

Action Brief:

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

January 23, 2017 (Report #607)

Background:

The majority of Mississippi public employees and/or their beneficiaries receive their retirement benefits from the Mississippi Public Employees' Retirement System (PERS). State law requires PEER to report annually to the Legislature on the financial soundness of PERS.

In addition to the PERS plan, Mississippi's public retirement system consists of five other retirement plans (or programs) that provide retirement allowances and other benefits to other segments of Mississippi public employees.

"Financial soundness" should be defined not as a point-in-time comparison of assets and liabilities, but as a multifaceted construct involving an understanding of the role of actuarial soundness in judging financial health, a broadly defined view of affordability that encompasses sustainability in light of all relevant environmental conditions, and an understanding of the role of risk and investment management in the long-term financial health of the system.

This report provides a concise overview of where the Public Employees' Retirement System plan currently stands financially and reviews the status of the Mississippi Highway Safety Patrol Retirement System plan.

Mississippi's public retirement system consists of six plans, or programs, administered by the PERS Board of Trustees. The PERS Board is responsible for ensuring adequate funding of the plans it administers and has a fiduciary duty to manage and invest the funds of the various plans for the exclusive benefit of the members and their beneficiaries.

Mississippi's retirement system consists of six plans, or programs, administered by the 10-member PERS Board of Trustees.

- 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);
- The Optional Retirement Plan (ORP).

Each plan has its own assets, which are held in trust for the exclusive benefit of the members and their beneficiaries, and its own liabilities. Assets of the various plans, excluding MDC and ORP, are invested collectively at the discretion of the PERS Board of Trustees and their investment advisors. Each member of MDC and ORP directs the investment of their assets.

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. In addition to other responsibilities, the Board also has a fiduciary responsibility to manage and invest the funds of the various plans.

The PERS Board adopted the model's funding goals in December 2013. Current actuarial projections show that funding goals of an 80% minimum funding ratio in 2042 will not be achieved.

Following are brief updates on the PERS plan's actuarial soundness, sustainability, risk management, and investment management, including any effects from the recent changes in actuarial assumptions.

Actuarial Soundness — Over the past 5- 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. Additionally, 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.

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 these effects, the funding policy will have the effect of creating more long-term sustainability within the system.

Risk Management — As of June 30, 2016, the PERS funding ratio was 60%, a decrease from 60.4% as of June 30, 2015. Actuarial projections show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will not be achieved. As of June 30, 2016, the funding ratio in 2042 was projected to be 63.9%

Investment Management — For FY 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 FY 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%.

Current actuarial projections show the funding level projections of the MHSPRS plan will be below the 60% threshold set in the plan's current funding policy. The MHSPRS Board or the Legislature will need to address the funding status of the plan in the near future.

The Mississippi Highway Safety Patrol Retirement System is a defined benefit retirement plan created for the benefit of Highway Safety Patrol sworn officers. The plan is governed by its own administrative board. This board makes the rules and regulations necessary for the efficient, orderly, and successful operation of the plan, with the approval of the Attorney General.

While the MHSPRS is a separate plan, the PERS Board acts as the custodian of the assets for the plan.

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

The MHSPRS Administrative Board or the Legislature could consider the following actions to address the current funding status of the plan:

- funding increases;
- making adjustments to the current plan;
- changing the plan for new members; or
- moving new Highway Safety Patrol officers to PERS and closing the MHSPRS plan.

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