferred compensation plan under NMSA 1978, Sections 10-7A-1 through 10-7A-12, the "Deferred Compensation Act," in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their income until future years. Deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. PERA is the trustee of the Deferred Compensation Plan (the "Plan"); however, the Plan is administered by a third party administrator (the "Administrator") acting under contract with PERA. The Administrator has authority to control and manage the operation of the Plan. The Administrator is delegated any and all powers as may be necessary or advisable to discharge its duties under the Plan, and has certain discretionary authority to decide all matters under the Plan. As Plan trustee, PERA's primary responsibility is to select investment options that are safe and provide a reasonable rate of return and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan. At June 30, 2003, PERA had \$425,888 in an operating account maintained for the sole purpose of paying administrative expenses associated with the Deferred Compensation Fund. This cash account is maintained by the State Treasurer. Accrued expenses and other liabilities associated with administrative operations of \$2,850 are reflected in the financial statements of the Public Employees Retirement Fund. The net of cash held, accrued income earned on cash deposits, and accrued expenses are reflected as liabilities in the Public Employees Retirement Fund. The Deferred Compensation Fund issues a publicly available stand-alone financial report which can be obtained by writing to the Public Employees Retirement Association of New Mexico, 1120 Paseo de Peralta, Santa Fe, New Mexico 87504, or calling (505) 827-4700.

Actuarial Valuation - The information included in the required supplementary information as listed in the foregoing table of contents is based on the actuarial valuations performed as of June 30, 2003, which is the latest available information. Significant actuarial assumptions used in the valuations are included in the notes to the required supplementary information.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect

the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reported period. Actual results could differ from those estimates. The Funds utilize various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of plan net assets.

Federal Income Tax Status - The Funds are qualified plans under Section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS

The following is a reconciliation of cash and investments as presented in the Statements of Plan Net Assets and deposits and investments as presented in the schedules below:

As presented in the Statements of Plan Net Assets:

Cash and Cash Equivalents	\$435,065,591
Investments	8,454,901,920
Total	\$8,889,967,511

As presented in the schedules below

Carrying amount of deposits of State Treasurers Office	\$ 20,055,005
Investments	8,869,912,506
Total	\$8,889,967,511

Deposits - Cash balances reported in the statements of plan net assets include amounts on deposit with the State Treasurers Office and amounts held by the investment custodian. All deposit accounts maintained at the State Treasurers Office participate in an overnight repurchase agreement program administered by the State Treasurer. These amounts, listed below, are held in the name of the entity indicated and are fully collateralized.

Account	Bank Balance	Carrying Account
PERA Trust Administration	\$38,754,322	\$9,995,351
PERA Building Maintenance	8,559,708	8,559,244
Deferred Compensation Operating Account	425,888	425,888
Judicial Retirement Fund	570,955	217,574
Volunteer Firefighters Retirement Fund	143,881	119,418
Magistrate Retirement Fund	388,843	261,421
Social Security Fund	476,109	476,109
Total Deposits at State Treasurers Office	\$49,319,706	\$20,055,005

The difference between the bank balance and the carrying amount of deposits is due to reconciling items, such as outstanding warrants.

Cash held by the investment custodian is invested in commercial paper, which is included in the schedule of investments below.

Investments

The table which follows provides information about the custodial credit risk associated with the Funds' investments and investments made with cash collateral received on securities loaned as part of the securities lending program discussed in Note 5. Investments, including investments made with securities lending collateral, are categorized as follows:

Category 1: The custodian is the Funds' agent and is not the counterparty or the counterparty financial institutions trust department. The custodian holds the securities in the Funds' names.

Category 2: The custodian is the counterparty financial institutions trust department or the counterparty's agent and the custodian holds the securities in the Funds' name.

Category 3: The custodian is the counterparty, regardless of whether it holds the securities in the Funds' names; or the custodian is the counterparty financial institutions trust department or the counterparty's agent and the custodian does not hold the securities in the Funds' names.

Categorized Investments:				
	Category 1	Category 2	Category 3	Total
U.S. Government and agency securities	\$1,099,220,950			\$1,099,220,950
Corporate equity securities	1,982,976,982	\$1,884,179,544		3,867,156,526
Corporate obligations	1,181,361,320			1,181,361,320
International Securities	1,153,969,590			1,153,969,590
Total Categorized investments	5,417,528,842	1,884,179,544	0	7,301,708,386
Uncategorized Investments:				
Pending transactions:				
U.S. Government Equities				778,503,642
Corporate International				86,469,285
Short-term investment pool				15,095,423
Investment in building				27,954,577
Miscellaneous Investments mutual funds				415,010,585
				15,500,000
Total Uncategorized investments				6,176,433
				1,344,709,945
Investments made with cash collateral received on securities basis:				
Categorized				
U.S. Govt. & Agency securities			27,425,450	27,425,450
Corporate equity securities			126,379,798	126,379,798
International securities			69,688,927	69,688,927
Total Categorized			223,494,175	223,494,175
Total Investments	\$5,417,528,842	\$1,884,179,544	\$223,494,175	\$8,869,912,506

DERIVATIVES

Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The following provides information about derivatives held in the Funds' investment portfolio.

Government Agency Mortgage-backed Securities - As of June 30, 2003, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$1,542,133,753, at fair value. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the Funds will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to prepay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan types and geographic location of the related properties.

Corporate Asset-backed Securities - As of June 30, 2003, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of approximately \$406,396,853. These securities represent interests in various trusts consisting of pooled financial assets conveyed by the issuing parties. The Funds' ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Forward Currency Contracts - The Funds may enter into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. At June 30, 2003, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of approximately \$6,638,000 and to sell foreign currencies of approximately \$6,638,000. The market values of these outstanding contracts at June 30, 2003, were approximately \$6,641,000 and \$6,612,000, respectively. These contracts are not reflected in the statements of plan net assets. Gains and losses on forward currency may occur to the extent that the market value of the contracts varies from the actual contract amount and are recorded as incurred.

SECURITIES LENDING

NMSA 1978 10-11-132 and Board policies permit PERA to use the Funds' investments to enter into securities lending transactions—loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Pursuant to the governing securities lending agreement, the securities lending agent may loan United States government and agency securities, international securities, domestic equity securities, and corporate obligations owned by the Funds in exchange for cash and securities issued or guaranteed by the United States government as collateral. Collateral for these loans is held by PERAs custodial agent and must be equal to a) 102% of the market value of the loaned securities in the case of loaned securities denominated in United States dollars or whose primary trading market is located in the United States or sovereign debt issued by foreign governments, or b) 105% in the case of loaned securities not denominated in United States dollars or whose primary trading market is not located in the United States. Securities on loan at year end are presented as uncategorized in the preceding schedule in Note 3. At June 30, 2003, the Funds have no credit risk exposure to borrowers because the amounts the Funds owe the borrowers exceed the amounts the borrowers owe the Funds.

PERA may invest cash collateral received in eligible securities as defined in the governing securities lending agreement; such investments are also held by PERAs custodial agent. Securities received as collateral may not be pledged or sold without borrower default. There are no restrictions on the amount of loans that the securities lending agent may make. The collateral received and the fair value of investments made with such collateral as of June 30, 2003, were \$232,556,553 and \$232,367,862 respectively.

The lending agent has indemnified PERA by agreeing to purchase replacement securities or return cash collateral in the event that a borrower fails to return a loaned security or pay distributions thereon. As of June 30, 2003, no such failures by any borrowers have occurred. Moreover, there were no losses during the fiscal year ended June 30, 2003, resulting from borrower default. PERA and the borrowers maintain the right to terminate all securities lending transactions on demand. Because the loans are terminable at will, their duration does not generally match the investments made with cash collateral.

PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2003, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Property and equipment	\$2,753,823	\$108,625	\$0	\$2,862,448
Computer improvement plan	1,715,185			1,715,185
Accumulated Depreciation	(3,749,684)	(204,196)	0	(3,683,880)
Total	\$989,324	\$ (95,571)	\$0	\$893,753

CONTINGENCIES

PERA has been named as a defendant in various lawsuits arising in the normal course of business primarily related to disability and retirement benefits. Management of PERA intends to vigorously defend the actions, and it is their opinion as well as the opinion of legal counsel that the resolution of these matters will not have a material effect on these financial statements.

STATUTORY DISCLOSURES

The following disclosures are required by 2 NMAC 2.2, Requirements for Contracting and Conducting Audits of Agencies, issued by the Office of the State Auditor.

Budgets and Budgetary Accounting (Public Employees Retirement Fund only)

Formal budgetary integration is employed as a management control device over the Public Employees Retirement Fund. Administrative expenses, rental income and a small portion of interest income are budgeted while significant revenues and non-administrative expenses are not. The budget is prepared on a budgetary, non-generally accepted accounting principles ("non-GAAP") basis which recognizes encumbrances and capital expenditures as current expenditures, does not recognize depreciation expense, and recognizes revenue on the cash basis. Because all funds are budgeted from the PERA trust funds, there are no reversions to the State General Fund. All unexpended funds revert to the appropriate PERA fund. Formal budgets are not provided for the Judicial, Magistrate, or Volunteer Firefighters Retirement Funds.

PERA follows these procedures in establishing budgetary data for the Public Employees Retirement Fund:

1. By September 1, PERA prepares a budget appropriation request by category to be presented to the next state legislature.
2. The appropriation request is submitted to the Department of Finance and Administration ("DFA") Budget Division and to the Legislative Finance Committee ("LFC").
3. DFA makes recommendations and adjustments to the appropriation request, which becomes part of the Governor's proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also making recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and the LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level and changes are approved by DFA.

A Statement of Revenues, Appropriations, and Expenses - Budget and Actual (Non-GAAP Basis) is included as additional information in this report.

Reserves for Encumbrances and Encumbrances Reconciliation (Public Employees Retirement Fund only)

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the Public Employees Retirement Fund. Encumbrances for the year ended June 30, 2003, as recorded in the general ledger of PERA, differ from amounts reported by the DFA due to encumbrances canceled and encumbrances included in accounts payable by PERA. Encumbrances per DFA were \$9,356,758 for which PERA canceled \$40,023 and included \$554,569 in accounts payable and maintained a \$8,762,165 reserve for encumbrances.

	Category	Encumbrance Per DFA	Canceled	Reclassified to A/P	Reserve for Encumbrances
PERA ADMINISTRATION					
Contractual Services	300	\$ 8,701,723	\$ 12,846	\$ 433,233	\$ 8,255,644
Other Operating	400	122,560	9,059	48,624	64,878
Other Financing Uses	500	<u>373,685</u>			<u>373,685</u>
Subtotal		<u>9,197,968</u>	<u>21,904</u>	<u>481,857</u>	<u>8,694,206</u>
BUILDING MAINTENANCE					
Contractual Services	300	8,246		476	7,770
Other Operating	400	150,544	18,119	72,236	60,189
Sub-Total		<u>158,790</u>	<u>18,119</u>	<u>72,712</u>	<u>67,959</u>
TOTAL		<u>\$ 9,356,758</u>	<u>\$ 40,023</u>	<u>\$ 554,569</u>	<u>\$ 8,762,165</u>

**Reconciliation of Generally Accepted Accounting Principles (GAAP) to Budgetary Basis
(Public Employees Retirement Fund only)**

The following is a reconciliation of the net increase in net assets, GAAP basis, to budgetary basis for the year ended June 30, 2003:

Net increase in net assets, GAAP basis	\$260,119,403
Non-budget revenues	(482,356,097)
CY accrual - revenues	(30,476,937)
PY accrual - revenues	41,399,694
Benefit payments	349,178,208
Refunds to terminated employees	25,985,842
CY encumbrances	(9,316,734)
PY encumbrances paid in the CY	7,045,405
CY accounts payable	3,864,553
PY accounts payable	(6,557,685)
Expenditures capitalized	(107,315)
Depreciation expenses	204,196
Expenses allocated to other funds	(228,089)
Net increase in net assests, budgetary basis	<u>\$158,754,444</u>

Special, Deficiency, and Specific Appropriations (Public Employees Retirement Fund only)

PERA received an appropriation of \$54,200 for re-engineering the imaging conversion process (Chapter 64, Laws of 2001, Section 11, Subsection D). PERA encumbered \$54,200 and expended \$0 during FY2002. The entire amount of \$54,200 was expended in FY03.

PERA received an appropriation of \$6,000,000 to purchase and implement a retirement membership information system (Chapter 5, Laws of 2000, Section 8, Item 5). This appropriation was extended through FY02. An additional \$2,000,000 was appropriated in Chapter 64, Laws of 2001, Section 8, Item 12 to be used in FY01 and FY02 for the retirement system. PERA budgeted \$509,200 and the entire amount was expended by the end of FY03. An additional pension system appropriation of \$5,022,300 was made in Chapter 4, Laws of 2002 and PERA had encumbered \$2,753,775 and expended \$1,259,423 at the end of FY03.

An emergency deficiency appropriation of \$267,900 was made with Chapter 4, Laws of 2002, of which \$222,024 was expended and \$45,633 remains encumbered. This appropriation was for electrical upgrade, building portal repair and fire sprinkler installation.

As the monies are appropriated from the Public Employees Retirement Fund, any unspent amounts do not revert to the State of New Mexico General Fund.



**Public Employees
Retirement Association**
of New Mexico

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL) Entry Age	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
--------------------------	----------------------------------	--	---	------------------------------	-------------------------------	---

PUBLIC EMPLOYEES RETIREMENT FUND*

June 30, 1998	\$5,490,941,333	\$6,006,718,131	\$515,776,798	91.4%	\$1,146,991,018	45.0%
June 30, 1999	6,494,486,731	6,554,553,017	60,066,266	99.1	1,200,564,605	5.0
June 30, 2000	7,527,280,315	7,118,974,671	(408,305,644)	106.0	1,253,305,021	-
June 30, 2001	8,308,210,019	7,883,446,910	(424,763,108)	105.4	1,318,274,517	-
June 30, 2002	8,769,234,201	8,505,930,677	(263,303,524)	103.1	1,396,209,000	-
June 30, 2003	8,976,907,804	9,223,602,484	246,695,680	97.3	1,437,357,206	17.2

JUDICIAL RETIREMENT FUND

June 30, 1998	\$41,974,146	\$56,176,261	\$14,202,115	74.7	\$6,644,159	213.8
June 30, 1999	47,776,452	58,189,239	10,412,787	82.1	6,734,534	154.6
June 30, 2000	54,726,003	63,315,547	8,589,544	86.4	6,754,084	127.2
June 30, 2001	59,522,634	70,604,089	11,081,455	84.3	7,059,793	157.0
June 30, 2002	61,686,378	75,958,498	14,272,120	81.2	7,507,013	190.1
June 30, 2003	65,223,266	85,951,596	20,728,330	75.9	8,575,202	241.7

MAGISTRATE RETIREMENT FUND

June 30, 1998	\$19,988,167	\$20,388,281	\$400,114	98.0	\$3,136,017	12.8
June 30, 1999	23,368,704	21,644,891	(1,723,813)	108.0	3,263,639	-
June 30, 2000	27,097,375	23,737,784	(3,359,591)	114.2	3,485,366	-
June 30, 2001	30,258,095	26,685,280	(3,572,815)	113.4	3,650,670	-
June 30, 2002	32,039,588	28,959,427	(3,080,161)	110.6	3,996,832	-
June 30, 2003	29,629,462	29,078,050	(551,412)	101.9	3,081,850	-

VOLUNTEER FIREFIGHTERS RETIREMENT FUND

June 30, 1998	\$16,247,858	\$14,897,045	\$(1,350,813)	109.1	N/A	N/A
June 30, 1999	20,246,292	16,160,748	(4,085,544)	125.3	N/A	N/A
June 30, 2000	24,641,415	17,303,150	(7,338,265)	142.4	N/A	N/A
June 30, 2001	27,991,582	15,806,792	(12,184,790)	177.1	N/A	N/A
June 30, 2002	29,784,088	16,127,594	(13,656,494)	184.7	N/A	N/A
June 30, 2003	31,221,546	17,058,252	(14,163,294)	183.0	N/A	N/A

*Includes the Legislative Retirement Plan Data

**Volunteer Firefighters Retirement Fund benefits are not based on salary. Accordingly, payroll information has been excluded.

**SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
YEAR ENDED JUNE 30, 2003**

Fiscal Year Ended June 30	Public Employees Retirement Fund		Judicial Retirement Fund	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed
June 30, 1998	\$165,248,660	100.0 %	\$2,540,432	80.4%
June 30, 1999	174,324,519	100.0	2,374,190	86.2
June 30, 2000	182,000,473	100.0	2,682,454	79.0
June 30, 2001	196,544,110	100.0	2,342,478	92.2
June 30, 2002	204,734,125	100.0	2,737,126	74.9
June 30, 2003	213,712,566	100.0	2,812,687	75.3
Fiscal Year Ended June 30	Magistrate Retirement Fund		Volunteer Firefighters Retirement Fund*	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed**
June 30, 1998	\$911,332	117.6%	\$1,940,800 - 3,197,400	31.3%
June 30, 1999	803,083	134.2	1,907,000 - 3,266,000	30.6
June 30, 2000	750,572	125.2	1,867,000 - 3,346,000	37.4
June 30, 2001	730,852	175.5	1,788,000 - 3,385,000	29.5
June 30, 2002	778,882	147.1	51,000 - 953,000	52.5
June 30, 2003	881,229	129.7	0 - 653,000	114.9

* Contributions are appropriated from the Fire Protection Fund

**Using the high end of the range for the calculation

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2003

The actuarial present value of benefit obligations of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund and the Volunteer Firefighters Retirement Fund was determined as part of actuarial valuations at June 30, 2003. Actuarial and economic assumptions include the following:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2003	June 30, 2003	June 30, 2003	June 30, 2003
Actuarial cost method	Entry age	Entry age	Entry age	Unit credit cost
Amortization method	Level % open	Level % open	Level % open	Level % open
Amortization period	17 years	30 years	0 years #	30 years
Asset valuation method	Smoothed market 4 years	Smoothed market 4 years	Smoothed market 4 years	Smoothed market 4 years
Rate of return on investment of present and future assets*	8 %	8 %	8 %	8 %
Inflation increase	4.5 %	5 %	5 %	5 %
Post retirement benefit increases	3 %	3 %	3 %	N/A+
Projected salary increases*	5.0 - 15.5%**	5 %	5 %	N/A+

* Includes inflation at 5.00%.

** Projected salary increases, attributable to seniority/merit, vary from 0.00% to 3.8% based on age of employee and division in which employed.

+ Benefits are not based on salary and are not subject to cost of living increases.

Assets currently exceed actuarial accrued liabilities. The excess was amortized over 30 years and applied as a credit to determine the required contribution.

**STATEMENT OF REVENUES, APPROPRIATIONS AND EXPENSES—
BUDGET AND ACTUAL (NON-GAAP BASIS)
PUBLIC EMPLOYEES RETIREMENT FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES, APPROPRIATIONS AND OTHER STATE FUND				
Interest Income	-	\$27,870,400	\$184,527,742	\$156,657,342
Rental Income	-	1,559,000	2,129,495	570,495
Total revenue and appropriations	-	29,429,400	186,657,237	157,227,837
EXPENDITURES				
Administration:				
Contractual services	17,160,700	21,113,300	21,014,624	98,676
Personal services / Benefits	3,139,300	3,306,500	3,250,983	55,517
Other operating costs	1,248,100	2,150,600	939,999	1,210,601
Other financial uses	1,300,000	1,300,000	1,300,000	-
Subtotal administration division expenses	22,848,100	27,870,400	26,505,605	1,364,795
Maintenance Division:				
Contractual services	10,000	35,100	30,996	4,104
Personal services / Benefits	584,300	599,800	597,795	2,005
Other operating costs	696,800	924,100	768,398	155,702
Other financial uses	-	-	-	-
Subtotal maintenance division expenses	1,291,100	1,559,000	1,397,188	161,812
Total expenses	24,139,200	29,429,400	27,902,793	1,526,607
Net increase in net assets, budgetary basis	-	-	\$158,754,444	\$158,754,444

ADDITIONAL INFORMATION
SCHEDULE OF CASH AND CASH EQUIVALENT ACCOUNTS
June 30, 2003

Account Name	Depository Name	Account Type	Account Number	Reconciled PERA Balance at June 30, 2003	Subsequent Items Processed by DFA	DFA Balance at June 30, 2003
PERA Administration	State Treasurer	Checking	366-01	\$9,995,351	-	\$9,995,351
PERA Short Term Investment Fund	Deutsche Bank	Interest Bearing		415,010,585	-	415,010,585
PERA Building Maintenance	State Treasurer	Checking	366-02	8,559,245	-	8,559,245
Judicial Retirement Fund	State Treasurer	Checking	202-02	217,574	-	217,574
Magistrate Retirement Fund	State Treasurer	Checking	366-07	261,421	-	261,421
Volunteer Firefighters Fund	State Treasurer	Checking	366-05	119,417	-	119,417
PERA Deferred Comp	State Treasurer	Checking	366-03	425,888	-	425,888
Social Security	State Treasurer	Checking	368-01	476,109	-	476,109
Total				\$435,065,591	-	\$435,065,591

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES

For Year ended June 30, 2003

Investment Expenses

Investment Managers	\$13,385,109
Custodian Fees	1,135,632
Consultant Fees	248,500
Total Investment Fees	<u>14,769,241</u>
Securities Lending Expense	<u>5,293,187</u>
TOTAL INVESTMENT EXPENSES	<u>20,062,428</u>

Other Contractual Services

Medical Services	31,650
Actuarial Services	111,000
Audit	77,700
Legal Fees	62,901
Misc. Contractual Services	255,394
Pension System Requirements	378,207
Pension System - Covansys	<u>1,544,237</u>
TOTAL OTHER CONTRACTUAL SERVICES	<u>2,461,089</u>

Other Administrative Services

Personal services/Benefits	3,251,897
Other operating costs	860,370
Other financial uses	-
Depreciation	<u>204,197</u>
Total Other Administrative Expenses	<u>4,316,464</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>6,777,553</u>

TOTAL INVESTMENT & ADMINISTRATIVE EXPENSES	<u>\$26,839,981</u>
---	----------------------------



**Public Employees
Retirement Association**
of New Mexico



INVESTMENT

SECTION



PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT BOARD

P.O. Box 2123
Santa Fe, New Mexico 87504-2123
(505) 827-4700 Voice (505) 827-4670 Fax
www.state.nm.us/pera/home.htm

JEFF A. VARELA, Chairman
State Member

TERRY SLATTERY, CEBS
Executive Director

October 21, 2003

Members and Retirees of NM PERA:

For the first time in almost three years, the U.S. and non-U.S. stock markets were kind to investors, primarily as a result of a turnaround in the stock market that began late in the first quarter of 2003. In an environment considered to be the weakest recovery from a recession since WWII, many economic indicators turned positive even though the employment outlook was weaker than other recoveries. Nevertheless, as a result of improving productivity and corporate profits from their prior lows since September 11, 2001, stock prices firmly advanced in the second quarter of 2003. As a result of PERA's broadly diversified investment portfolio and allocations that were made back into the U.S. stock market beginning in March and continuing into April and May, PERA's combined funds investment portfolio returned 3.71% for the fiscal year ending June 30th.

Total fund quarterly returns of -7.22% in the September quarter, +3.83% in the December quarter, -1.66% in the March quarter and +9.34 in the June quarter combined to produce total fund returns of +3.71% for the fiscal year ending June 30, 2003. This compares to total funds' returns of -2.07% last year and -1.85% in fiscal year 2001. As a result, PERA's annualized return for the last three fiscal years was -0.11%, ranking PERA in the top 21st percentile in the Callan database of large public pension plans (approximately 79 funds). Callan Associates, Inc., is PERA's investment consultant.

PERA's total fund return of 3.71% was 50 basis points (0.50%) less than PERA's investment policy target return of 4.21%. This placed PERA in the 51st percentile, or at the median, for performance for the current fiscal year. Failure to meet the 4.21% target return by 50 basis points was mainly attributable to our managers' returns that under performed their benchmarks by 1.13% while PERA's allocation effect contributed a positive 0.66% and other factors contributed a negative 0.03% (+4.21% -1.13% +0.66% -0.03% = 3.71%). Had PERA's investment managers performed at their benchmarks, the total fund returns would have been 4.84% placing PERA near the top quartile. Nevertheless, these results following the worst three years of stock market performance since 1929-32, PERA's five-year and ten-year annualized returns, +4.98% and +9.67%, respectively, ranked in the upper 7th and 3rd percentile, respectively.

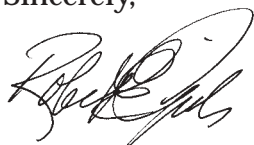
PERA's U.S. equity managers under performed their benchmark, the Russell 3000 index, by 195 basis points, (-1.18% vs. +0.78%), ranking in the lower 78th percentile for the fiscal year. Due to performance exceeding their benchmark in prior years, PERA's U.S. equity returns ranked in the 1st, 17th, 1st, and 7th percentile for the one-, two-, three- five- and ten-year periods, respectively.

PERA's international equity managers under performed their benchmark by 89 basis points (-0.89%), ranking them in the lower 88th percentile for the fiscal year. Nevertheless, the performance of PERA's international equity managers, mainly due to the performance of one investment manager (Capital Guardian Trust Co.) from 1993 thru 1999, was strong enough to rank them in the top 16th and 23rd percentile for the five- and ten-year periods, respectively. PERA's fixed-income managers also under performed their benchmark, the Lehman Aggregate Index, by 67 basis points (-0.67%). This under performance was mainly attributable to one manager (Reams Asset Management) that under performed their benchmark by 280 basis points (-2.8%) for the year, with returns of 7.6% vs. 10.4% for the benchmark. As a result, PERA's fixed-income managers, overall, ranked in the 82nd, 59th, 53rd, 56th and 24th percentile for the respective one-, two- three- five- and ten-year periods ending June 30, 2003.

While the performance of some of PERA's active investment managers was disappointing this year, this was offset somewhat by the allocation effect as a result of a Defensive Allocation Policy that was formally adopted by the PERA Board on July 23, 2002. In addition, during fiscal years 2000 and 2001, PERA reduced its allocations to equities and increased its allocations to fixed-income assets. As a result, PERA avoided the significant declines in total assets experienced by most public pensions plans since March of 2000. PERA returned to its allocations targets during the 2nd quarter of 2003 and participated in much of the rise in stock market valuations that occurred during that quarter. PERA continued to participate in stock market gains occurring subsequent to June 30, 2003. Because much of the corpus of the fund was preserved during the last three years, total assets reached an all-time record high of \$8.7 billion on Thursday, October 15, 2003.

With attention focused on maintaining a balanced asset structure of active managers who can out perform their benchmarks together with a core of indexed investments products, prospects for the fund to return to top quartile performance for the ensuing year are favorable. PERA's long-term goal of remaining a top-performing fund, with acceptable levels of risk, for five- and ten-year periods remains intact.

Sincerely,



Robert E. Gish
Director of Investments

THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION INVESTMENT PLAN SUMMARY

GENERAL OBJECTIVES OF THE PLAN

PERA's overall objective is to provide adequate retirement and death benefits to its beneficiaries through the investment of contributions and other PERA assets, in a manner designed to maintain adequate funding of the liabilities over time. The general investment objective is to obtain a reasonable long-term total return consistent with the degree of risk assumed.

The Board, in investing PERA assets according to the Plan, acts with the care, skill, prudence and diligence of the "prudent man" stipulation. Further, all transactions undertaken on behalf of PERA are for the sole benefit of the beneficiaries.

INVESTMENT CONSULTANT

The Board utilizes the services of an investment management consultant for the purpose of performance review, asset allocation studies, manager screening and selection, and topical studies. The comments and recommendations of the consultant are considered by the Board in conjunction with other available information for the purpose of making informed and prudent decisions.

PROFESSIONAL INVESTMENT MANAGERS

Professional investment managers are retained by PERA to assist in managing PERA's assets. Investments are sufficiently diversified to minimize the risk of large losses. Each investment manager must be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and function under a formal contract that delineates the manager's responsibilities and appropriate performance expectations. A formal set of investment guidelines and administrative requirements for management of each portfolio is to be provided to each manager. Normally, the Board reviews the investment performance of these managers against their stated objectives at least quarterly. As part of the review of performance, the Board meets with managers no less than annually. The individual managers are judged according to benchmarks that reflect the objectives and characteristics of the strategic role their portfolio is to fulfill. Investment managers must act in accordance with PERA's Investment Plan and applicable State and federal statutes.

PERA's external managers are delegated responsibility for purchases and sales, investment selection and implementation of investment strategies, subject to compliance with PERA's investment plan and applicable State and federal statutes. Each manager operates under a set of guidelines specific to the strategic role its portfolio is to fulfill in the overall investment structure.

PROHIBITIONS

The following transactions are prohibited: purchase of non-negotiable securities, short sales, transactions on margin, straddles, options and futures (except currency futures options and forward contracts are authorized pursuant to Section 10-11-132(F), NMSA 1978, for purposes of hedging foreign currency exposure only and not for speculation or leverage.) Letter stock transactions are also prohibited, except that international securities qualified under SEC Rule 144A for institutional investors are authorized as long as they comply with the requirements of Section 10-11-132(F), NMSA 1978.

Transactions that involve a broker acting as a "principal" where such broker is also the investment manager who is making the transaction are prohibited.

Investments will not be made to the detriment of long term investment results regardless of the apparent rationale for social good or the immediate needs of the local, state or national economy.

No investment or action relating to an investment may be taken unless permitted by this Plan or by action of the Board.

ASSET ALLOCATIONS

Asset allocation is the single largest contributor to the Plan's return and risk. Based on the factors identified in the Investment Plan, the Board has established strategic asset allocation targets and ranges for domestic equities, international equities, fixed income instruments and cash or cash equivalents on a market value basis. Ranges for each asset class are included in the Asset Allocation Plan to provide the Board with the flexibility to take advantage of market opportunities.

The Long-term Asset Allocation Plan and the Defensive Asset Allocation strategy Plan as described below were adopted by the Board on September 26, 2002 in accordance with the requirements of IIB (3) of this Plan.

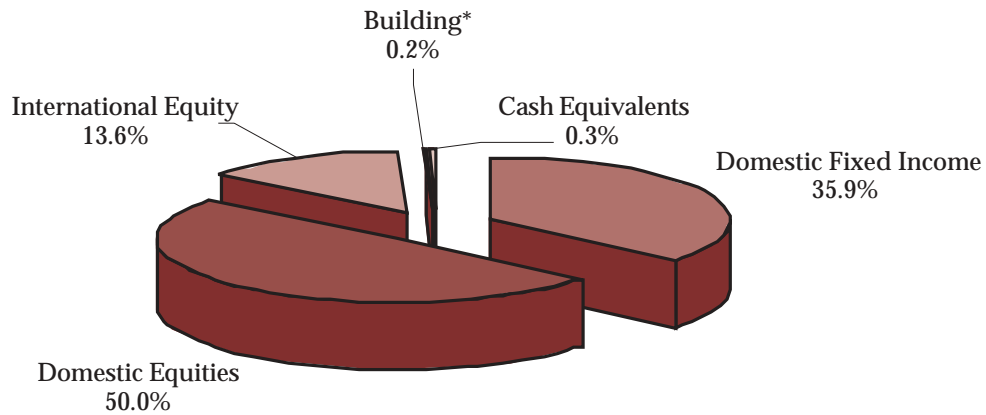
Asset Classes	Target	Minimum	Maximum
Long-Term Asset Allocation Plan:			
Domestic Equities	42%	33%	51%
International Equities	18%	13%	23%
Fixed Income	40%	35%	45%
Cash Equivalents	0%	0%	5%
TOTAL	100%		
Defensive Asset Allocation Strategy Plan:			
Domestic Equities	42%	29%	51%
International Equities	18%	11%	23%
Fixed Income	40%	35%	50%
Cash Equivalents	0%	0%	15%
Note: Maximum total allocation to Fixed Income and Cash not to exceed 60%			
TOTAL	100%		

The allocation of assets among various asset classes is approved by the Board and is predicated on factors such as (1) the historical performance of capital markets adjusted for the perception of the future short and long term market performance, (2) the correlation of returns among the relevant asset classes, (3) the projected liability stream of benefits and the costs of funding to both covered employees and employers and (4) the relationship between the current and projected assets and the projected actuarial liability stream.

The Plan assigns the target allocation to the classes of assets PERA can utilize and the ranges within which each can fluctuate as a percent of the total portfolio. This is expected to provide diversification of assets in an effort to maximize the investment return to PERA consistent with prudent market and economic risk. PERA assets are fully invested at all times in either cash equivalents or other asset classes as designated by the Plan.

ASSET ALLOCATION

June 30, 2003



Fiscal Year Ended June 30,	2003	2002	2001	2000	1999	1998	1997
Domestic Fixed Income	35.91%	43.15%	41.27%	35.58%	35.81%	37.39%	40.60%
Domestic Equities	49.97%	36.16%	43.95%	37.18%	48.60%	52.65%	49.70%
International Equity	13.61%	15.18%	14.24%	17.86%	12.52%	8.86%	9.70%
Building*	0.19%	0.19%	0.19%	0.18%	0.16%	0.18%	0.00%
Cash Equivalents	0.32%	5.32%	0.35%	9.20%	2.91%	0.92%	0.00%
Total Portfolio	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

*Although PERA does not invest in real estate, the agency owns a building in Santa Fe which houses PERA offices as well as offices leased by other state agencies.

COMPARATIVE INVESTMENT RESULTS

FISCAL YEAR ENDED 6/30/03

Investment Category Benchmark	1-year 2003	3-year 2001-2003	5-year 1999-2003
Total Portfolio	3.71%	-0.11%	4.98%
Total Fund Benchmark*	4.21%	-2.49%	2.91%
Domestic Equity	-1.18%	-5.76%	2.56%
Russell 3000	0.77%	-10.47%	0.40%
International Equity	-7.35%	-13.93%	1.21%
EAFE	-6.46%	-13.52%	-4.00%
Domestic Fixed-Income	9.77%	9.89%	7.37%
L/B Aggregate	10.40%	10.08%	7.54%
Cash Equivalents	3.79%	5.02%	5.10%
Average 90-day T-Bill	1.32%	2.92%	3.73%

FOOTNOTE: Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

*Total Fund Benchmark - 42% Russell 3000, 18% EAFE, 40% Lehman Aggregate

INVESTMENT SUMMARY at Fair Value

June 30, 2003

Type of Investment	Fair Value	% of Total Fair Value
Domestic Equity:		
Large Cap	\$3,265,980,297	39.92%
Small/Mid Cap	822,309,562	10.05%
Total Domestic Equity	4,088,289,859	49.97%
Domestic Fixed Income	2,937,745,467	35.91%
International Equity	1,113,646,001	13.61%
Cash Equivalents	6,581,052	0.08%
Total Before Other Investments	8,146,262,379	99.57%
Building	15,500,000	0.19%
Cash in State Treasury	20,055,005	0.25%
Total Investments	\$8,181,817,384 *	100.00%

*This total includes cash and equivalents, accrued investment income, broker receivables and payables, securities lending liabilities, and cash timing differences between financial statements and investment reports.

List of Largest Assets Held June 30, 2003

Ten Largest Stock Holdings	Shares	Fair Value
PFIZER INC. COM	2,847,950	\$97,257,493
GENERAL ELECTRIC CO. (U.S.)	3,317,900	95,157,372
MICROSOFT CORP.	3,257,300	83,517,172
EXXON MOBIL CORP.	2,294,260	82,386,877
CITIGROUP INC.	1,745,436	74,704,661
WAL MART STORES INC. COM	1,036,770	55,643,446
JOHNSON & JOHNSON	1,027,452	53,119,268
AMERICAN INTL GROUP INC. COM	938,838	51,805,081
BANK OF AMERICA CORP.	574,306	45,387,403
INTEL CORP.	2,142,170	44,578,558

Ten Largest Bond Holdings	Par Value	Fair Value
FEDERAL NATL MTG ASSN TBA 4.5% 07/01/2018	\$75,000,000	\$76,500,000
FEDERAL NATL MTG ASSN TBA 5.0% 07/17/2018	68,000,000	70,231,080
FEDERAL NATL MTG ASSN TBA 5.0% 07/01/2033	55,642,000	56,528,933
FEDERAL NATL MTG ASSN TBA 6.0% 07/17/2032	52,626,000	54,681,572
UNITED STATES TREAS NTS 1.25% 05/31/2005	48,000,000	47,970,240
FEDERAL NATL MTG ASSN TBA 5.5% 07/17/2030	41,000,000	42,371,040
UNITED STATES TREAS NTS 1.75% 12/31/2004	36,045,000	36,360,394
FEDERAL NATL MTG ASSN 6.5% 09/01/2032	33,330,661	34,758,213
FEDERAL NATL MTG ASSN TBA 6.0% 07/01/2017	32,540,000	33,963,625
UNITED STATES TREAS NTS 3.0% 01/31/2004	33,525,000	33,912,549

A complete list of portfolio holdings is available upon request.

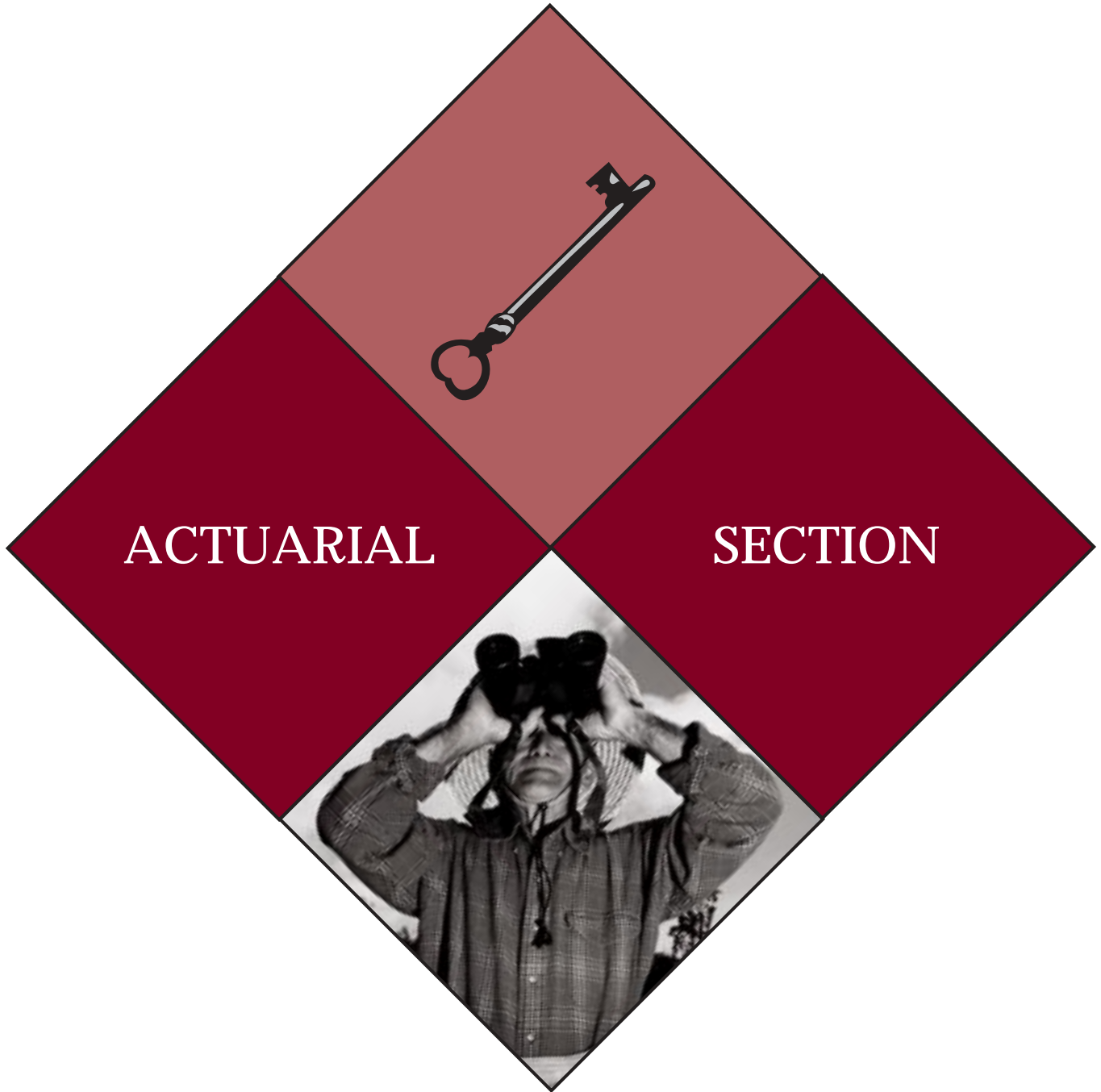
SCHEDULE OF INVESTMENT FEES and COMMISSIONS
For Year Ended June 30, 2003

	Investment Fees	Commissions
Domestic Fixed Income	\$6,693,702	\$3,946,000 *
Domestic Equities	2,397,745	5,155,466
International Equity	3,452,811	934,690
Short Term Investments	757,494	0
<hr/>		
Total	\$13,301,752	\$10,036,156
<hr/>		
Custodian Fees	1,135,094	N/A
Consultant Fees	242,500	N/A
<hr/>		
TOTAL	\$14,679,346	\$10,036,156

*Estimated



**Public Employees
Retirement Association**
of New Mexico



ACTUARIAL

SECTION



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

October 27, 2003

Board of Trustees
PERA New Mexico
1120 Paseo De Peralta
Santa Fe, New Mexico 87504-2123

Attention: Mr. Terry Slattery, Executive Director

Re: Actuarial Valuation as of June 30, 2003

Dear Board Members:

The basic financial objective of the Public Employees Retirement Association of New Mexico (PERA) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of PERA.

In order to measure progress toward this fundamental objective, PERA has an actuarial valuation performed each year. The valuations (i) measure present financial position, and (ii) determines if the statutory contribution rates are sufficient to meet the Board's established funding objective of providing for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a period not to exceed 30 years. The latest valuation, performed as of June 30, 2003, indicates that the statutory contribution rates for benefits, meet the basic financial objective for PERA, in aggregate. The statutory employer and employee contribution rates are:

State General Division	24.01%
State Police Division	32.43
Municipal General Division	20.72
Municipal Police Division	33.57
Municipal Fire Division	37.25

The actuarial valuation of the basic benefits is based upon financial and participant data which is prepared by Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among PERA members and their beneficiaries. The data is reviewed by us for internal and year-to-year consistency and

October 27, 2003

general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees pursuant to an experience study for the four-year period ending June 30, 2001. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

The current benefit structure is outlined in the Plan Summary. Two new coverage plans were adopted during the year. Although the effective date of these new plans is 7/1/2004, the changes have been recognized in this valuation.

We provided some of the information used in the schedules of Active Member Valuation Data, Retirants and Beneficiaries, Analysis of Financial Experience, and the Solvency Test for basic benefits that are found in the Actuarial Section, and the Schedule of Funding Progress and Schedule of Required Contributions in the Financial Section.

Based upon the results of the valuation of the basic benefits, it is our opinion that the Public Employees Retirement Association of New Mexico continues to be in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,



Norman S. Losk, F.S.A.
Senior Consultant



Kenneth G. Alberts
Actuarial Consultant

NSL/lr

SUMMARY OF ASSUMPTIONS AND METHODS

As of June 30, 2003

The method used for the PERA valuation is called the individual entry-age actuarial cost method, and it has the following characteristics:

- ◆ The annual normal costs for each individual active member are sufficient to accumulate the value of the member's pension at time of retirement
- ◆ Each annual normal cost is a constant percentage of the member's year by year projected pensionable compensation

The individual entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's pensionable compensation between the entry age of the member and the pattern of projected exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting accrued assets from the actuarial accrued liability determines the unfunded actuarial accrued liability (UAAL). The period of time needed to finance the unfunded actuarial accrued liability with current statutory contribution rates is determined using a level percent of payroll amortization technique.

Assumptions used by the professional actuaries in valuing PERA's actuarial position were adopted by the PERA Board based on recommendations from the actuary on September 27, 2001. Plan assets are valued on a market related basis for purposes of the actuarial valuation. The 2000 Group Annuity Mortality table (1971 GAM projected), set back 2 years for healthy men and 7 years for healthy women. A special table reflects disabled person's mortality.

In addition, the following assumptions were used in calculating the actuarial liability:

- ◆ Active member payroll in the PERA fund was projected to increase 4% per year due to inflation and .5% per year due to other factors such as productivity. Other projected salary increases of up to 10% per year are attributed to seniority and merit.
- ◆ Benefit payments are increased by cost of living adjustments of 3% per year for those retirees who have been retired for two full-calendar years.
- ◆ Rate of return on the investment of present and future assets of 8% per year compounded annually, is made up of a 4.5% assumed inflation rate and a 3.5% assumed real rate of return.
- ◆ Other assumptions in the following tables and schedules (see following pages):
 - Rates of Retirement
 - Rate of Separation of Active Membership
 - Rates of Disability
 - Member and Employer Contribution Rates

RATES OF RETIREMENT

Percents Retiring at Indicated Ages (by Coverage Plan)

Retirement Age	State General		State Police	Hazardous Duty	Municipal General		Municipal Police	Municipal Fire
	Male	Female			Male	Female		
60	25%	30%	20%	20%	25%	10%	20%	10%
61	25%	35%	20%	20%	30%	15%	20%	10%
62	50%	50%	40%	20%	30%	25%	40%	50%
63	35%	35%	50%	30%	30%	25%	20%	50%
64	35%	35%	50%	40%	30%	25%	25%	50%
65	60%	40%	100%	80%	40%	35%	100%	100%
66	30%	35%		50%	25%	25%		
67	30%	50%		100%	20%	15%		
68	30%	20%			15%	20%		
69	35%	35%			15%	20%		
70	20%	30%			20%	20%		
71-72	20%	30%			10%	25%		
73	20%	20%			15%	25%		
74	20%	20%			50%	50%		
75	100%	100%			100%	100%		

Percents Retiring at Indicated Service (by Coverage Plan)

Retirement Service	State General		State Police	Hazardous Duty	Municipal General		Municipal Police	Municipal Fire
	Male	Female			Male	Female		
20-21			10%				10%	10%
22-24			10%				6%	10%
25	10%	10%	10%	40%	5%	5%	10%	10%
26	10%	10%	10%	60%	5%	5%	10%	10%
27	10%	10%	10%	50%	10%	5%	15%	10%
28	10%	10%	10%	50%	5%	5%	15%	10%
29	10%	10%	50%	50%	5%	5%	30%	10%
30	20%	10%	100%	50%	5%	10%	100%	10%
31	10%	18%		50%	10%	10%		10%
32	20%	10%		50%	10%	10%		50%
33	10%	10%		50%	100%	100%		50%
34	10%	35%		100%				50%
35	15%	35%						100%
36	25%	100%						
37	100%	100%						

RATES OF DISABILITY

Percent Becoming Disabled at Indicated Ages

Sample Ages	State General & Municipal General	State Police/ Hazardous Duty	Municipal Fire/Police
20	0.04%	0.14%	0.15%
25	0.05%	0.18%	0.18%
30	0.06%	0.20%	0.20%
35	0.08%	0.28%	0.29%
40	0.13%	0.42%	0.42%
45	0.19%	0.64%	0.65%
50	0.31%	1.04%	1.05%
55	0.55%	1.84%	1.84%
60	0.92%	3.06%	3.06%
65	0.99%	3.30%	3.30%

RATE OF SEPARATION FROM ACTIVE MEMBERSHIP

Percent of Active Members Terminating During Year

Sample Ages	Years of Service	<u>State General</u>		<u>State Police</u>	<u>Haz. Duty</u>		<u>Munic. Gen.</u>		<u>Munic. Police</u>		<u>Munic. Fire</u>	
		Men	Women		Men	Women	Men	Women	Men	Women	Men	Women
ALL	0	35.0%	33.0%	12.0%	44.0%	20.0%	35.0%	40.0%	30.0%	25.0%	15.0%	10.0%
	1	20.0%	18.0%	4.0%	35.0%	55.0%	20.0%	20.0%	15.0%	10.0%	10.0%	25.0%
	2	12.0%	13.0%	3.0%	25.0%	13.0%	11.0%	13.0%	9.0%	10.0%	5.0%	10.0%
	3	11.0%	11.0%	6.0%	20.0%	20.0%	9.5%	11.0%	9.0%	12.0%	4.0%	8.0%
	4	8.0%	9.0%	4.5%	9.0%	20.0%	7.0%	8.0%	9.0%	5.0%	3.5%	7.0%
	5		5.0%	4.5%		10.0%	5.0%	5.5%				
	6			4.5%		10.0%						
	7					10.0%						
20		8.0%	10.0%	1.5%	9.0%	6.0%	2.0%	12.0%	10.0%	10.0%	3.6%	3.6%
25		5.6%	6.5%	1.5%	9.0%	6.0%	2.0%	7.8%	6.5%	6.5%	3.6%	3.6%
30		4.2%	4.2%	1.5%	7.0%	6.0%	2.0%	5.0%	4.1%	4.1%	2.8%	2.8%
35		3.3%	2.9%	1.5%	4.8%	6.0%	2.0%	3.4%	2.5%	2.5%	1.9%	1.9%
40		2.5%	2.2%	1.5%	3.3%	6.0%	2.0%	2.7%	1.5%	1.5%	1.3%	1.3%
45		2.0%	2.0%	1.5%	2.2%	6.0%	2.0%	2.4%	1.0%	1.0%	0.9%	0.9%
50		1.7%	1.9%	1.5%	1.8%	6.0%	2.0%	2.3%	0.9%	0.9%	0.7%	0.7%
55		1.6%	1.5%	1.5%	1.8%	6.0%	2.0%	1.9%	0.9%	0.9%	0.7%	0.7%
60		1.6%	1.5%	1.5%	1.8%	6.0%	2.0%	1.8%	0.9%	0.9%	0.7%	0.7%
65		1.6%	1.5%	1.5%	1.8%	6.0%	2.0%	1.8%	0.5%	0.5%	0.7%	0.7%

MEMBER AND EMPLOYER CONTRIBUTION RATES

Div/Plan Year	Plan 1		Plan 2		Plan 3		Plan 4		Plan 5	
	Member	Employer	Member	Employer	Member	Employer	Member	Employer	Member	Employer
State General										
1998	N/A	N/A	N/A	N/A	7.42%	16.59%				
1999	N/A	N/A	N/A	N/A	7.42%	16.59%				
2000	N/A	N/A	N/A	N/A	7.42%	16.59%				
2001	N/A	N/A	N/A	N/A	7.42%	16.59%				
2002	N/A	N/A	N/A	N/A	7.42%	16.59%				
2003	N/A	N/A	N/A	N/A	7.42%	16.59%				
State Police										
1998	7.60%	25.10%								
1999	7.60%	25.10%								
2000	7.60%	25.10%								
2001	7.60%	25.10%								
2002	7.60%	25.10%								
2003	7.60%	25.10%								
Hazardous Duty										
1998	N/A	N/A	4.78%	25.72%						
1999	N/A	N/A	4.78%	25.72%						
2000	N/A	N/A	4.78%	25.72%						
2001	N/A	N/A	4.78%	25.72%						
2002	N/A	N/A	4.78%	25.72%						
2003	N/A	N/A	4.78%	25.72%						
Municipal General										
1998	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
1999	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2000	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2001	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2002	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2003	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
Municipal Police										
1998	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
1999	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2000	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2001	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2002	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2003	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
Municipal Fire										
1998	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
1999	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2000	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2001	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2002	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2003	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
Judicial										
1998	5.00%	9.00%	*							
1999	5.00%	9.00%	*							
2000	5.00%	9.00%	*							
2001	5.00%	9.00%	*							
2002	5.00%	9.00%	*							
2003	5.00%	9.00%	*							
Magistrate										
1998	5.00%	9.00%	*							
1999	5.00%	9.00%	*							
2000	5.00%	9.00%	*							
2001	5.00%	9.00%	*							
2002	5.00%	9.00%	*							
2003	5.00%	9.00%	*							

NOTE: Legislative member contribution for the Legislative Division is \$100.00 for every year of service

*Employers are also required to remit a portion of docket fees

ACTIVE MEMBER VALUATION DATA as of June 30

Div/Plan	Year	Number of Participating Employers	Number of Active Members	Annual Payroll*	Average Pay	% Increase in Avg Pay
State General	1998	116	19,315	\$550,442,610	\$28,498	2.13%
	1999	116	19,879	581,855,790	29,270	2.71%
	2000	116	20,108	607,374,322	30,206	3.20%
	2001	116	20,513	642,701,705	31,331	3.73%
	2002	116	21,311	698,626,579	32,782	4.63%
	2003	116	20,820	704,491,713	33,837	3.22%
State Police/ Hazardous Duty	1998	3	1,444	\$39,352,589	\$27,252	3.34%
	1999	3	1,393	41,567,067	29,840	9.49%
	2000	3	1,294	39,215,882	30,306	1.56%
	2001	3	1,286	40,399,939	31,415	3.66%
	2002	3	1,356	44,346,817	32,704	4.10%
	2003	3	1,804	57,130,556	31,669	-3.17%
Municipal General	1998	153	17,450	\$437,341,401	\$25,063	3.60%
	1999	156	17,601	454,028,899	25,796	2.93%
	2000	158	17,734	479,745,977	27,052	4.87%
	2001	160	18,065	506,026,384	28,011	3.55%
	2002	164	18,118	527,857,221	29,134	4.01%
	2003	167	18,031	543,994,722	30,170	3.55%
Municipal Police	1998	94	2,344	\$79,313,544	\$33,837	5.56%
	1999	95	2,334	80,903,851	34,663	2.44%
	2000	97	2,257	81,903,288	36,289	4.69%
	2001	98	2,245	83,409,907	37,154	2.38%
	2002	98	2,109	80,091,903	37,976	2.21%
	2003	98	2,131	83,789,775	39,319	3.54%
Municipal Fire	1998	34	1,139	\$40,540,874	\$35,593	4.42%
	1999	33	1,170	42,208,998	36,076	1.36%
	2000	35	1,189	45,065,551	37,902	5.06%
	2001	35	1,188	45,736,582	38,499	1.57%
	2002	35	1,136	45,286,480	39,865	3.55%
	2003	35	1,172	47,950,440	40,913	2.63%
Legislative	1998	1	112	N/A	N/A	N/A
	1999	1	112	N/A	N/A	N/A
	2000	1	112	N/A	N/A	N/A
	2001	1	112	N/A	N/A	N/A
	2002	1	111	N/A	N/A	N/A
	2003	1	112	N/A	N/A	N/A

ACTIVE MEMBER VALUATION DATA
as of June 30

Div/Plan	Year	Number of Participating Employers	Number of Active Members	Annual Payroll*	Average Pay	% Increase in Avg Pay
Judicial	1998	15	87	\$6,644,159	\$76,370	0.48%
	1999	15	89	6,734,533	75,669	-0.92%
	2000	15	86	6,754,084	78,536	3.79%
	2001	15	86	7,059,793	82,091	4.53%
	2002	15	86	7,507,013	87,291	6.33%
	2003	15	84	7,402,113	88,120	0.95%
Magistrate	1998	18	57	\$3,136,017	\$55,018	0.41%
	1999	18	59	3,263,642	55,316	0.54%
	2000	18	60	3,485,366	58,089	5.01%
	2001	18	61	3,650,670	59,847	3.03%
	2002	18	63	3,996,832	63,442	6.01%
	2003	18	67	4,254,925	63,506	0.10%
Volunteer Firefighter	1998	347	10,402	N/A	N/A	N/A
	1999	350	11,304	N/A	N/A	N/A
	2000	352	12,135	N/A	N/A	N/A
	2001	367	5,170 **	N/A	N/A	N/A
	2002	373	5,176	N/A	N/A	N/A
	2003	373	5,362	N/A	N/A	N/A

*Actual payroll is projected to a full-year salary for actuarial calculations

**Number of active volunteer firefighters was significantly reduced due to new criteria used by actuary. Only those firefighters with service credit earned in the last ten years are considered active members of the plan.

SCHEDULE OF RETIREES AND BENEFICIARIES at June 30

Div/Plan	Year	Number Added	Number Removed	Total Retirants & Beneficiaries	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
State General	1998	747	294	8,415	\$115,649,920	12.88%	\$13,743
	1999	681	198	8,898	129,510,162	11.98%	14,555
	2000	868	486	9,280	142,714,724	10.20%	15,379
	2001	664	253	9,691	157,439,620	10.32%	16,246
	2002	597	323	9,965	169,971,950	7.96%	17,057
	2003	729	308	10,386	186,081,438	9.48%	17,917
State Police/ Hazardous Duty	1998	45	5	501	\$10,200,302	13.66%	\$20,360
	1999	19	8	512	10,767,064	5.56%	21,029
	2000	44	-	556	11,952,426	11.01%	21,497
	2001	36	16	576	12,834,396	7.38%	22,282
	2002	43	9	610	13,959,650	8.77%	22,885
	2003	42	6	646	15,205,851	8.93%	23,538
Municipal General	1998	375	148	4,765	\$58,911,188	11.99%	\$12,363
	1999	439	148	5,056	67,032,879	13.79%	13,258
	2000	520	249	5,327	74,697,748	11.43%	14,022
	2001	438	150	5,615	82,241,093	10.10%	14,647
	2002	406	160	5,861	90,621,858	10.19%	15,462
	2003	470	180	6,151	100,245,897	10.62%	16,297
Municipal Police	1998	60	11	997	\$23,103,478	9.51%	\$23,173
	1999	95	12	1,080	26,002,015	12.55%	24,076
	2000	118	42	1,156	28,866,576	11.02%	24,971
	2001	122	17	1,261	32,652,121	13.11%	25,894
	2002	121	21	1,361	36,696,595	12.39%	26,963
	2003	133	28	1,466	41,322,216	12.61%	28,187
Municipal Fire	1998	52	12	762	\$18,263,130	10.25%	\$23,967
	1999	69	7	824	20,602,515	12.81%	25,003
	2000	82	44	862	22,264,126	8.07%	25,828
	2001	42	10	894	23,923,231	7.45%	26,760
	2002	50	17	927	25,793,500	7.82%	27,825
	2003	65	11	981	28,242,218	9.49%	28,789

SCHEDULE OF RETIREES AND BENEFICIARIES at June 30

Div/Plan	Year	Number Added	Number Removed	Total Retirants & Beneficiaries	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
Legislative	1998	5	1	74	\$211,646	6.56%	\$2,860
	1999	9	1	82	240,012	13.40%	2,927
	2000	4	2	84	254,384	5.99%	3,028
	2001	6	1	89	277,024	8.90%	3,113
	2002	5	1	93	295,881	6.81%	3,182
	2003	6	1	98	319,946	8.13%	3,265
Judicial	1998	3	2	74	\$2,891,539	5.29%	\$39,075
	1999	5	5	74	3,053,711	5.61%	41,266
	2000	6	2	78	3,427,474	12.24%	43,942
	2001	2	2	78	3,558,140	3.81%	45,617
	2002	3	2	79	3,687,587	3.64%	46,678
	2003	10	2	87	4,417,272	19.79%	50,773
Magistrate	1998	1	-	27	\$759,609	7.81%	\$28,134
	1999	8	-	35	1,079,080	42.06%	30,831
	2000	-	-	35	1,113,919	3.23%	31,826
	2001	1	-	36	1,149,365	3.18%	31,927
	2002	1	-	37	1,234,244	7.38%	33,358
	2003	9	-	46	1,594,404	29.18%	34,661
Volunteer	1998	19	-	130	\$155,600	17.17%	\$1,197
Firefighter	1999	27	-	157	188,000	20.82%	1,197
	2000	27	-	184	220,000	17.02%	1,196
	2001	16	-	200	235,192	6.91%	1,176
	2002	16	-	216	256,768	9.17%	1,189
	2003	18	-	234	277,960	8.25%	1,188

DIVISION/PLAN	Date	Aggregate Accrued Liabilities		
		Active Member Contributions (1)	Retirees & Beneficiaries (2)	Active Members (Employer Portion) (3)
State General	6/30/98	\$351,092,732	\$1,420,397,896	\$1,114,396,269
	6/30/99	375,802,477	1,601,679,038	1,167,841,617
	6/30/00	406,838,352	1,781,807,027	1,221,302,125
	6/30/01	437,155,361	2,084,302,740	1,310,078,031
	6/30/02	476,552,721	2,243,623,595	1,441,607,100
	6/30/03	512,272,905	2,448,673,878	1,502,411,000
State Police/Hazardous Duty	6/30/98	\$28,433,519	\$137,849,710	\$120,758,014
	6/30/99	31,198,438	145,142,802	138,635,100
	6/30/00	32,659,443	160,531,044	132,599,251
	6/30/01	35,046,826	182,225,515	141,456,984
	6/30/02	37,658,994	197,684,474	148,785,082
	6/30/03	40,444,420	213,324,522	198,112,321
Municipal General	6/30/98	\$392,610,907	\$746,574,363	\$610,464,727
	6/30/99	429,559,335	852,279,589	632,361,833
	6/30/00	470,696,205	950,795,636	681,289,470
	6/30/01	517,836,633	1,100,388,240	681,341,446
	6/30/02	566,969,660	1,211,873,457	706,093,035
	6/30/03	612,857,678	1,337,083,714	755,733,653
Municipal Police	6/30/98	\$122,277,680	\$264,576,888	\$196,265,405
	6/30/99	132,949,956	377,728,892	201,403,829
	6/30/00	145,031,446	418,751,588	208,145,591
	6/30/01	154,355,667	497,975,415	191,335,956
	6/30/02	164,455,165	559,859,958	176,175,068
	6/30/03	174,101,971	628,847,417	178,832,138
Municipal Fire	6/30/98	\$62,611,751	\$264,576,888	\$96,636,974
	6/30/99	67,969,431	298,159,951	95,390,581
	6/30/00	70,339,968	321,416,741	110,175,775
	6/30/01	77,923,592	362,623,800	102,528,688
	6/30/02	86,410,010	388,190,768	92,812,594
	6/30/03	93,862,473	421,561,947	97,825,447
Legislative	6/30/98	\$110,831	\$2,173,903	\$3,994,513
	6/30/99	94,763	2,452,309	3,903,075
	6/30/00	101,494	2,529,277	3,964,238
	6/30/01	102,842	2,955,000	3,814,158
	6/30/02	108,638	3,144,000	3,926,362
	6/30/03	124,517	3,312,823	4,219,838
Judicial	6/30/98	\$2,947,911	\$29,562,781	\$23,665,569
	6/30/99	3,226,872	32,460,600	22,501,767
	6/30/00	3,494,452	36,606,808	23,214,287
	6/30/01	3,911,336	40,366,909	26,325,844
	6/30/02	4,387,293	41,576,215	29,994,990
	6/30/03	4,108,598	50,680,275	31,162,723
Magistrate	6/30/98	\$952,207	\$8,513,562	\$10,922,512
	6/30/99	972,568	12,209,396	8,462,927
	6/30/00	1,177,625	12,776,549	9,783,610
	6/30/01	1,397,474	13,659,061	11,628,745
	6/30/02	1,613,881	14,056,788	13,288,758
	6/30/03	1,650,781	18,728,541	8,698,728
Volunteer Firefighter	6/30/98	N/A	\$1,647,540	\$13,249,505
	6/30/99	N/A	1,981,904	14,178,844
	6/30/00	N/A	2,300,937	15,002,213
	6/30/01	N/A	2,679,840	13,126,952
	6/30/02	N/A	2,777,192	13,350,402
	6/30/03	N/A	2,974,933	14,083,319

TEST

TOTAL (4)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets			
		(1)	(2)	(3)	(4)
\$2,885,886,897	\$2,378,303,414	100%	100%	54%	82%
3,145,323,132	2,798,466,633	100%	100%	70%	89%
3,409,947,504	3,227,314,750	100%	100%	85%	95%
3,831,536,132	3,548,110,976	100%	100%	78%	93%
4,161,783,416	3,727,073,225	100%	100%	70%	90%
4,463,357,783	3,796,352,279	100%	100%	54%	85%
\$287,041,243	\$379,772,520	100%	100%	100%	132%
314,976,340	450,626,548	100%	100%	100%	143%
325,789,738	523,105,280	100%	100%	100%	161%
358,729,325	578,649,166	100%	100%	100%	161%
384,128,550	613,483,181	100%	100%	100%	160%
451,881,263	631,739,543	100%	100%	100%	140%
\$1,749,649,997	\$1,677,906,201	100%	100%	88%	96%
1,914,200,757	1,996,556,855	100%	100%	100%	104%
2,102,781,311	2,327,759,530	100%	100%	100%	111%
2,299,566,319	2,583,878,504	100%	100%	100%	112%
2,484,936,152	2,743,565,146	100%	100%	100%	110%
2,705,675,045	2,824,747,052	100%	100%	100%	104%
\$583,119,973	\$690,283,619	100%	100%	100%	118%
712,082,677	819,924,713	100%	100%	100%	115%
771,928,625	954,928,130	100%	100%	100%	124%
843,667,038	1,056,049,368	100%	100%	100%	125%
900,490,191	1,116,959,306	100%	100%	100%	124%
981,781,526	1,145,661,536	100%	100%	100%	117%
\$423,825,613	\$361,209,770	100%	100%	35%	85%
461,519,963	427,720,478	100%	100%	65%	93%
501,932,484	489,240,300	100%	100%	88%	97%
543,076,080	536,131,819	100%	100%	93%	99%
567,413,372	562,362,823	100%	100%	95%	99%
613,249,867	572,580,393	100%	100%	58%	93%
\$6,279,247	\$3,465,809	100%	100%	30%	55%
6,450,147	4,191,524	100%	100%	42%	65%
6,595,009	4,932,308	100%	100%	58%	75%
6,872,000	5,390,000	100%	100%	61%	78%
7,179,000	5,791,000	100%	100%	65%	81%
7,657,178	5,826,618	100%	100%	57%	76%
\$56,176,261	\$41,974,146	100%	100%	40%	75%
58,189,239	47,776,452	100%	100%	54%	82%
63,315,547	54,726,003	100%	100%	63%	86%
70,604,089	59,522,634	100%	100%	58%	84%
75,958,498	61,686,378	100%	100%	52%	81%
85,951,596	65,223,266	100%	100%	33%	76%
\$20,388,281	\$19,988,167	100%	100%	96%	98%
21,644,891	23,368,704	100%	100%	100%	108%
23,737,784	27,097,375	100%	100%	100%	114%
26,685,280	30,258,095	100%	100%	100%	113%
28,959,427	32,039,588	100%	100%	100%	111%
29,078,050	29,629,462	100%	100%	100%	102%
\$14,897,045	\$16,247,858	N/A	100%	100%	109%
16,160,748	20,246,292	N/A	100%	100%	125%
17,303,150	24,641,415	N/A	100%	100%	142%
15,806,792	27,991,582	N/A	100%	100%	177%
16,127,594	29,784,088	N/A	100%	100%	185%
17,058,252	31,221,546	N/A	100%	100%	183%

ANALYSIS OF FINANCIAL EXPERIENCE

PERA FUND	Experience Gain (or Loss) for Year (in Thousands)					
	2003	2002	2001	2000	1999	1998
UAAL at Beginning of Year	\$(264,692)	\$(426,245)	\$(409,969)	\$57,807	\$512,964	\$998,366
Normal Cost for Year	282,233	262,248	247,027	235,860	237,771	215,829
Contributions (net of Refunds)	(337,298)	(322,530)	(306,535)	(282,813)	(270,179)	(255,576)
Interest Accrual	(23,378)	(36,512)	(35,486)	2,824	40,150	79,544
Expected UAAL before Non-Recurring Adjust	(343,135)	(523,039)	(504,963)	13,678	520,706	1,038,163
Effect of Assumption Changes*	-	-	249,464	-	-	-
Effect of New Employers, Benefit Changes & Plan Coverage Shifts	42,295	-	-	-	-	6,138
Non-Recurring Audit Adjustment	-	-	-	(2,599)	(2,597)	(2,801)
Expected UAAL after Audit Adjustment	(300,840)	(523,039)	(255,499)	11,079	518,109	1,041,500
Actual UAAL	244,865	(264,692)	(426,245)	(409,969)	57,807	512,964
Gain (Loss)	\$(545,705)	\$(258,347)	\$170,746	\$421,048	\$460,302	\$528,536

*Based on Experience Study completed in 2001

JUDICIAL FUND	Experience Gain (or Loss) for Year					
	2003	2002	2001	2000	1999	1998
UAAL at Beginning of Year	\$14,272,120	\$11,081,455	\$8,589,544	\$10,412,787	\$14,202,115	\$14,757,917
Normal Cost for Year	2,649,262	2,489,954	2,231,077	2,226,740	2,072,313	2,037,464
Contributions (net of Refunds)	(2,490,122)	(2,429,583)	(2,518,036)	(2,475,549)	(2,388,822)	(2,388,822)
Interest Accrual	1,148,135	888,931	685,985	838,673	1,145,570	1,196,462
Expected UAAL before Non-Recurring Adjust	15,579,395	12,030,757	8,988,570	11,002,651	15,031,176	15,603,021
Transfer of Judges from Magistrate Ret Fund	245,658					
Effect of Assumption Changes*	-	-	4,278,629	-	-	-
Expected UAAL after Adjustments	15,825,053	12,030,757	13,267,199	11,002,651	15,031,176	15,603,021
Actual UAAL	20,728,330	14,272,120	11,081,455	8,589,544	10,412,787	14,202,115
Gain (Loss)	\$(4,903,277)	\$(2,241,363)	\$2,185,744	\$2,413,107	\$4,618,389	\$1,400,906

*Based on Experience Study completed in 2001

ANALYSIS OF FINANCIAL EXPERIENCE

MAGISTRATE FUND	Experience Gain (or Loss) for Year					
	2003	2002	2001	2000	1999	1998
UAAL at Beginning of Year	\$(3,080,161)	\$(3,572,815)	\$(3,359,591)	\$(1,723,813)	\$400,114	\$1,757,773
Normal Cost for Year	1,267,815	1,144,211	1,039,336	967,734	922,616	954,067
Contributions (net of Refunds)	(1,347,811)	(1,339,240)	(1,477,130)	(1,120,748)	(1,235,793)	(1,235,793)
Interest Accrual	(249,613)	(293,626)	(286,279)	(144,026)	19,482	129,353
Expected UAAL before Non-Recurring Adjust	(3,409,770)	(4,061,470)	(4,083,664)	(2,020,853)	106,419	1,605,400
Transfer of Judges to Judicial Retire Fund	61,246					
Effect of Assumption Changes *	-	-	1,350,572	-	-	
Expected UAAL after Audit Adjustment	(3,348,524)	(4,061,470)	(2,733,092)	(2,020,853)	106,419	1,605,400
Actual UAAL	(551,412)	(3,080,161)	(3,572,815)	(3,359,591)	(1,723,813)	400,114
Gain (Loss)	\$(2,797,112)	\$(981,309)	\$839,723	\$1,338,738	\$1,830,232	\$1,205,286

*Based on Experience Study completed in 2001

VOLUNTEER FIREFIGHTER FUND	Experience Gain (or Loss) for Year					
	2003	2002	2001	2000	1999	1998
UAAL at Beginning of Year	\$(13,656,494)	\$(12,184,790)	*	*	*	*
Normal Cost for Year	1,819,655	1,813,230	*	*	*	*
Contributions (net of Refunds)	(750,000)	(500,000)	*	*	*	*
Interest Accrual	(1,049,733)	(922,254)	*	*	*	*
Expected UAAL before Non-Recurring Adjust	(13,636,572)	(11,793,814)	*	*	*	*
Effect of Assumption Changes	-	-	*	*	*	*
Expected UAAL after Audit Adjustment	(13,636,572)	(11,793,814)	*	*	*	*
Actual UAAL	(14,163,294)	(13,656,494)	*	*	*	*
Gain (Loss)	\$526,722	\$1,862,680	*	*	*	*

67 *Information not available for years prior to 2002

SUMMARY OF PERA PLAN PROVISIONS*

Membership Eligibility – The Public Employees Retirement System of New Mexico includes employees of the State of New Mexico and employees of affiliated public employers. Employees excluded from PERA membership include: seasonal employees; student employees; part-time employees who work less than 20 hours per week; independent contractors; and retirees of the Educational, Judicial, or Magistrate Retirement Systems. PERA retirees who return to work with an affiliated public employer after terminating all public employment for 90 days are required to make non-refundable member contributions. Elected officials are required to become members unless they submit a written application for exemption from membership. Retired elected officials who are collecting a pension from PERA when they take office may not exempt themselves from membership and they must make the required non-refundable member contributions under the applicable plan.

Vesting – Retirement benefits become vested upon the member's completion of five years of qualifying service with accumulated member contributions remaining on deposit with the Association.

Retirement Eligibility –	<u>Age</u>	<u>Years of Credited Service</u>
	Any	25 or more
	60+	20 or more
	61+	17 or more
	62+	14 or more
	63+	11 or more
	64+	8 or more
	65+	5 or more

The municipal police and fire coverage plans 3, 4 and 5 require any age with 20 or more years of credited service.

Service Benefit Formula – Final average salary (calculated with highest 36 consecutive months salary) multiplied by years of service multiplied by the applicable plan pension factor, up to the maximum allowable pension.

Cost of Living Adjustment – Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits – PERA death benefits depend on whether or not the death occurred in the line of duty:

Death in the Line-Of-Duty – A survivor pension is paid to the eligible spouse and children if the member has not designated a different survivor beneficiary under the "designated survivor pension beneficiary" provision. A spouse is eligible to receive a pension if married to the member at the time of death. The pension payable for life to an eligible beneficiary is the greater of: 1) the amount as calculated under the applicable coverage plan as though the deceased member had retired the day preceding death under form of payment B using the actual amount of service credit attributable to the deceased member at the time of death; or 2) 50% of final average salary. Each eligible child is allowed an equal share of either: 1) 50% of final average salary if an eligible surviving spouse is not paid a pension; or 2) 25% of final average salary if an eligible surviving spouse is paid a pension.

Death NOT in the Line-Of-Duty – Requires five years of credited service for eligibility. A survivor pension is paid to the eligible spouse or children if the member has not designated a different survivor beneficiary under the "designated survivor pension beneficiary" provision. A spouse is eligible to receive a pension if married to the member at the time of death. The pension payable for life to an eligible beneficiary is the greater of: 1) the amount as calculated under the applicable coverage plan as though the deceased member had retired the day preceding death with the 100% joint survivor option based on the deceased member's actual service credit; or 2) 30% of final average salary. If there is no surviving eligible beneficiary

or spouse, each eligible child is allowed an equal share of the greater of: 1) The amount as calculated under the applicable coverage plan as though the deceased member had retired the day preceding death with the 100% joint survivor option based on the deceased member's actual service credit; or 2) 30% of final average salary.

Refunds – A terminated member is eligible for a 100% refund of member contributions plus interest after being unemployed by an affiliated public employer for 30 days or more. There is a 30 to 45 day refund processing period after the completed application is received by PERA.

Purchase of Service Credit – A PERA member or current contributing member of ERA may purchase previously refunded service credit by paying a lump sum amount plus interest.

Contribution Rates – Applicable member contribution rates are dependent on the plan adopted by the affiliated public employer.

Interest – 5.25% on member contributions.

SUMMARY OF JUDICIAL PLAN PROVISIONS

Membership Eligibility – The Judicial Retirement Plan of New Mexico includes all justices of the Supreme Court and judges of district courts, the Court of Appeals and metropolitan courts.

Retirement Eligibility – A judge or justice may retire at: 1) Age 64 with five or more years of service; or 2) Age 60 with 15 or more years of service.

Service Benefit Formula – Final average salary (calculated using the last 12 months of salary received in office prior to retirement) multiplied by a minimum of 37.5% up to a maximum of 75% depending on years of service.

Early Retirement Pension – Applicable to judges or justices between the ages of 50 and 60 with 18 or more years of service. The pension is 70% of final average salary (received during the last year in office prior to retirement) plus 0.5% of final average salary multiplied by the number of complete years the age at retirement exceeds age 50.

Cost of Living Adjustment – Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits – The surviving beneficiary of an active or retired member would receive 75% of the member's vested pension until death. The pension is payable to the deceased member's minor and dependent children if there is no eligible surviving spouse or designated survivor beneficiary.

Refunds – A terminated member is eligible for a 100% refund of member contributions plus interest. There is a 30 to 45 day refund processing period after the completed application is received by PERA.

Purchase of Service Credit – A PERA member or current contributing member of ERA may purchase previously refunded service credit by paying a lump sum amount plus interest.

Contribution Rates – The contribution rate for judges and justices is 5% of salary, and the employer contributes 9% of salary, plus \$38 from each civil case docket fee paid in the district court.

Interest – 5.25% on member contributions.

SUMMARY OF MAGISTRATE PLAN PROVISIONS

Membership Eligibility – The Magistrate Retirement Plan of New Mexico includes all magistrates.

Retirement Eligibility – A member may retire at: 1) Age 64 with five or more years of service; 2) Age 60 with 15 or more years of service; or 3) Any age with 24 or more years of service.

Service Benefit Formula – Final average salary (calculated by using the last 12 months of salary received in office prior to retirement) multiplied by a minimum of 37.5% up to a maximum of 75% depending on years of service.

Cost of Living Adjustment – Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits – The surviving beneficiary of an active or retired member would receive 75% of the member's vested pension until death. The pension is payable to the deceased member's minor and dependent children if there is no eligible surviving spouse or beneficiary.

Refunds – A terminated member is eligible for a 100% refund of member contributions plus interest. There is a 30 to 45 day refund processing period after the completed application is received by PERA.

Purchase of Service Credit – A PERA member or current contributing member of ERA may purchase previously refunded service credit if employed by an affiliated public employer at the time of purchase by paying a lump sum amount plus interest.

Contribution Rates – The contribution rate of members is 5% of salary, and the employer contributes 9% of salary, plus \$25 from each civil case docket fee and \$10 from each civil jury fee paid in the magistrate or metropolitan court.

Interest – 5.25% on member contributions.

SUMMARY OF VOLUNTEER FIREFIGHTER PLAN PROVISIONS

Membership Eligibility – The Volunteer Firefighters Retirement Plan of New Mexico includes any active volunteer unsalaried firefighter whose first year of service credit was earned after the age of 15.

Retirement Eligibility – A member may retire with a full retirement annuity at age 55 with 25 or more years of service credit or with a reduced retirement annuity at age 55 with at least 10 but less than 25 years of service credit.

Service Credit – A year of service credit may be granted upon required certification for each year the member: 1) Attended 75% of all scheduled fire drills; 2) Attended 75% of all scheduled business meetings; and 3) Participated in at least 50% of all emergency response calls which the fire department held him or her responsible to attend.

Service Benefit Formula – The full retirement annuity is \$200 per month. The reduced retirement annuity is \$100 per month.

Cost of Living Adjustment – Retired volunteer firefighters are not eligible for a COLA.

Death Benefits – The surviving spouse of a deceased annuitant receives a pension equal to two-thirds of the retirement annuity being paid at the time of death. The annuity ceases upon the surviving spouse's marriage or death.

Contributions – Funding from the State’s Fire Protection Fund is transferred annually to the Volunteer Firefighter Retirement Fund. The amount transferred in FY 2003 was \$750,000.

SUMMARY OF LEGISLATIVE PLAN PROVISIONS

Membership Eligibility – Participation in the Legislative Retirement Plans of New Mexico is voluntary and includes state legislators and lieutenant governors.

Retirement Eligibility –Plan 1

<u>Age</u>	<u>Years of Credited Service</u>
Any	14 or more
60+	12 or more
63+	11 or more
64+	8 or more
65+	5 or more

Retirement Eligibility –Plan 2

<u>Age</u>	<u>Years of Credited Service</u>
Any	10 or more
60+	5 or more

Service Benefit Formula – Plan 1 - The annual pension is \$250 multiplied by the years of credited service if the member contributed \$100 for each year of service. The annual pension is \$500 multiplied by the years of credited service if the member contributed \$200 for each year of service.

Service Benefit Formula – Plan 2 – The annual pension is equal to 11% of the per diem rate in effect on December 31 of the calendar year in which the state legislative member retires multiplied by 64 and further multiplied by credited service.

Cost of Living Adjustment – Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits – Benefits are administered according to the Public Employees Retirement Act.

Contributions – Depending on the applicable plan provisions, member contributions are \$100, \$200 or \$500 for each year of credited service. An additional annual appropriation to the Legislative Retirement Fund is determined by the actuarial valuation.

Interest – 5.25% on member contributions.

*** IMPORTANT NOTICE:** This summary is intended to provide basic background about PERA plan provisions. As a result, the information contained herein is of a general nature and may not apply to all situations. Additionally, future changes to the N.M. State statutes or PERA rules that govern these provisions may make some of the information obsolete. In all situations the provisions of the Public Employees Retirement, the Judicial Retirement, the Magistrate Retirement, and the Volunteer Firefighters Retirement Acts, along with the rules of the Association, control and override any statement or information contained in this summary. This summary is not a contract. It is not intended to and cannot be considered to create any contractual obligation on the part of PERA.



**Public Employees
Retirement Association**
of New Mexico



STATISTICAL

SECTION

SCHEDULE OF REVENUES BY SOURCE

Div/Plan	Year	Member Contrib.	Employer Contrib.		Employer Contrib as a percent of Covered Payroll	Net Investment Income	Other Income	Total Additions
			Contrib.	Docket Fees/Appropriations				
PERA	1998	\$115,442,526	\$165,248,660	\$-	14.63%	\$993,791,111	\$1,773,069	\$1,276,255,366
	1999	121,824,801	174,324,519	-	14.57%	929,248,330	2,069,678	1,227,467,328
	2000	127,982,964	182,000,473	-	14.50%	834,762,076	2,599,213	1,147,344,726
	2001	137,596,564	196,544,110	-	15.01%	(166,424,502)	1,052,354	168,768,526
	2002	143,832,702	204,734,125	-	14.65%	(175,298,706)	157,259	173,425,380
	2003	149,813,944	213,712,566	-	14.71%	278,314,427	198,358	642,039,295
Judicial	1998	\$345,866	\$612,815	\$1,430,142	9.31%	\$8,423,063	\$18,482	\$10,830,368
	1999	323,107	582,103	1,464,123	8.84%	6,865,968	-	9,235,301
	2000	365,059	617,537	1,502,163	9.07%	6,099,713	-	8,584,472
	2001	359,386	646,499	1,512,564	9.09%	(1,206,890)	-	1,311,559
	2002	378,579	681,365	1,369,639	9.00%	(1,288,210)	-	1,141,373
	2003	372,344	670,204	1,447,573	9.07%	1,837,249	-	4,327,370
Magistrate	1998	\$164,205	\$295,577	\$776,012	9.03%	\$4,067,633	\$-	\$5,303,427
	1999	160,971	288,541	789,156	9.03%	3,255,547	-	4,494,215
	2000	181,283	315,523	623,942	9.08%	2,877,319	2,848	4,000,915
	2001	194,790	323,354	958,987	9.00%	(532,395)	-	944,736
	2002	193,464	347,788	797,989	9.01%	(610,933)	-	728,308
	2003	204,936	353,613	789,261	8.96%	1,020,305	-	2,368,115
Volunteer Firefighter	1998	\$-	\$-	\$1,000,000	N/A	\$3,455,180	\$-	\$4,455,180
	1999	-	-	1,000,000	N/A	2,950,023	-	3,950,023
	2000	-	-	1,250,000	N/A	2,659,693	-	3,909,693
	2001	-	-	1,000,000	N/A	(556,750)	-	443,250
	2002	-	-	500,000	N/A	(586,530)	-	(86,530)
	2003	-	-	750,000	N/A	1,013,993	-	1,763,993

SCHEDULE OF EXPENSES BY TYPE
FISCAL YEAR ENDED 6/30/03

Div/Plan	Year	Benefit Payments	Refunds	Administrative Expenses	TOTAL
PERA	1998	\$212,129,746	\$24,999,564	\$4,347,585	\$241,476,895
	1999	237,554,751	25,612,467	4,876,232	268,043,450
	2000	264,480,078	26,811,590	3,272,761	294,564,429
	2001	291,118,491	27,357,500	3,993,496	322,469,487
	2002	318,441,086	25,624,513	3,815,183	347,880,782
	2003	349,178,208	25,985,842	6,755,844	381,919,894
	Judicial	1998	\$2,794,381	\$ -	\$7,335
1999		2,945,389	-	7,931	2,953,320
2000		3,184,925	9,210	7,858	3,201,993
2001		3,427,332	413	8,367	3,436,112
2002		3,498,724	-	9,113	3,507,837
2003		4,029,986	-	12,012	4,041,998
Magistrate		1998	\$712,069	\$24,311	\$4,975
	1999	895,589	39,558	6,225	941,372
	2000	1,064,999	141	5,666	1,070,806
	2001	1,122,418	13,570	6,130	1,142,118
	2002	1,196,982	2,020	6,754	1,205,756
	2003	1,462,139	-	9,697	1,471,836
	Volunteer Firefighter	1998	\$146,668	N/A	\$ -
1999		172,400	N/A	-	172,400
2000		211,565	N/A	-	211,565
2001		232,552	N/A	-	232,552
2002		246,773	N/A	-	246,773
2003		271,034	N/A	-	271,034

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT OPTION

Benefit Option	1998	1999	2000	2001	2002	2003
Normal single life pension terminating on death	5,887	6,210	6,497	6,835	7,125	7,421
Normal two-life 100% survivor pension for retiree & survivor	5,402	5,847	6,288	6,667	7,016	7,433
Normal two-life 50% survivor pension for retiree & survivor	2,395	2,539	2,702	2,826	2,935	3,052
Normal single life with temporary child survivor pension	59	68	79	88	96	116
Disability single life pension terminating on death	374	346	295	292	210	200
Disability two-life 100% survivor pension for retiree & survivor	518	534	480	491	470	504
Disability two-life 50% survivor pension for retiree & survivor	98	102	93	88	87	98
Disability single life with temporary child survivor pension	15	15	14	14	13	14
Preretirement survivor pension	692	709	733	736	772	792
Judicial retirement	74	74	78	78	79	87
Magistrate retirement	27	35	35	36	37	46
Volunteer firefighter retirement	130	157	184	200	216	234
Legislative retirement	74	82	84	89	93	98
TOTAL	15,745	16,718	17,562	18,440	19,149	20,095

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS
FISCAL YEAR ENDED 6/30/03**

Div/Plan	Year		Years of Credited Service					
			4-10	10-15	15-20	20-25	25-30	30+
ALL PLANS	1998	Average Monthly Benefit	*	*	*	*	*	*
		Average Final Average Salary	*	*	*	*	*	*
		Number of Active Retired	*	*	*	*	*	*
	1999	Average Monthly Benefit	*	*	*	*	*	*
		Average Final Average Salary	*	*	*	*	*	*
		Number of Active Retired	*	*	*	*	*	*
	2000	Average Monthly Benefit	*	*	*	*	*	*
		Average Final Average Salary	*	*	*	*	*	*
		Number of Active Retired	*	*	*	*	*	*
2001	Average Monthly Benefit	*	*	*	*	*	*	
	Average Final Average Salary	*	*	*	*	*	*	
	Number of Active Retired	*	*	*	*	*	*	
2002	Average Monthly Benefit	*	*	*	*	*	*	
	Average Final Average Salary	*	*	*	*	*	*	
	Number of Active Retired	*	*	*	*	*	*	
2003	Average Monthly Benefit	*	*	*	*	*	*	
	Average Final Average Salary	*	*	*	*	*	*	
	Number of Active Retired	*	*	*	*	*	*	

*Information not available in breakdown of years of service. New retirement information system will start accumulating years of service information for retirees.

PARTICIPATING EMPLOYERS

As of June 30, 2003

Public Employees Retirement Fund:	
State Agencies	119
Municipalities	75
Counties	33
Special Districts	30
Housing Authorities	22
Hospitals	1
Judicial Retirement Fund	15
Magistrate Retirement Fund	18
Volunteer Firefighters Fund	373
TOTAL	686

State of New Mexico
Deferred Compensation Plan - Section 457
(numbers extracted from ING Aetna report to PERA Board)

Participants at June 30, 2003

Total Plan Participants	12,979
Currently Contributing	8,461
Not Contributing	3,130
Currently Receiving Payout	1,388

Asset Allocation by Asset Class

	Assets as of June 30, 2003	% of Total Assets
Domestic Equity Funds:		
Large Cap Funds	\$77,348,392	36.83%
Mid Cap Funds	2,707,471	1.29%
Small Cap Funds	1,285,693	0.61%
International Equity Funds	3,320,982	1.58%
Balanced Funds	5,165,036	2.46%
Fixed Income Funds	6,693,733	3.18%
Stable Value	<u>113,492,800</u>	<u>54.04%</u>
TOTAL	<u>\$210,014,107</u>	<u>100%</u>

**DEFERRED COMPENSATION PROGRAM
COMPARATIVE INVESTMENT RESULTS
FISCAL YEAR ENDED 6/30/03**

Manager	1-year 2003	3-year 2001-2003	5-year 1999-2003
Aggressive Growth Funds			
American Century Grown Fund	-2.58%	-19.13%	-3.37%
American Century Ultra Fund	-1.57%	-14.97%	-1.93%
Fidelity OTC	2.08%	-23.37%	-0.46%
Janus Fund	-3.06%	-20.89%	-3.01%
Growth Funds			
Dreyfus Third Century	-5.57%	-20.20%	-5.82%
Growth Fund of America	5.54%	-10.21%	7.10%
MFS Mass. Investors Growth	-1.42%	-18.38%	-2.50%
Small Cap Funds			
Dreyfus Emerging Leaders	-3.55%	-6.42%	4.46%
John Hancock Small Cap	-6.05%	-15.71%	4.93%
Large Cap Value Funds			
Dodge & Cox Stock Fund	0.42%	8.61%	7.95%
Fidelity Equity and Income	-2.19%	-1.11%	0.45%
Core Equity Funds			
Fidelity Contrafund	-0.22%	-6.52%	2.46%
Fidelity Growth & Income Fund	-2.04%	-7.95%	-0.83%
Fidelity Magellan Fund	-0.21%	-12.32%	-0.96%
Vanguard 500 Index	0.23%	-11.26%	-1.63%
Mid Cap Funds			
MAS Midcap Value Fund	0.00%	-5.36%	2.68%
T. Rowe Price Mid Cap Growth	3.88%	-2.20%	5.08%
International Funds			
American EuroPacific Growth Fund	-5.24%	-12.02%	1.22%
Fidelity Diversified Int'l	-0.87%	-5.58%	3.76%
Fixed-Income Funds			
Deutsche Cash Management Fund	1.36%	3.24%	4.10%
Dwight Stable Value Fund	5.27%	5.85%	N/A
Vanguard Total Bond Index Fund	9.34%	9.34%	7.09%
MFS High Income	17.40%	2.15%	1.74%
Balanced Funds			
Dodge and Cox	5.69%	10.28%	8.49%
Income Fund of America	5.82%	7.18%	4.78%
Stable Value Fund	5.27%	5.57%	5.65%