Louisiana State Employees' Retirement System

LASERS

2001 Summary Annual Report

Year Ended June 30, 2001

Mailing Address: P.O. Box 44213, Baton Rouge, LA 70804-4213
Street Address: 8401 United Plaza Blvd., Baton Rouge, LA 70809
Toll-Free: 1-800-256-3000; Local B.R. Area: 225-922-0600; Fax: 225-922-0614
Automated Information Line: 1-800-830-0337; 225-922-0005
Web Site: http://www.lasers.state.la.us

LASERS 2001 Summary Annual Report

Year Ended June 30, 2001

December, 2001

Dear Members:

As we prepared our financial reports for the fiscal year ended June 30, 2001, we believed we had seen one of the most challenging periods in our 55-year history due to the changes in the financial markets. Then, history was rewritten and financial market volatility (the relative ups and downs) was redefined on September 11, 2001. Through mid-December, we have seen some strengthening and recovery in the markets and remain confident in the U.S. financial systems and the resiliency of the U.S. financial markets.

By means of this letter and the attached report, we want to reassure you that LASERS maintains our ability to pay monthly benefit checks and explain how we safeguard your retirement and financial future. We consider these our primary duties as your trust fund. Additional detail and explanation of each topic discussed is contained in the following pages, and further sources for detailed information are provided.

Our cash-on-hand and monthly cash flow from operations allow us to effectively pay benefits for many months, even years, without being forced to sell off investment securities during adverse market conditions. Since our obligation to pay benefits stretches decades into the future, we are long-term investors.

Declining world industrial production along with reduced demand for information technology contributed to the deterioration of world financial markets making the last year a very difficult one for LASERS. Financial markets rise and fall; therefore, our best defense is to choose a well-diversified portfolio of investments and to manage these funds for long-term results. Louisiana State Employees' Retirement System's (LASERS) investment strategy allows us to ride out fluctuations in the stock market, enabling our investment managers to take advantage of long-term market trends. Investment guidelines, adopted by our Board of Trustees, are defined in LASERS' Statement of Investment Objectives. Our internal Investment Division and our independent Investment Consultant monitor investment performance regularly with monthly Board oversight.

Cost-of-Living Adjustments (COLAs), Deferred Retirement Option Plan (DROP) rates, and other benefits are not dependent on a single year's return. Rather, they are dependent on actuarial returns (computed by the System's Independent Actuary) that are derived from four years of weighted average investment performance. The end result is that the down years of financial markets are smoothed out by the up years. Our actuarial value of the investment yield was .37% for 2001, compared to the actuarially computed market investment value of negative 6.25%. LASERS' annualized actuarial investment yield over the last 5 years is 10.72%.

Our financial statements reflect current market conditions as of the last day of the fiscal year. For 2001, our net depreciation in fair value of investments was $597.1 million. Realized losses (from actual security sales) made up only $2.4 million of this, with $594.7 million resulting from the decrease in fair market value of assets held as of year-end. Operationally, our primary source of income is employer and employee contributions, followed by dividend and interest income on investments. Our expenditures are primarily for payment of benefits and refunds, and operating and investment expenses. These operational cash flows (primary sources of income less our primary expenditures) provided a net operating cash flow of $87.4 million. Combined with the market value loss above, our net plan assets decreased by $509.7 million to $6.1 billion at year-end.

To improve our overall performance, LASERS has embarked on a comprehensive long-term strategic plan for investments that seeks to enhance its position comparable to other retirement systems. A key component of the plan is the reduction of investment management fees and brokerage transaction costs while enhancing internal controls. This plan will likely lead to increased use of low-cost passive investment strategies that reduce volatility of actual returns with respect to anticipated rate of returns.

The information on membership shows that Louisiana's state employees follow the trend of the national population with increasing numbers of retirees and decreasing numbers of active state employees. This pattern emphasizes the importance of our funding ratio, which is now 74.2%.

The System Actuary determines the funding ratio and annual contributions rates. These valuations are based on projected system liability calculated using membership demographics such as age, salary projections, length of service projections, life expectancy, etc. It represents the percentage of assets currently in the trust fund to meet all future retirement liabilities assuming a specified rate of return on investments (8.25%). Because the State continues to make additional payments to reduced the unfunded liability through the monthly employer contribution rate, we remain on schedule to be fully funded by 2029 as mandated in 1987 by Constitutional Amendment Number 3.

In 1992, legislation created an Employee Experience Account to accumulate one-half of any return above the target return of 8.25%. Such accumulations are offset when returns do not meet the target rate. In 1999, additional legislation was added to provide a permanent mechanism and guidelines for COLAs. In 2001, new legislation provides for an additional 1% COLA when the actuarial return exceeds 8.25%, limits the COLA to the first $70,000 of a members benefit, and provides a Minimum Retirement Benefit to be funded by the Experience Account.

This Minimum Retirement Benefit was designed to increase benefits, mostly for those who had been retired the longest and who were receiving a relatively small benefit. The resulting monthly benefit increased, started effective September 1, 2001, for the 1,485 retirees aided by this legislation. The Experience Account also provided COLAs in 1996 and in each of the last three years. The historical funding and uses of this account is summarized in this report. At June 30, 2001, the Experience Account had a balance of $184.0 million.

The enclosed 2001 Summary Annual Report (Popular Report) for LASERS also includes information on supplemental DROP Accounts and on growth in benefit payments.

Our Summary Annual Report for 2000 received a prestigious national award (our second) for providing understandable answers to questions commonly asked by our members and for conforming with the highest standards for preparation of state and local government popular reports. The standards are further defined in the report.

We trust you will find the information in our 2001 Summary Annual Report, as well as the additional sources of information provided, to be both interesting and informative. We look forward to being of continued service to you, our members.

Sincerely,

Glenda Chambers

Glenda Chambers
Executive Director

Robert Borden, CFA
Chief Investment Officer

Wade H. Adams

Wade H. Adams, CPA
Chief Fiscal Officer

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

For the fiscal year ending June 30, 2000

President

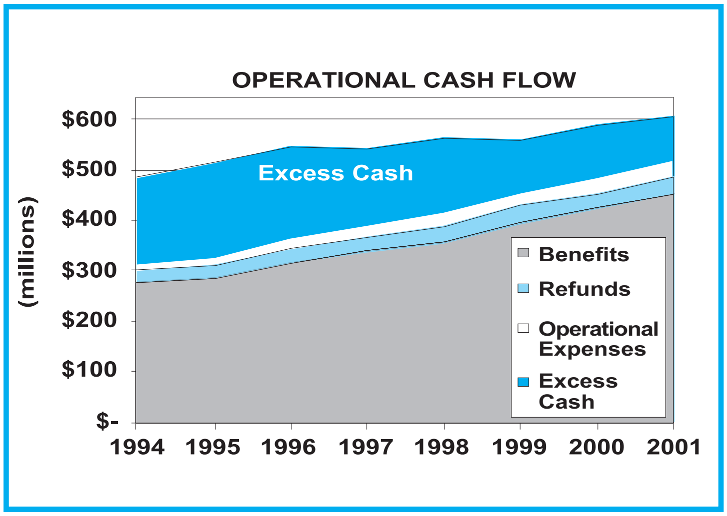
Executive Director

OPERATING CASH FLOWS EXCEED PAYMENTS DUE

During the fiscal year, our normal operations (before investment gains and losses) provided a net $87.4 million in excess cash flow. At June 30, LASERS had $76.1 million in cash and cash equivalents on hand. LASERS uses the monthly receipt of excess operating cash flows, as well as the cash balance, as the immediate source for paying monthly benefits checks.

As detailed on our 2001 financial statements, operationally the primary sources of our $609.0 million revenue are contributions (64%) and dividends and interest income on investments (34%). This revenue was used for payment of benefits and DROP withdrawals (75%), refunds (6%), and operating and investment expenses (5%). The excess operating cash flow (14%) is added to our fund balance and invested.

As shown in the graph below, normal operating cash flows are relatively stable, so LASERS' ability to pay monthly benefit checks is not in jeopardy. Over the long term, operating cash flows change based on our funding level, our active member to retiree ratio, and our average benefits. In the short term, they are affected by contribution rates and are subject to abnormal levels of refunds or DROP withdrawals. They can be supplemented or offset by realized gains and losses (from actual sales) of investment securities. Liquidation of securities holdings would be our next source of funding current benefits, should it ever become necessary.



2001 Operating Cash Flows and Financial Statement Results

Operating Revenue	$ 609.0
Net Disbursements	521.6
Net Operating Cash Flow	$ 87.4
Less: Net Investment Activity (Decrease)	(597.1)
Net Decrease in Plan Assets Per Financial Statements	$ (509.7)

The table above shows the additional impact of the volatility of investment activity to our financial statements. Our financial statements show the net investment activity decreased $597.1 million for 2001. Of this amount, $594.7 was a market value decrease on investments held at year-end and net realized losses from actual sales of $2.4 million. While financial markets do rise and fall, LASERS' obligation to pay benefits stretches decades into the future, as previously discussed. Therefore, we are long-term investors with investment policies and diversification designed to take advantage of long-term investment trends.

For 2001, LASERS also operated well below our budgeted amounts for administrative expenses, spending only $7.6 of the budgeted $10.2 million. Further details are available in resources referenced at the end of this report.

MEMBERSHIP COMPOSITION

Participant Group	June 30, 2001	June 30, 1996
Active and Vested Inactive Members[1]	65,819	70,682
DROP Participants	2,365	2,320
Retirees/Survivors/ Disability Recipients[2]	30,992	27,028
Inactive-Not Refunded[3]	28,233	21,768
Total Participants	127,399	121,798

NOTES:

1 Types of active employees include regular state employees, Corrections employees, Judges, Wildlife Agents, Legislators, and Employees working after a deferred retirement. There are 1,300 vested inactive members who are no longer employed and contributing to the plan but are eligible to receive retirement benefits when they meet all eligibility requirements, including age. In 1996, there were 1,002 vested inactive members.

2 Includes 1,184 receiving disability checks and 5,202 receiving survivor benefits.

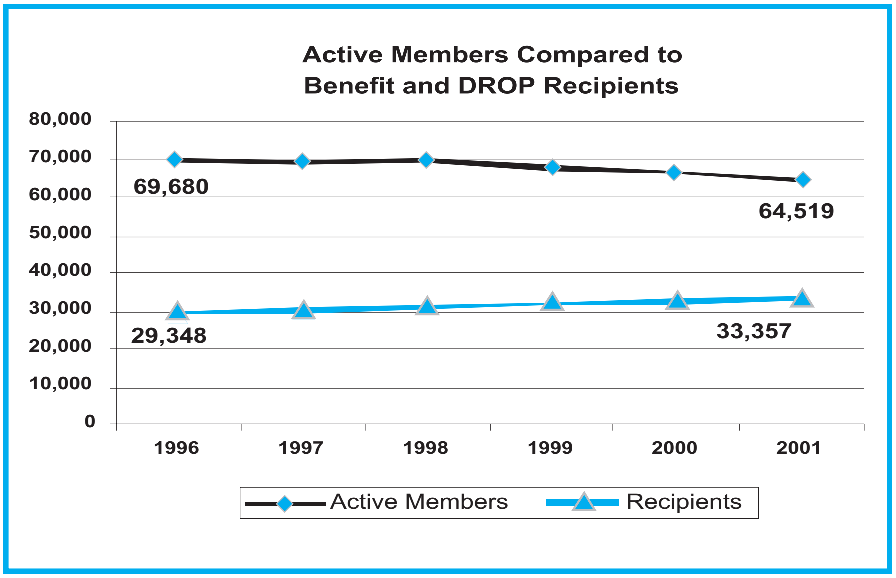
3 Represents individuals who no longer work in state service, who have not met current eligibility requirements to receive any future regular benefits, and who have not withdrawn their contributions. Although they represent 22% of participants, the total of their employee contributions make up only 1.5% of total employee contributions in the system.

Membership in LASERS is mandatory for all state employees whose employing agencies are LASERS participants, except those individuals specifically exempted by state law. Louisiana does have separate statewide pension trusts for teachers, selected groups of school employees and state police. The chart below shows the number of each type of participant in LASERS.

The chart below illustrates that the number of benefit recipients is rising yearly, but active membership is dropping. From 1996 to 2001, recipients of benefit checks increased 4,009 but there were 5,161 fewer active members. While this follows national population aging trends, it does place additional emphasis on trust funding ratios.

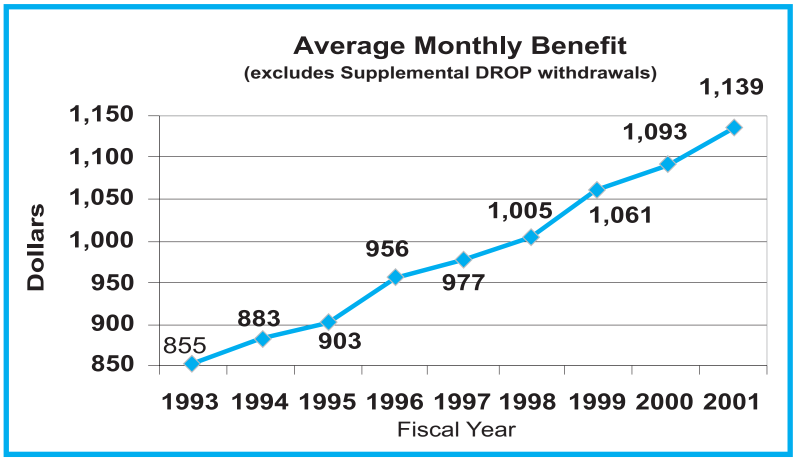
Of the 64,519 active members, 62% are over the age of 40, with 1,692 age 60 years or older. The peak group, age 40 to 49 years, has 22,993 active members, or approximately 36% of the total.

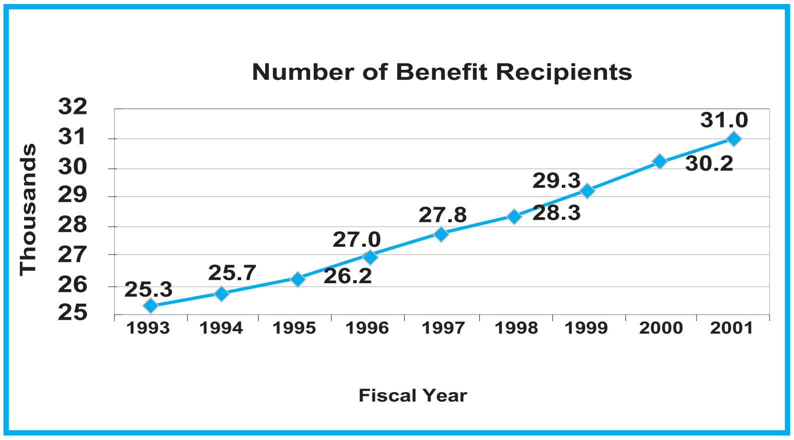
Conversely, 38% of all active members have less than 5 years of service and 18% now potentially meet various retirement eligibility criteria with 20 or more years of service.



RECIPIENTS AND THEIR BENEFITS

In 2001, the average monthly benefit check for regular retirees, survivors, and disability recipients was $1,139. While 2001 average benefits increased $46 from the prior year-end, the average monthly check has increased by $284 since 1993. The 1996 and 1998 COLAs provided the largest annual increases shown on the graph. Since 1998, use of the Experience Account to grant COLAs each year has created a steadier rise in the average check amount.

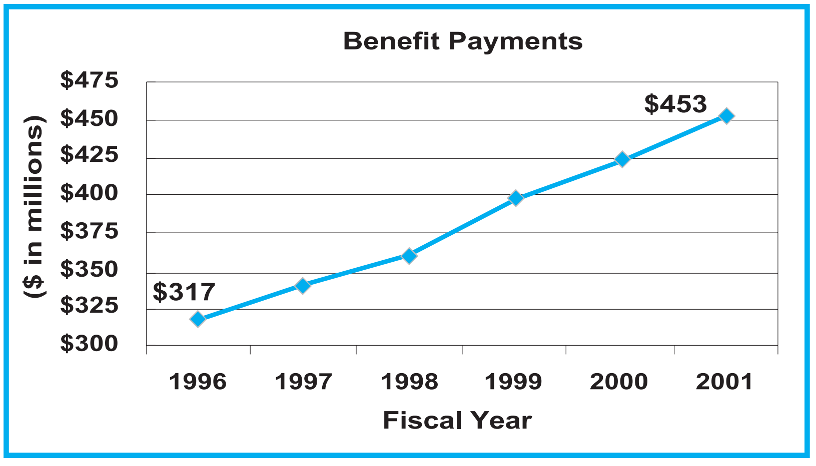




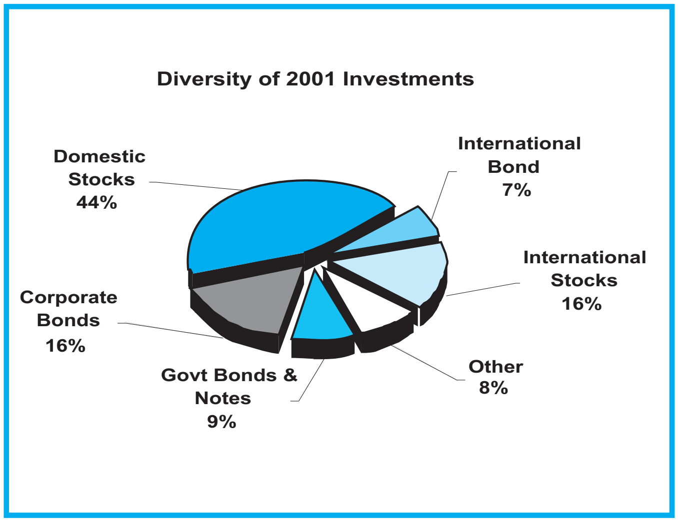
At year ending June 30, 2001, there were 30,992 recipients of benefit checks.

As shown in the graph to the left, the number of benefit recipients has risen steadily since 1993 and this trend is expected to continue into the future as over 11,400 members now potentially meet various retirement eligibility criteria with 20 or more years of service.

Total benefit payments continue to increase as the numbers of benefit recipients continue to increase. However, as shown in the first graph on this page, the average benefit payments has risen at a faster pace (42.9% since 1996 than the number of recipients (14.8%). Major factors of this increase in total benefits include higher average salaries used to compute retirement benefits for the more recent retirees (inflation) and COLAs that were granted more frequently in recent years.



INVESTMENT STRATEGY



Falling financial markets made this a difficult year for LASERS and most investors. Financial markets do rise and fall; therefore, the best plan for long-term pension funds is to choose a well-diversified portfolio of investments.

As illustrated by our asset allocation graph above, LASERS is committed to maintaining a broadly diversified portfolio and achieving its target rate of return with the least possible amount of risk. LASERS' investment strategy allows us to ride out most fluctuations in the stock market, enabling our investment managers to take advantage of long-term investment trends.

To provide additional security of your investments, LASERS has established guidelines and restrictions. For example, we cannot invest more than 65% of total assets in the stock markets and cannot hold more than 5% of any one company's outstanding stock. LASERS' staff, consultants, and the Board of Trustees regularly monitor investment performance and guideline compliance.

LASERS added two new internally managed indexed funds designed to lower investment management fees and reduce the variance to related market returns. In addition, we reviewed our long-term strategic plans to make sure we are well positioned to meet our long-term goals and objectives.

COLAS PROVIDED BY EXPERIENCE ACCOUNT

Prior to the 1999 Act, the Experience Account had also been used to provide a COLA in 1996 and in 1998. Those COLAs were based on other criteria rather than a percentage of gross benefits.

The 2% COLA which was approved in June of 2000 had an actuarial cost (over the retiree's lifetime) of $60,611,938, with payments beginning July 2001. The 1st year payment amount for 2001 shown in the chart to the right was estimated based on fiscal year end June 2000 actuarial results that were certified in February 2001 by the Public Retirement Systems' Actuarial Committee.

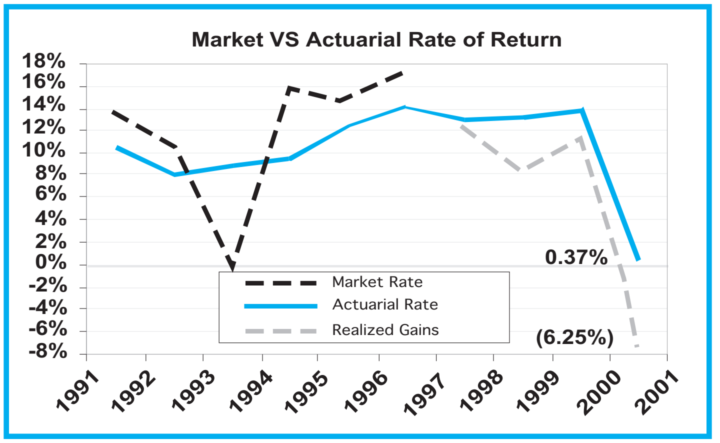
From 1980 until the establishment of the Experience Account in 1992, the Board and Legislature approved COLAs on a case-by-case basis. Before the Experience Account was established, such COLAs were given in 1980, 1981, 1984, 1986, and 1991.

YEAR	1st Year Payments (in millions)	Actuarial Cost (in millions)	Eligible Recipients
1996	6.8	58.4	24,238
1998	13.0	90.0	22,494
1999	5.1	42.9	21,500
2000	6.8	57.9	21,969
2001	7.4*	60.6	28,007

MARKET VS. ACTUARIAL RATE OF RETURN

LASERS has surpassed its 8.25% target rate of return on actuarial assets in eight of the past ten years. LASERS' independent actuary uses a 4-year weighted average calculation when reporting rates of return on actuarial assets, which is used in calculating employer contributions, interest on DROP Accounts and target return compliance.

This actuarial smoothing technique is designed to recognize the long-term nature of a pension trust fund and to reduce the volatility of one-year market value rates of return, regardless of whether the market rates are at a gain or a loss. It is illustrated by the gap between the lines of the graph. Effective for 1997 the actuary changed the calculation of market return rates from cost to fair market value of assets.



LASERS' actuarial rate of return was 0.37% during 2000-2001. Due to adverse market conditions, the one-year actuarial market value rate of return was negative 6.25% for 2001. As previously discussed, LASERS should be viewed as a long-term investor. Despite the negative performance this year, the 5-year average actuarial rate of return is 10.72%, exceeding the 8.25% target rate.

FUNDING

There are currently insufficient Trust funds to pay 100% of total estimated future retirement payments, creating an "unfunded accrued liability" (UAL). The UAL resulted from periodic under-funding of employer contributions prior to the passage of Constitutional Amendment Number 3 in 1987 that mandates the State of Louisiana to fund current costs each year and eliminate the UAL by 2029.

For years in which the actuarial rate of return exceeds the target rate of return (8.25%), one-half of the amount over the target rate of return goes to reduce the UAL while the other half is used to fund COLAs for LASERS' retirees. For years in which the actuarial rate of return falls below the target rate of return, as it did during fiscal year 2001, the UAL is increased. To offset any changes to the UAL resulting from plan demographics, legislation or investment results, the actuary recalculates required monthly contributions at each plan year-end. At June 30, 2001, LASERS' funding level was 74.2%, and LASERS remains on target to be fully funded by 2029.

Year Beginning	Employee Rate	Employer Rate	Normal Cost	UAL Portion
2000	7.5%	12.3%	6.3%	6.0%
2001	7.5%	13.0%	6.3%	6.7%
Projected 2002	7.5%	14.1%	6.5%	7.6%

While the employee contribution rate can change under abnormal circumstances, it has been stable for the last 10 years at 7.5%. The employer matching contribution rate is actuarially computed in two parts - normal costs (payment for service credit and potential future benefits earned in the current year) and the UAL portion. Since the passage of the constitutional amendment, the employer matching contributions has had a low of 10.70% in 1990 and a high of 14.66% in 1991.

The table above shows the contribution rates during the past two years and the projected rates for 2002.

EXPERIENCE ACCOUNT

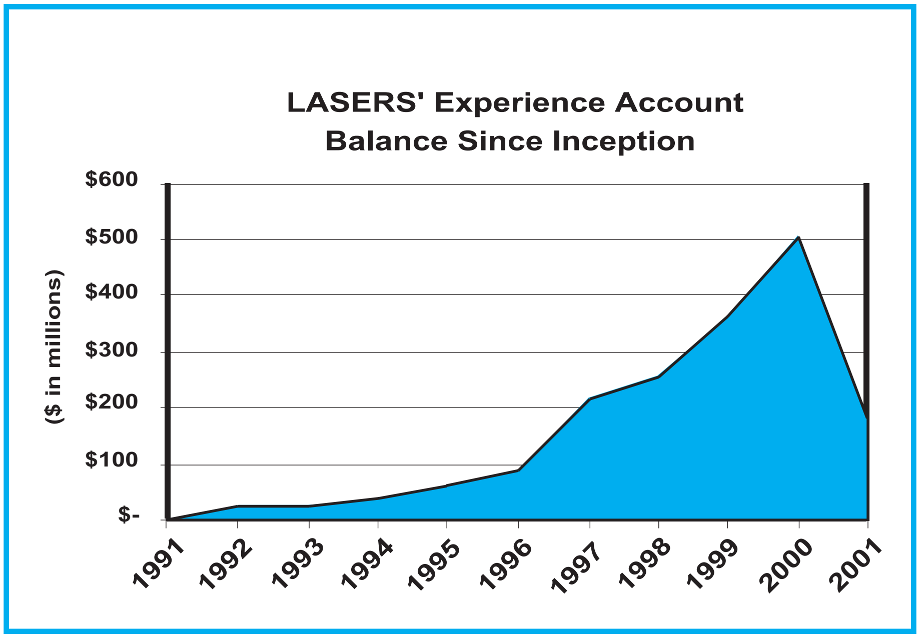
EXPERIENCE ACCOUNT SUMMARY: 1992 – 2001

Activity Type	Additions	Deletions
Above Inv. Target Rate (8 yrs)	$620,623,559	
Below Inv. Target Rate (2 yrs)		$239,099,169
Interest Earnings	140,874,819	
Pay Cola/ Benefit Changes		338,376,052
Subtotals	$761,498,378	$577,475,221
Ending Balance 6/30/01		$184,023,157

In 1992, the Legislature enacted laws to grant COLAs to eligible retirees, survivors, and beneficiaries. A separate actuarial fund is used to accumulate 50% of the excess investment gain or loss relative to the actuarial valuation rate of 8.25%. This fund is called the Experience Account.

Since the creation of the Experience Account, the actuarial rate of return has been in excess of the 8.25% actuarial valuation rate 8 years with only 2 years having returns below the actuarial valuation rate. To the left is a chart illustrating a summary of the activity of the Experience Account since 1992.

In 1999, additional legislation provided specific guidelines of how the Experience Account shall be used to grant COLAs to eligible retirees, survivors, and beneficiaries. The approved COLA amount is based on the consumer price index for the previous year. A COLA can only be granted when the balance in the Experience Account is sufficient to fully fund such COLA on an actuarial basis (for the remaining life expectancy of all eligible retirees). Each year, the Actuarial cost of that year's COLA is deducted from the Experience Account.



Act 900 granted a minimum benefits increase on an Ad-hoc (for the specific situation at hand) basis that reduced the Experience Account another $28,450,974. After the 2001 COLA and the minimum benefit were provided, and the investment loss was deducted, the Experience Account, as of June 30, 2001, was $184,023,157. The graph above shows the history of the Experience Account balance since its inception.

DEFERRED RETIREMENT OPTION PLAN AND INITIAL BENEFIT OPTION

The Deferred Retirement Option Plan (DROP) was authorized by Act 14 of the 1990 Regular Session of the Legislature and became effective January 1, 1991. When a member enters DROP, his status changes from active member to retiree even though he continues to work at his regular job and draws his regular salary for a period of up to three years. During the DROP participation period, the retiree's benefits are paid into a special account. The election is irrevocable once participation begins. Upon completion of DROP participation, the member must choose among available alternatives for the distribution of benefits that have accumulated in the DROP account. Once the participation period ends, a return of one-half percent less than the system's actuarial rate of return on its portfolio (compounded monthly) is applied to the balance of the account annually.

Effective January 1, 1996, members eligible to retire and who do not choose to participate in DROP may elect to receive at the time of retirement an Initial Benefit Option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amount may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account. The chart at the top right denotes the life-to-date activity of DROP and IBO accounts since their inception in 1991 and 1996 respectively:

	(in millions)
Net Deposits	$ 402.8
Interest Earned	72.5
Disbursements to Members	(130.9)
Balance of DROP/IBO Accounts	$ 344.4

INTERESTING FACTS CONCERNING DROP:

- Since inception, 9,669 retirees have established a DROP/IBO Account. Of these, 6,959 have remaining account balances. At June 30, 2001, the average Account balance was $49,496.
- Funds in the DROP account cannot be withdrawn by the participant until employment ends.
- Interest is not earned during active DROP participation period
- DROP Account funds, including interest, will be subject to Federal Income Tax when funds withdrawn.
- DROP Participants are not eligible for Cost of Living Adjustments granted to retirees during the participation period or during period of continued employment after DROP participation ends.

STATEMENT OF PLAN NET ASSETS

	2001	2000
ASSETS		
Cash and Cash Equivalents (at fair value)	$76,140,068	$ 38,471,817
Receivables:		
Employer Contributions	27,747,495	25,249,821
Member Contributions	16,366,170	15,733,495
Interest and Dividends	36,006,907	36,719,410
Investment Proceeds	239,072,627	17,278,810
Open Investment Contracts	12,871,982	3,255,124
Other	1,097,954	961,768
Total Receivables	333,163,135	99,198,428
Investments (at fair value):		
Short-term Investments - Domestic	110,091,497	77,006,786
U. S. Government Obligations	537,366,044	766,206,577
Bonds/Fixed Income - Domestic	929,814,504	849,445,497
Bonds/Fixed Income - International	372,990,517	377,791,083
Equity Securities - Domestic	2,604,007,258	2,918,192,099
Equity Securities - International	914,885,208	1,134,708,048
Real Estate Investments	37,808,564	49,125,215
Alternative Investments	342,359,781	319,409,320
Total Investments	5,849,323,373	6,491,884,625
Property and Equipment:		
Land	889,816	889,816
Building and Improvements	4,892,729	4,878,757
Equipment	7,960,736	7,571,061
	13,743,281	13,339,634
Accumulated Depreciation	(7,806,325)	(7,642,827)
Total Property and Equipment	5,936,956	5,696,807
TOTAL ASSETS	6,264,563,532	6,635,251,677
LIABILITIES		
Investment Commitments Payable	160,693,460	32,287,965
Accounts Payable - Open Investment Contracts	12,871,983	3,255,124
Accounts Payable and Other Accrued Liabilities	7,344,012	6,394,448
TOTAL LIABILITIES	180,909,455	41,937,537
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$6,083,654,077	$ 6,593,314,140

STATEMENT OF CHANGE IN PLAN NET ASSETS

	2001	2000
ADDITION		
Contributions:		
Employer Contributions	$245,213,071	$ 236,104,720
Member Contributions	144,603,488	147,090,812
Total Contributions	389,816,559	383,195,532
Investment Income:		
Net Appreciation in Fair Value of Investments	(597,053,396)	484,190,939
Interest and Dividends	204,083,221	198,044,924
Other Investment Income	2,964,590	1,615,725
	(390,005,585)	683,851,588
Less Investment Expense	18,916,270	19,295,553
Net Investment Income	(408,921,855)	664,556,035
Other Income	12,102,647	8,658,621
Total Additions/(Deductions)	(7,002,649)	1,056,410,188
DEDUCTION		
Retirement Benefits	452,637,691	424,142,312
Refunds of Member Contributions	36,147,087	32,300,258
Administrative Expenses	7,644,230	7,004,880
Other	6,228,406	3,237,333
Total Deductions	502,657,414	466,684,783
NET INCREASE	(509,660,063)	589,725,405
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	6,593,314,140	6,003,588,735
End of Year	$6,083,654,077	$ 6,593,314,140

FOR YOUR INFORMATION

LASERS, a defined benefit pension plan under Section 401(a) of the Internal Revenue Code, was established by act of the Legislature in 1946 with the first members joining the system July 1, 1947.
Basic eligibility requirements:

- 30 years service at any age
- 25 years service at age 55
- 10 years service at age 60
- 20 years service, any age, with an actuarially reduced benefit

There are different contribution and retirement eligibility requirements for special groups of employees. These are further defined on our website and in our Member Handbook.

The Popular Annual Financial Report (PAFR) is designed to present information regarding the financial condition of LASERS in a user-friendly format. Our PAFR, entitled "Summary Annual Report," condenses and simplifies our 2001 Comprehensive Annual Financial Report (CAFR) and is intended to be a supplement to the CAFR, not a replacement. The CAFR conforms to generally accepted accounting principles (GAAP). While the information for this report was taken from our CAFR, it is presented in a non-GAAP format for ease of understanding.

We have submitted our 2001 CAFR for review under the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting. A complete copy of the CAFR can be reviewed at any parish library, or at the State Library in Baton Rouge, or may be purchased at our cost by contacting our office.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Louisiana State Employees Retirement System for its Popular Annual Financial Report for the fiscal year ended June 30, 2000. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports

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

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

LASERS' Web Site, http://www.lasers.state.la.us, contains additional details on each topic presented. It also contains more detailed information selected from our CAFR and our complete annual independent auditor's report. Check with your public library for access to the Internet.

Ten thousand copies of this document were published with non-public trust funds at a total cost of $3,310.18 or about .3310 cents per copy. This document was published by the Louisiana State Employees' Retirement System (LASERS) to disseminate plan benefit information to members and retirees.

LASERS