

2016 Update on Financial Soundness of the Public Employees' Retirement System and Status of the Mississippi Highway Safety Patrol Retirement System Plan

Executive Summary

Introduction

The PEER Committee, under its authority found in MISS. CODE ANN. § 5-3-51 et seq. (1972), carried out the statutorily required review of the financial condition of the Public Employees' Retirement System (PERS). Actuarial reviews authorized by this section are discretionary.

The 2016 report includes an update on the financial performance of the system and projected funding levels.

The report also includes certain information concerning the Mississippi Highway Safety Patrol Retirement System.

Background

Overview of the Public Employees' Retirement System

Mississippi's retirement system currently consists of six plans, or programs:

- The Public Employees' Retirement System of Mississippi (PERS);
- The Mississippi Highway Safety Patrol Retirement System (MHSPRS);
- The Mississippi Government Employees' Deferred Compensation Plan and Trust (MDC);
- Municipal Retirement Systems (MRS);
- The Supplemental Legislative Retirement Plan (SLRP); and
- The Optional Retirement Plan (ORP).

All assets, proceeds, and income of the system as defined here are held in trust for the exclusive purpose of providing benefit payments and refunds and providing for the system's administrative expenses. Assets of the various plans, excluding the MDC and ORP are invested collectively at the direction of the PERS Board of Trustees and their advisors. Assets of each member of the MDC and ORP are invested at the direction of the member.

Overview of the Public Employees' Retirement System

All of the plans described in the preceding section are under the administration of the 10-member PERS Board of Trustees created in MISS. CODE ANN. § 25-11-15 (1972). Board members administer the laws governing the various benefit plans, adopt rules and regulations necessary to implement policies enacted by the Legislature, address federal issues, and work with both state and federal bodies.

A primary responsibility of the PERS Board is to ensure adequate funding of the plans it administers. One means of accomplishing this task is by setting contribution rates for employers participating in the plans. For assistance setting these rates, the PERS Board hears actuarial reports annually and works with its actuarial consultants to create comprehensive models that are used to project the financial position of the various plans. These models include such factors as investment return assumptions, wage inflation assumptions, retirement tables, and retiree mortality tables.

Board members have a fiduciary duty to manage and invest the funds of the various plans for the exclusive benefit of the members and beneficiaries in the manner provided by law. MISS. CODE ANN. § 25-11-121 provides guidelines and limitations on the types of assets the PERS Board may use as investments for the PERS plan.

Update on Financial Soundness of PERS

Actuarial Soundness and Sustainability

Actuarial soundness and sustainability are two of the major components of financial soundness. The focus of these two concepts should be to create a system and actuarial assumption models that are able to be upheld and defended in light of all relevant environmental conditions, including contractual obligations involved and the potential economic consequences of abrogating those obligations.

Update: PERS Actuarial Soundness

Over the past five- and 10-year periods, the PERS actual average annual payroll increase has fallen below the actuarial model's projected 3.75% rate of salary increase. Although the PERS Board adopted changes based on its most recent experience studies (as of June 30, 2012, and June 30, 2014), which help PERS actuarial assumptions align more closely with actual experience, continued analysis of variation between actual and assumed is warranted.

From FY 2006 through FY 2016, the ratio of active members to retired members has decreased by approximately one-third, driven by the increasing number of retirees and the decreasing number of active members. A lower number of active members

to retired members results in funding future pension obligations over the payroll of fewer active members.

Update: PERS Sustainability

The current PERS funding policy is designed to address the past volatility of employer contribution rates within the system by setting the employer contribution rate percentage to a fixed rate of 15.75% of annual compensation. The policy also targets an 80% funding level by 2042 while still reducing the plan's unfunded actuarial accrued liability. In addition to reducing the unfunded accrued liability, the funding policy should result in more long-term sustainability within the system.

Risk Management and Investment Management

Risk management and investment management should provide a long-term framework for the system that will manage the plan's long-term risk environment in ways that allow it a reasonable opportunity to collect or earn sufficient assets to meet its benefit obligations.

Update: PERS Risk Management

As of June 30, 2016, the PERS funding ratio was 60%, a decrease from 60.4% as of June 30, 2015. This reduction in the funding ratio is due to the variation of actual experience from model assumptions in investment returns, service retirements, and separations. Actuarial projections provided by Cavanaugh Macdonald show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will not be achieved.

Update: PERS Investment Management

For fiscal year 2016 the PERS plan's combined investment portfolio experienced a return of 1.16%, and the market value of the system's assets was approximately \$24.5 billion.

For fiscal year 2016 the PERS Board of Trustees adopted changes to the asset allocation model, reducing the target for U.S. investment by 3% and increasing the target for global investment by 3%. These changes bring the PERS model more in line with the portfolio benchmark, the All Country World Index.

Funding Level of the Mississippi Highway Safety Patrol Retirement System Plan

The Mississippi Highway Safety Patrol Retirement System is a defined benefit retirement plan created for the benefit of Highway Safety Patrol sworn officers. The MHSPRS Administrative Board makes rules and regulations necessary for the efficient, orderly, and successful operation of the plan, with the approval of the Attorney General. The PERS Board acts as custodian for the MHSPRS assets and the PERS staff provides administrative support for the plan.

As of June 30, 2016, the MHSPRS plan's funding ratio was 65.8%, a slight decrease from 66.2% as of June 30, 2015. According to projections as of June 30, 2016, the MHSPRS plan's funding level was projected to be 51.6% in 2042, putting it below the 60% threshold set in the current funding policy.

In light of the current funding status of the plan, there are many options available that can be considered to address the future of the plan. Regardless of which options the MHSPRS Board and the Legislature consider for addressing the current funding status of the plan, it is clear that the funding status of the plan will need to be addressed in the near future.

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