

2025 Update on Financial Soundness of the Public Employees' Retirement System

A Report to the Mississippi Legislature
Report #730
June 9, 2026



PEER Committee

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Kevin Ford, Vice-Chair
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About PEER:

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker of the House and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms, with one Senator and one Representative appointed from each of the U.S. Congressional Districts and three at-large members appointed from each house. Committee officers are elected by the membership, with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

The *Mississippi Constitution of 1890* gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues that may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of PEER, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. PEER releases reports to the Legislature, Governor, Lieutenant Governor, the agency examined, and the general public.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.



Joint Legislative Committee on Performance Evaluation and Expenditure Review

PEER Committee

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June 9, 2026

Honorable Tate Reeves, Governor
Honorable Delbert Hosemann, Lieutenant Governor
Honorable Jason White, Speaker of the House
Members of the Mississippi State Legislature

On June 9, 2026, the PEER Committee authorized release of the report titled ***2025 Update on Financial Soundness of the Public Employees' Retirement System.***

Representatives

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Vice Chair
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This report does not recommend increased funding or additional staff.

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SUMMARY: The PEER Committee, under the authority found in MISS. CODE ANN. § 5-3-51 (1972) et seq., carried out the statutorily required review of the financial condition of the Public Employees' Retirement System of Mississippi (PERS). This 2025 report includes an update on the financial soundness of PERS, sustainability of the PERS plan funding policy, and an update on changes made to PERS, specifically changes to the newly implemented "Tier Five", during the 2026 Legislative Session.



BACKGROUND

The Public Employee's Retirement System of Mississippi (PERS) is a defined benefit retirement plan for a majority of employees (and/or their beneficiaries) of state agencies, counties, cities, colleges and universities, public school districts, and other participating political subdivisions. State law requires PEER to report annually to the Legislature on the financial soundness of PERS.

The PERS system is under the administration of the 10-member PERS Board of Trustees, which has a primary responsibility of ensuring adequate funding of the plans it administers. One way the Board accomplishes this task is by setting contribution rates for employers participating in the plan. For assistance in setting these rates, the PERS Board receives actuarial reports annually and works with independent actuarial advisers to develop comprehensive models that are used to project the financial position of the various plans. These models include components such as investment return assumptions, wage inflation assumptions, retirement tables, and retiree mortality tables.

Each of these components must work in concert with the others for the PERS plan to maintain financial soundness. Underperformance in any one area can cause additional stress on other components and can lead to underperformance of the PERS plan as a whole.

Scope Limitation: This report evaluates potential impacts of legislation passed during the 2025 and 2026 Legislative Sessions (i.e., House Bill 1). Numbers and information attributed to actuarial reports in this review have not been recalculated to account for the impact of legislation passed during the 2026 Legislative Session.

KEY FINDINGS

- **In 2024 and 2025, the Legislature made significant changes to the PERS plan.**
Currently, actuarial projections show promising potential for reducing plan liabilities over time. This promise is predicated upon the plan(s) meeting all actuarial assumptions, including investment returns, which are not under the control of PERS or state policy makers.
- **For the past five fiscal years, the PERS average payroll increase has been above the projected annual rate of wage increase; however, over the past 10 fiscal years, it has been below the projected rate.**
Less-than-expected payroll growth can increase the amortization period of the unfunded actuarial accrued liability (UAAL). However, the upward pressure on the UAAL may be partially or totally offset due to the decrease in the number of future liabilities resulting from a lower payroll amount than assumed in the actuarial model.
- **Based on the results of the evaluation metrics in the funding policy as of June 30, 2025, two of the plan's metrics are at red signal-light status and one of the plan's metrics is at yellow signal-light status.**
All three funding policy metric results increased from June 30, 2024, to June 30, 2025.
- **In its 2024 Regular Session, the Legislature assumed responsibility for setting the PERS plan's employer contribution rate and created a statutorily mandated plan for increasing the PERS plan's employer contribution rate to 19.90% by FY 2029.**
The statutorily mandated funding plan will increase the PERS plan's employer contribution rate from 17.40% to 19.90% through 0.5% increases over a period of five fiscal years (FY 2025 through FY 2029). The mandated rate adjustment plan started in FY 2025.

Tier Five Provisions

Sections 15 through 23 of House Bill 1 (2025 Regular Session) created a new tier in the PERS System for employees who became members of the System on or after March 1, 2026, which consists of a defined benefit component and a defined contribution plan component meeting the requirements of Section 401(a) of the Internal Revenue Code.

Section 23 of House Bill 1 amends MISS. CODE ANN. Section 25-11-123 (1972) to provide that:

- For any employee who became a member of the system on or after March 1, 2026, the employee's contribution is 9% of earned compensation, with 4% of such earned compensation amount to be deposited into the annuity savings account, and 5% of such earned compensation to be deposited into the employee's defined contribution account authorized in Section 15 of the bill.
- For each member who became a member of the System on or after March 1, 2026, except as provided in Section 15 of the bill, the employer's monthly payment will be applied to the system's accrued liability contribution fund.

Impact of 2025 House Bill 1 and 2026 House Bill 4073

Impact of the Addition of Tier Five

Actuarial analysis shows that the adoption of Tier Five will generate cost savings from the reduction of future liabilities. However, it is worth noting that under the new Tier Five, employees are required to shoulder more of the burden for the cost of their retirement benefits.

Changes to Tier Five

During the 2026 Legislative Session, the Legislature adopted House Bill 4073, which made changes to the previously adopted Tier 5 provisions. These changes were made in response to concerns of some entities in the public sector as noted below.

Investment Returns

For FY 2025, the PERS Board had investment management contracts for 66 portfolios and paid management fees to investment managers on 64 of these portfolios.

Having realized a market gain of approximately 11.66% in the PERS plan's combined investment portfolio, the market value of assets increased from approximately \$33.7 billion to \$36.2 billion during FY 2025, an increase of approximately \$2.5 billion.

Summary and Conclusions

While actuarial projections show promising potential for reducing plan liabilities over time, a cautionary note relates to the impact the Tier Five changes could have on PERS. An article published in April 2025, by the Jackson Clarion-Ledger notes that some entities in the public sector are concerned that changes in benefits could impact an employee's decision to commence a career in public service or remain in public service. Further, there could be an issue regarding funding for the plan in the future. Employees choosing or not choosing to begin work, or remain working, in state government positions could impact both wage growth and the active member to retiree ratio. House Bill 4073 was a step taken by the Legislature to mitigate such concerns and potential negative impacts.

2025 Update on Financial Soundness of the Public Employees' Retirement System

Introduction

Authority, Scope, and Purpose

MISS. CODE ANN. Section 25-11-101 (1972) directs the PEER Committee to:

...have performed random actuarial evaluations, as necessary, of the funds and expenses of the Public Employees' Retirement System and to make annual reports to the Legislature on the financial soundness of the system.

The PEER Committee, under the authority found in MISS. CODE ANN. Section 5-3-51 (1972) et seq., carried out the statutorily required review of the financial condition of the Public Employees' Retirement System (PERS). Actuarial reviews authorized by MISS. CODE ANN. Section 25-11-101 (1972) are discretionary.

This 2025 report includes an update on the financial soundness of PERS, and a review of significant changes to the plan that were adopted in the 2025 and 2026 Regular Sessions.

Financial soundness includes an understanding of the role of actuarial soundness, sustainability and all relevant environmental conditions, such as an understanding of risk and investment management. Therefore, continued analysis of PERS by those responsible for ensuring the long-term financial health of the system is warranted.

Scope Limitation

This report evaluates potential impacts of legislation passed during the 2026 Regular Session (i.e., House Bill 4073). Numbers and information attributed to actuarial reports in this review have not been recalculated to account for the impact of legislation passed during the 2026 Regular Session.

Method

To conduct this analysis, PEER:

- reviewed PERS's financial reports;
- reviewed actuarial reports, projections, and experience studies prepared for PERS, the Supplemental Legislative Retirement Plan (SLRP), and the Optional Retirement Plan (ORP);
- reviewed investment assessments prepared for PERS; and;
- interviewed personnel of PERS.

Background

Mississippi provides a retirement system for public employees overseen by an agency of state government that is responsible for the investment and administration of the benefit payment process.

This chapter will present:

- an overview of PERS;
- the composition and role of the Board of Trustees of the Public Employees' Retirement System (PERS Board);
- the components of financial soundness; and,
- a description of legislation adopted during the 2026 Regular Session.

Overview of the Public Employees' Retirement System

Under MISS. CODE ANN. Section 25-11-101 (1972), the Legislature created a retirement system to provide retirement allowances and other benefits for officers and employees in the state's service and their beneficiaries. The PERS Board is responsible for the administration of PERS and for all other state retirement systems.

Under MISS. CODE ANN. Section 25-11-101 (1972), the Legislature created a retirement system to provide retirement allowances and other benefits for officers and employees in the state's service and their beneficiaries. The PERS Board is responsible for the administration of PERS and for all other state retirement systems. For purposes of this report, the collection of these systems will be referred to as the "System." Exhibit 1 on page 3 lists the plans under the System.

Exhibit 1: Overview of the System



SOURCE: Public Employees' Retirement System of Mississippi.

Composition and Role of the PERS Board of Trustees

Established in MISS. CODE ANN. Section 25-11-15 (1972), the 10-member PERS Board of Trustees is responsible for the administration of the state's retirement system.

Composition of the PERS Board of Trustees

The current membership of the PERS Board includes:

- the State Treasurer;
- a gubernatorial appointee;
- two state employees;
- one municipal employee;
- one county employee;
- one Institutions of Higher Learning employee;
- one public school/junior college employee; and,
- two retiree members of PERS.

Except for the State Treasurer and the Governor's appointee, all trustees are elected by the employee groups they represent.

Except for the State Treasurer and the Governor’s appointee, all trustees are elected by the various constituency employee groups they represent (i.e., state, municipal, county, Institutions of Higher Learning, public schools, junior colleges, and retirees).

In addition to those members, state law provides for four legislative advisers to assist the PERS Board (two each from the Mississippi Senate and House of Representatives).

Role of the PERS Board of Trustees

A primary responsibility of the PERS Board is to ensure adequate funding, and to recommend legislative action when funding is not adequate to support the plans it administers. In its April 2023 meeting, the PERS Board continued its contractual relationship with CavMac (formerly Cavanaugh Macdonald Consulting, LLC, a nationwide actuarial and healthcare consulting firm). The contract extension with CavMac procures actuarial services through the end of FY 2028. CavMac is contracted to create comprehensive models that are used to project the financial position of the various plans. These models include factors such as investment return assumptions, wage inflation assumptions, retirement tables, and retiree mortality tables.

The PERS Board also contracts with an investment consultant to conduct asset/liability studies, provide quarterly performance reports and economic updates, and assist the PERS Board and staff in establishing an asset allocation policy and selecting investment management firms. The PERS Board currently contracts with Callan LLC (Callan), one of the nation’s largest independently owned investment consulting firms.

PERS 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. Section 25-11-121 (1972) provides guidelines and limitations on the types of assets the PERS Board may use as investments for the PERS plan.

Components of Financial Soundness

“Financial soundness” should be defined not as a point-in-time comparison of assets and liabilities, but as a multi-faceted 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.

Actuarial Soundness

The PERS Board, in consultation with its actuaries, develops an actuarial model based on assumptions such as projected investment returns, payroll increases, inflation, retirement ages, mortality rates, marriage rates, and accrued leave to project the plan’s future assets and liabilities. Although the PERS Board sets plan assumptions based on biennial experience studies, the plan’s actual experience (e.g., investment returns or mortality rates) is a product of environmental and demographic factors.

Variances in the actual experience of the plan compared to the model’s assumptions have an impact on the plan’s financial condition. Therefore, the PERS Board, with assistance from its staff and other contractual advisers, endeavors to maintain the actuarial soundness of the plan by monitoring all components used in the PERS actuarial model through quarterly updates on the

performance of the plan's assets, annual actuarial updates, annual projections, and biennial experience reports.

This report discusses the actuarial soundness of the following two areas of the PERS plan:

- differences between actual and assumed wage inflation; and,
- active and retired member assumptions.

Sustainability

Sustainability refers to the PERS System's ability to meet its long-term financial obligations to retirees and beneficiaries. This includes ensuring that the System is adequately funded with sufficient assets to cover the present and future liabilities and setting employer and employee contribution rates at levels that are sufficient to fund the benefits owed to its members.

This report discusses the following topics related to sustainability:

- a review of funding policy metrics;
- scheduled changes to employer contribution rate;
- recommended actuarially determined contribution for the PERS plan; and,
- the anticipated accrued liability payment period.

Risk Management and Investment Management

Risk management and investment management represent the other major components of financial soundness. These concepts are utilized to provide a framework for the structure that will manage the PERS 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.

Impact of the 2026 Legislative Session

During the 2026 Legislative Session, the Legislature adopted House Bill 4073, which made changes to a "Fifth Tier" (hereafter "Tier Five") for new employees hired into covered positions. Tier Five itself was created during the 2025 Legislative Session with the adoption of House Bill 1, which also made significant changes to the Supplemental Legislative Retirement Program and the Optional Retirement Plan.

During the 2025 Legislative Session, the Legislature passed House Bill 1. This legislation created a new tier (Tier Five) within the PERS plan for employees hired on or after March 1, 2026, and closed the Supplemental Legislative Retirement Program to any state legislator or President of the Senate not elected prior to March 1, 2026. The legislation also adjusted the employer contribution formula for members of the Optional Retirement Plan.

During the 2026 Legislative Session, the Legislature passed House Bill 4073. This legislation made changes to two primary conditions of Tier Five. The first change reduced one of the defined benefit retirement years-of-service eligibility requirements from 35 years of service to 30 years of service. The other change amended the "average compensation" factor of benefit calculation to include the four highest fiscal or calendar years of earned compensation or the last 48 months, whichever is greater. Originally, this benefit calculation factor used the eight highest consecutive fiscal or calendar years of earned compensation or last 96 months, whichever is greater.

Actuarial Soundness of the Public Employees' Retirement System

This chapter discusses the actuarial soundness of the following two areas of the PERS plan:

- differences between actual and assumed wage inflation; and,
- active and retired member assumptions.

Differences between Actual and Assumed Wage Inflation

PERS has experienced positive payroll growth in four of the last five fiscal years, but only FY 2022 and FY 2023 exceeded the rate of wage growth assumed by the PERS Board for the corresponding period. Although the PERS Board has made changes to actuarial assumptions in the past, and recent salary increases have raised the five-year average salary growth above the targeted growth rate, the plan's 10-year average continues to be below the plan's targeted growth rate.

The wage inflation assumption is the estimate of the amount that PERS members' wages will increase annually in future years. This rate affects the amount of funds that are projected to be contributed annually for investment by PERS to meet future plan liabilities.

PERS receives employee and employer contributions¹ from seven sources:

- state agencies;
- state universities;
- public school districts;
- community and junior colleges;
- counties;
- municipalities; and,
- other political subdivisions (e.g., water or sewer utility districts).

For FY 2025 each employee was required to contribute 9% of his or her salary to PERS, and his or her employer was required to contribute 17.90% of the employee's total salary to PERS.

The wage inflation assumption is composed of the impact of inflation and the real rate of wage inflation, which work together to account for the overall increases in the value of labor over time. Currently, these components are 2.40% and 0.25%, respectively.² Wage inflation figures can be affected both by changes in payments to an individual (e.g., wage increases resulting from pay or

¹ Each employee must contribute 9% of his or her salary to PERS, and for Fiscal Year 2025, his or her employer was required to contribute 17.90% of the employee's total salary to PERS. For FY 2026, that contribution rate is 18.40%.

² Over the previous 10-year period, the PERS Board's actuarial assumptions included an assumed growth rate of 3.75% for FY 2015 and FY 2016, 3.25% for FY 2017 and FY 2018, 3.00% for FY 2019 and FY 2020, and 2.65% for FY 2021 through FY 2024.

merit raises) and the payments to the total number of individuals (e.g., growing or shrinking workforces).

For the past five fiscal years, the PERS average payroll increase has been above the projected annual rate of wage increase; however, over the past 10 fiscal years, it has been below the projected rate.

For the past five fiscal years (FY 2021 through FY 2025), the PERS average annual payroll³ increase has been above the projected 2.65% annual rate of wage increase. For the past five fiscal years, the average annual payroll increase was 3.49%.

However, for the past 10 fiscal years (FY 2016 through FY 2025), the PERS average annual payroll increase has been below the projected 2.65% annual rate of wage increase. For the past 10 fiscal years the average annual payroll increase was 2.38%.

Exhibit 2 on page 7 presents the total payroll reported to PERS for fiscal years 2024 and 2025. As this exhibit indicates, for FY 2025 alone, PERS experienced an increase in payroll of 2.73%, attributable to an increase in total payroll in six out of seven employer groups. Also illustrated in Exhibit 2, wages of employees of state agencies, which represented approximately 18% of the PERS plan’s total covered payroll, experienced an increase of 5.82% for FY 2025. For context, the overall percentage change from FY 2023 to FY 2024 was 2.55%.

Exhibit 2: PERS Plan Payroll Growth (by Source) for FYs 2025 and 2024

Payroll Source	Total Payroll		Increase (Decrease)	Percentage Change
	FY 2025	FY 2024		
State Agencies	\$ 1,330,322,721	\$ 1,257,104,118	\$73,218,603	5.82%
State Universities	1,216,013,585	1,151,309,947	64,703,638	5.62%
Public Schools	2,788,574,226	2,826,796,488	(38,222,262)	(1.35%)
Community & Junior Colleges	322,056,778	322,834,135	9,222,643	2.86%
Counties	706,657,598	661,563,420	45,094,178	6.82%
Municipalities	746,961,765	704,159,526	42,802,239	6.08%
Other Political Subdivisions	322,992,258	322,056,332	935,926	0.29%
Total	\$7,443,578,931	\$7,245,823,966	\$197,754,965	2.73%

SOURCE: PEER analysis of the *Report on the Valuation of the Public Employees’ Retirement System of Mississippi* as of June 30, 2024, and June 30, 2025.

³ Annual payroll is a statistical figure reported in the PERS plan’s annual valuation that represents the total combined wages paid to PERS members by PERS plan employers.

While PERS has experienced positive payroll growth over the last five fiscal years, as shown in Appendix A on page 27, only three of these periods' results (FY 2022, FY 2023, and FY 2025) exceeded the rate of wage growth assumed by the PERS Board for the corresponding period.

As reported in *An Update on the Financial Soundness of the Mississippi Public Employees' Retirement System and Related Legal Issues: 2014*

Definition: amortization period
The amount of time it takes a borrower to pay back full loan principal plus interest.

(PEER Report #591), PERS's actuaries stated that less-than-expected payroll growth can increase the amortization period of the unfunded actuarial accrued liability (UAAL), which occurs when a pension system's current actuarial value of assets is

less than the present value of benefits earned by retirees, inactive members, and current employees as of the valuation date. However, the upward pressure on the UAAL may be partially or totally offset due to the decrease in the number of future liabilities resulting from a lower payroll amount than assumed in the actuarial models.

In addition, the December 2025 edition of the *Public Fund Survey* from the National Association of State Retirement Administrators (NASRA) states that when a plan's payroll grows at a rate less than expected, the base amount of funds used to amortize the plan's unfunded liability is smaller, meaning that the cost, as a percentage of payroll, of amortizing the unfunded liability is larger. This is due to the fact that only part of the amount contributed to the PERS plan each year goes to the accrual of employee benefits. This component is called the normal cost.⁴ The remainder of the contributions, which are not designated for the accrual of specific member future benefits, are held in the trust and utilized by the PERS plan to begin paying off the plan's UAAL.

For example, for FY 2025, total contributions used in calculating the valuations were 26.90% of covered payroll (9% employee contribution and 17.90% employer contribution). The normal cost for FY 2025 was 11.52% (9% employee and 2.52% employer). The remainder of the employer contribution is added to the assets of the plan for use in paying down the plan's UAAL. For FY 2025, for every dollar of covered payroll, the PERS plan received approximately 15.88 cents to be invested to help pay down the plan's UAAL. When the plan experiences less payroll growth than anticipated, the 15.88 cents per dollar of the difference between anticipated and actual covered payroll is not deposited into the PERS trust assets and is not able to grow at the utilized assumed rate of 7.00% annually.

Although the PERS Board has made changes to actuarial assumptions in the past, and recent salary increases have raised the five-year average salary growth above the targeted growth rate, the plan's 10-year average continues to be below the plan's targeted growth rate. Continued analysis of the difference between actual and assumed wage inflation is warranted. This is made more evident when PERS's experience from the previous fiscal year is compared to the average experience of plans in NASRA's *Public Fund Survey*. The survey's December 2025 report indicates that the median experience for plans in the survey for FY 2024 was a positive change in annual payroll of approximately 6.80%, as compared to the PERS FY 2024 increase of 2.55%. For FY 2024, the PERS

The PERS Board should continue to analyze variation between actual and assumed wage growth.

⁴ Normal cost is the annual cost of providing retirement benefits for services performed by current members. This is a shared responsibility between the member and employer.

plan’s payroll percentage increase was below the median increase for pension plans included in the *Public Fund Survey*. However, the survey indicates that the median annual payroll change has been above 4% since the second quarter of FY 2022, while PERS’s payroll growth for the same time period has been below 4% with the exception of FY 2023 (i.e., 9.46%).

Active and Retired Member Assumptions

The ratio of active to retiree members in the PERS plan has decreased from 1.52/1 in FY 2016 to 1.20/1 in FY 2025, or approximately 21.05%. PERS active membership has continued to decline, whereas the national average plan’s membership has grown in eight of the last ten fiscal years.

The PERS plan, and all other plans administered by the PERS Board, have three types of members: active, inactive, and retired (also referred to as a retiree).

<p>Active Member Current employees who are contributing to the plan through monthly withholding from pay.</p>	<p>Inactive Member Members of PERS who are no longer working in a PERS-covered position and have not retired/received a refund of contributions.</p>	<p>Retired Member Individuals who are no longer working in a PERS-covered position and have begun receiving payments based on their retirement calculations.</p>
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Each type of member is considered within the actuarial model of the plans; however, because liabilities associated with inactive members account for only 0.90% of the overall PERS plan’s present value of future benefits, the ratio of active to retiree members is of primary importance. As shown in Exhibit 3 on page 9, the ratio of active to retiree members in the PERS plan decreased from 1.52/1 in FY 2016 to 1.20/1 in FY 2025, or approximately 21.05%. The declining ratio is attributable to a decrease in the number of active members and an increase in the number of retiree members.

Exhibit 3: PERS System Active and Retiree Members for FY 2016 through FY 2025 (in Thousands)*

Member Type	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Active	155	153	151	151	151	146	145	147	147	146
Retiree	102	105	108	110	112	115	117	118	121	122
Ratio	1.52/1	1.46/1	1.40/1	1.37/1	1.35/1	1.27/1	1.24/1	1.25/1	1.21/1	1.20/1

*Calculations are based on ratios rounded to the nearest hundredth.

SOURCE: PERS *Facts and Figures*, FY 2025.

Exhibit 4 on page 10 provides more detailed information about the decline in active employee membership specific to the PERS plan. While not every employer group has seen a decline in active membership, the overall effect is a slightly lower number of active employees from FY 2024 to FY 2025.

As a result of the decrease, the payroll of fewer active members must fund future pension obligations, a factor made more important because contributions from active members and their employers comprise approximately 37% of PERS revenues (as of FY 2025).

According to the December 2025 *Public Fund Survey*, the most recent nationwide information

At the end of FY 2025, the active to retiree member ratio was 1.20/1, which is less than the average U.S. pension plan.

available, when examining the membership of the pension plans tracked by the database, the overall active to retiree ratio was 1.26/1 as of the end of FY 2024. While the PERS active to retiree member ratio has declined since FY 2016, the ratio of 1.20/1 at the end of FY 2025 was less

than the average ratio for other pension plans across the nation.

In addition, the *Public Fund Survey* observed that a lower ratio of active members to retiree members results in funding future obligations over a smaller payroll base, although a declining active member to retiree member ratio does not automatically pose an actuarial or financial problem. However, when combined with an unfunded liability, a low or declining ratio of active members to retirees can cause financial distress for a pension system provider.

Exhibit 4: PERS Plan Active Employee Change (by Employer) for FYs 2024 and 2025

Employers	Active Employees		Increase (Decrease)	Percentage Change
	FY 2025	FY 2024		
State Agencies	25,365	25,333	32	0.13%
State Universities	17,499	17,318	181	1.05%
Public Schools	59,643	60,549	(906)	(1.50%)
Community & Junior Colleges	5,813	5,836	(23)	(0.39%)
Counties	14,925	14,795	130	0.88%
Municipalities	15,355	15,410	(55)	(0.36%)
Other Political Subdivisions	6,442	6,595	(153)	(2.32%)
Total	145,042	145,836	(794)	(0.54%)

SOURCE: PEER analysis of the *Report on the Annual Valuation of the Public Employees' Retirement System of Mississippi* as of June 30, 2025, and June 30, 2024.

With a maturing plan,⁵ increasing retirements are expected, and the model attempts to account for these changes through the use of demographic assumptions. PERS's experience does differ from the average plan of the *Public Fund Survey*. PERS active membership has continued to decline, whereas the national average plan's membership has grown in eight of the previous ten fiscal years (FY 2015 through FY 2024). As such, continued analysis of the assumptions for active and retiree members is warranted.

⁵ According to Zacks Investment Research, a maturing pension plan is a plan where the number of employees and retirees is approaching equality.

Sustainability of the PERS Plan Funding Policy

This chapter will discuss:

- a review of funding policy metrics;
- changes to employer contribution rate;
- recommended actuarially determined contribution for the PERS plan;
- the anticipated accrued liability payment period; and,
- risk management and investment management.

Review of Funding Policy Metrics

The PERS funding policy contains three metrics that track the plan's sustainability (e.g., progress achieving funding goals). The metrics are evaluated using a "signal-light approach." Based on the results of the evaluation metrics in the funding policy as of June 30, 2025, two of the plan's metrics are at the red signal-light status and one the of the plan's metrics is at yellow signal-light status.

The PERS funding policy utilizes three metrics to track the plan's sustainability (e.g., progress in achieving the funding goals and objectives set by the PERS Board). The plan's funding policy defines several goals and objectives, including contribution rate stability and the maintenance of an increasing trend in the plan's funded ratio (over the projection period) with the target of a 100% funding level. For more information on PERS's funding policy metrics, see Appendix B beginning on page 28.

Definition: pension plan funding policy

According to NASRA, a pension plan funding policy is a set of guidelines that determines how much should be contributed each year by the employers and active participants to provide for the secure and systematic funding of benefits.

The policy also includes a course of action should any of the metrics fall below certain thresholds. The metrics are evaluated through the use of a "signal light" approach (i.e., green indicating goals and objectives are achieved, yellow representing a warning that future negative actions may lead to a failure to reach the goals and objectives, and red suggesting that consideration should be given to a change in contribution rate).

Exhibit 5 on page 13 illustrates the status of these three metrics as assessed through the annual valuation and projection report as of June 30, 2024, and June 30, 2025.

Exhibit 5: PERS Funding Policy Metric Results as of June 30, 2024, and June 30, 2025*

Metric	2024	2024 Status	2025	2025 Status
Funded Ratio (in FY 2047)	53.7%	Red	63.7%	Red
Cash Flow as a Percentage of Assets	-6.3%	Yellow	-6.2%	Yellow
ADC/FCR**	130.3%	Red	130.6%	Red

* These results are based on the full implementation of the statutory increases in the employer contribution rate to 19.90%.

** The plan’s actuarially determined contribution (ADC) is the potential payment to the plan as determined by the actuary using a contribution allocation procedure that, if contributed consistently and combined with investment earnings, would be sufficient to pay promised benefits in full over the long term. The plan’s fixed contribution rate (FCR) is the employer contribution rate approved by the Legislature.

SOURCE: *Annual Valuation Report of the Public Employees’ Retirement System of Mississippi*, prepared as of June 30, 2025.

All three funding policy metric results increased from June 30, 2024, to June 30, 2025. For the fiscal year ended on June 30, 2025, the plan’s projected funding level was 63.7%, an increase from 53.7% for the year ended on June 30, 2024. The cash flow as a percentage of assets increased from -6.3% to -6.2%. The ADC/FCR ratio changed from 130.3% to 130.6%.

These numbers represent the funding metrics as they existed at the time of completion of the FY 2025 valuation by CavMac, and do not consider any impact of legislative action during the 2026 Legislative Session.

Employer Contribution Rate

In the 2024 Regular Session, the Legislature assumed responsibility for setting the PERS plan’s employer contribution rate and created a statutorily mandated plan for increasing the PERS plan’s employer contribution rate to 19.90% by FY 2029.

During the 2024 Regular Session, the Legislature passed Senate Bill 3231 which imbued the responsibility for setting the employer contribution rate for the PERS plan in the Legislature and created, under MISS. CODE ANN. Section 25-11-123 (1972), a statutorily mandated funding plan that increases the PERS plan’s employer contribution rate from 17.40% to 19.90% through 0.5% increases over a five-fiscal-year period (fiscal years 2025 through 2029).

Exhibit 6 on page 14 shows the schedule for the employer contribution rate increases.

Exhibit 6: Schedule for the Implementation of PERS Plan Employer Contribution Rate Increases

Fiscal Year	Annual Employer Contribution Rate	Percentage Change
2025	17.90%	0.50%
2026	18.40%	0.50%
2027	18.90%	0.50%
2028	19.40%	0.50%
2029	19.90%	0.50%

SOURCE: MISS. CODE ANN. Section 25-11-123 (1972).

Recommended Actuarially Determined Contribution for the PERS Plan

The PERS plan’s actuaries have previously concluded that the PERS plan requires additional funding to reach its funding policy goals. Based on the PERS funding policy, the PERS Board has recommended that the actuarially determined contribution (25.98% for FY 2025) be contributed to PERS.

Following the 2025 Legislative Session, CavMac produced its Annual Valuation Report for the PERS plan dated June 30, 2025. A component of this report is the PERS plan’s funding policy metrics which received two red signal-light status results (i.e., Funded Ratio in FY 2047 and ADC/FCR Ratio).

The actuary’s recommendation to the PERS Board and Legislature is to either change to an ADC contribution approach or to continue the use of a phased-in approach beginning with FY 2025 with additional funding to be authorized by the Legislature.

Per the PERS Funding Policy in place at the time of that valuation,⁶ the actuary noted that it should recommend an increase in the FCR. Its recommendation to the PERS Board and Legislature is to either change to an ADC contribution approach and contribute 25.98% (the ADC calculated for the 2025 valuation), or to continue the use of a

phased-in approach for the next five consecutive fiscal years with additional funding to be authorized by the Legislature.

⁶ Considering the changes made by the passage of Senate Bill 3231 (2024 Legislative Session), the PERS Board adopted changes to the PERS plans’ funding policy in its December 2024 and February 2025 meetings.

Exhibit 7 on page 15 shows projections for two funding policy metrics for FY's 2047 and 2055 if the first recommendation is followed, whereby the phase-in approach would be removed altogether, and the contribution rate for the fiscal year beginning July 1, 2027, would be equal to the ADC of 25.98%. As shown in Exhibit 7, under this scenario, FY 2025 would achieve green-signal light status for funding ratio and cash flow as a percentage of assets metrics.

Exhibit 7: Effect of Actuarial Recommendation to Set Contribution Rate to Actuarially Determined Contribution Rate

Metrics	2025 Projection	2025 Status
Funding Ratio in 2047	99.0%	Green
Funding Ratio in 2055	108.6%	Green
Cash Flow as a Percentage of Assets	(4.4%)	Green

SOURCE: Report on the Annual Valuation of the Public Employees' Retirement System of Mississippi, prepared as of June 30, 2025.

In October of 2025, the actuaries also provided an analysis of the projected effects of additional funding scenarios in response to considerations and inquiries made by the House Select Committee on PERS and the PERS Board. Exhibit 8 on page 15 shows estimated funded ratios for 2047 and 2055 given certain additional one-time capital infusions or annual funding amounts. As Exhibit 8 shows, capital infusions can have a significant impact on projected funded ratios.

Exhibit 8: Additional Funding Scenarios and Effects on 2047 and 2055 Funded Ratios

Additional Funding Scenario	Projected Funded Ratio in 2047	Projected Funded Ratio in 2055
\$500M in FY26 and \$50M in FY26-FY35	68.8%	86.4%
\$100M in FY26-FY35	68.1%	85.1%
\$1B in FY26	69.6%	87.7%
\$200M in FY26-FY55	77.6%	105.2%
\$500M in FY26 and \$100M in FY27-55	73.0%	95.4%

SOURCE: Report on the Annual Valuation of the Public Employees' Retirement System of Mississippi, prepared as of June 30, 2025.

Anticipated Accrued Liability Payment Period

The anticipated accrued liability payment period is the estimated length of time under current actuarial assumptions that is required to pay the UAAL. As of June 30, 2025, PERS's anticipated accrued liability payment period was 42 years, a decrease from 44.9 years as of June 30, 2024. The PERS plan's actuary attributes this decrease to actuarial assumption changes instituted during FY 2025.

The anticipated accrued liability payment period is the estimated length of time under current actuarial assumptions that is required to pay the UAAL. As of June 30, 2025, PERS's anticipated accrued liability payment period was 42 years, a decrease from the 44.9 years as of June 30, 2024. The PERS Board's actuary attributes the decrease primarily to both actuarial assumption changes and the scheduled increase of the employer contribution rate by 0.50% each year over the next four fiscal years to 19.90% adopted by the Legislature during the 2024 Legislative Session.

The actuaries noted that there was an overall loss on the unfunded actuarial accrued liability for the fiscal year ended June 30, 2025, of approximately \$48 million which was primarily due to the contribution deficiency (statutory contribution rate versus actuarially determined contribution rate), the greater than expected salary increases, and demographic losses due to mortality and withdrawals of service of active members. These losses were almost entirely offset by the positive investment experience in fiscal year 2025. Furthermore, there was a gain of \$375.1 million on the UAAL for fiscal year 2025 due to actuarial assumption changes.

The actuarial assumptions and methods used in the actuary's valuation for fiscal year 2025 were based on the results of an experience investigation for the four-year period ended June 30, 2024, dated April 16, 2025, and adopted by the PERS Board on June 25, 2025.

Risk Management and Investment Management

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

Risk management and investment management represent the other major components of financial soundness. These concepts are utilized to provide a framework for the structure 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.

Risk Management

To determine the funding ratio, or funding level, of a plan, the current value of all projected future obligations of the plan (such as future pension payments) is calculated. In other words, the cost of all of the plan's future obligations is calculated in today's dollars. The total of the current value of future obligations is compared to the plan's assets on hand today and a funding ratio is derived.

The calculation of a plan's funding ratio is an accounting measure that quantifies the plan's ability to meet its projected future obligations based on service already performed with assets currently available. However, this measure, like most accounting measures, assesses the plan in an appropriate manner and does not take into account items such as future investment gains and losses and/or loss of contributions from employees and participating employers. This measure also does not reflect the ability of the plan to meet its current obligations.

For FY 2025, the actuarial value of assets in PERS remained virtually unchanged in relation to the actuarial value of its liabilities—56.7%, which was 0.8% above the valuation for FY 2024 of 55.9%.⁷

Primarily due to changes in the employer contribution rate, the PERS plan projected a future funding ratio of 63.7% as of 2047.

According to projections prepared by PERS's consulting actuary as of June 30, 2025, the plan's funding ratio was projected to be 63.7% by 2047, as compared to 53.7% reported in the FY 2024 projection reports.⁸ The increase in the future funding level is primarily due to future increases in the employer

contribution rates adopted by the Legislature in 2024.

Although an 80% funding ratio is frequently cited as a measure of an adequately funded pension system, there is no industry statement or requirement for a pension plan's funding level to be at 80% to be defined as "healthy." Neither the Governmental Accounting Standards Board⁹ nor the American Academy of Actuaries uses an 80% funded ratio to define a plan as financially healthy.

For any projected funding level information to be accurate, all actuarial assumptions must be met exactly for all fiscal years forecasted. As past performance indicates, results can exceed or fall short of this mark, creating variability from the model.

Investment Management

Having realized an investment return of approximately 11.66% in the PERS plan's combined investment portfolio, the market value of assets increased from approximately \$33.7 billion to \$36 billion during FY 2025, an increase of approximately \$2.3 billion.

As presented in Exhibit 9 on page 18, according to investment consultant Callan, PERS's investment performance for FY 2025 was above the current actuarial model's utilized investment return rate of 7.00% and also above the median return for its peer group¹⁰ of 10.91%. Additionally, PERS's investment performance has exceeded its peer group median for each of the past 3-, 5-, and 10-year periods.

⁷ For the fiscal year ended on June 30, 2023, the PERS plan had a funding level of 56.1%.

⁸ For the period ended on June 30, 2023, the PERS plan's projected funding level in 2047 was 65.5%.

⁹ The Governmental Accounting Standards Board is an independent organization that establishes standards of accounting and financial reporting for state and local governments in the United States.

¹⁰ The PERS peer group is composed of other nationally based large pension plans (plans having greater than \$10 billion in assets).

Exhibit 9: Comparison of PERS Investment Performance to Peer Group of Public Pension Plans with Assets of More than \$10 Billion

Category	FY 2025	3-Year Return	5-Year Return	10-Year Return
PERS Return	11.66%	10.05%	10.10%	8.57%
Peer Group Median (midpoint)	10.91%	9.53%	9.95%	8.03%
PERS Percentile Rank	21*	31	38	19
25th Percentile*	11.59%	10.24%	10.40%	8.39%
10th Percentile	12.13%	10.91%	11.30%	8.70%

* In this example, 21st percentile rank means PERS outperformed 79% of peer group funds; 25th percentile means these returns were greater than 75% of peer group funds.

SOURCE: Callan LLC, *Investment Performance Review*, as of June 30, 2025.

According to the *Public Fund Survey*, the median public pension annualized investment 10-year return for the period ended December 31, 2024, was 7.3% and the 30-year return was 8.2%.¹¹ Over the past 10 years, PERS's investment return on assets averaged 8.57%. Investment returns ranged from -8.54% during FY 2022 to 32.71% during FY 2021. The volatility of the recent years' returns reinforces the principle of viewing investment returns over a long period and comparing long-term returns to investment return goals rather than focusing on a single year's returns or returns over a short period.

Historically, PERS's investment gross returns have averaged 9.7% over the past 15 years, 8.6% over the past 10 years, 8.6% over the past 7 years, and 10.1% over the past 5 years. PERS's investment returns have exceeded the median for other public pension plans for the past 10-year period.

Because investment returns are the largest piece of a pension's funding source, when actual returns fall below projections, over time the plan must rely on other sources (i.e., contributions) to provide for the difference, which could lead to decreases in the plan's assets.

The PERS Board and its consulting actuary plan to continue to monitor the investment return assumption in future years to ensure that the investment return assumption accurately reflects market conditions and the System's investment allocation model.

Asset Allocation Model

The PERS independent investment consultant periodically performs an asset/liability allocation study that considers projected future liabilities of the System, expected risk, returns of various asset classes, and statutory investment restrictions. The asset allocation model adopted by the PERS Board determines the mix of asset classes in which PERS will invest and the overall weight of each asset class within the whole portfolio.

The PERS Board and PERS staff use this model to mitigate investment risk through diversification and to establish risk and rate of return expectations for the adopted target asset allocation mix.

¹¹ At the time of publication of this report, the *Public Fund Survey* for the period ended June 30, 2025, had not been released.

On a quarterly basis, the PERS Board and its staff, in consultation with its investment advisers, review the performance of each investment manager relative to the asset class’s target performance level.

Exhibit 10 on page 19 presents the actual FY 2025 investment allocation compared to PERS’s strategic allocation targets.

Exhibit 10: PERS FY 2025 Actual Asset Allocation Compared to PERS Overall Asset Allocation Targets

Model	U.S. Equity	Non-U.S. Equity	Total Fixed Income	Real Estate	Private Equity	Private Credit	Global Equity	Cash
Target	27%	20%	20%	10%	10%	0%	12%	1%
FY 2025	25%	22%	20%	9%	11%	0%*	12%	1%

*As of June 30, 2025, PERS had approximately \$130 million invested within the Private Credit Asset Class but due to rounding this figure is represented as 0% in the total asset allocation.

SOURCE: Callan LLC, *Investment Performance Review, as of June 30, 2025.*

PERS’s assets are being invested in accordance with the asset allocation targets. Instances in which current investment levels do not agree with the model do not automatically constitute a cause for alarm or present the need for an immediate change in investment levels.

The investment model represents targeted investment levels designed to prevent the investment portfolio from becoming too heavily weighted in a certain investment type. Market conditions may, at times, cause a prudent manager to call for slight departures from target goals. For these reasons, the PERS Board monitors investment performance, strategies, and weights throughout the year and manages the investment portfolio based on input from professional money managers, advisers, and its professional staff.

Investment Managers

In addition to PERS’s efforts to mitigate investment risk for plan assets through asset diversification, the PERS Board’s decision to utilize numerous investment managers also minimizes investment risk, as it prevents a large portion of plan assets from being under the management of any one investment manager. For FY 2025, the PERS Board had investment management contracts for 66 portfolios and paid management fees to investment firms on 64 of these portfolios.

In FY 2025, the PERS Board had management contracts for 66 portfolios.

According to the PERS plan’s *Investment Policy Statement*, external investment managers are retained because of their skill and expertise within a specialized part of the PERS portfolio. Investment managers are charged with managing the assets and the allocation of the assets within his or her control in compliance with the policies, guidelines, and objectives included in their Investment Management Agreement with PERS.

Investment managers are required to act as fiduciaries to PERS and construct and manage investment portfolios that are consistent with the investment philosophy and disciplines (asset classes) for which they were hired.

Callan LLC, the PERS Board's investment consultant, assists the Board in selecting investment managers.

Selection of investment managers is ultimately the responsibility of the PERS Board. The process for selection of an investment manager begins with the PERS staff vetting potential options with the assistance of the plan's investment consultant, Callan LLC, in creating a list of candidates that meet the search

criteria.

These criteria include a wide range of qualitative and quantitative factors such as:

- asset class;
- investment style;
- assets under management relative to the size of PERS's prospective investment;
- manager's staff size;
- management structure and experience; and,
- manager's historical performance and risk tolerance.

The list of candidates is discussed by a manager search committee that selects a group of finalists to be interviewed by the PERS Board or investment staff. After conducting interviews with the finalist(s), the Board will select the best option as an investment manager for the PERS plan.

Once a manager is selected and engaged, the PERS Board, with the assistance of Callan LLC and the PERS staff, monitors the performance of investment managers within the plan. This monitoring is also based on both qualitative and quantitative factors, as outlined in the plan's *Investment Policy Statement*.

The Statement lists qualitative assessment factors such as a manager's adherence to his or her stated investment objectives, organizational structure and stability, and changes in investment policy. Quantitative factors include performance over a full market cycle, material changes to the risk profile, and portfolio characteristics that are inconsistent with expectations.

Based on the assessment of these factors, the Board can vote to place managers deemed to be underperforming on the PERS Watchlist. The Watchlist assists in monitoring performing funds relative to benchmarks and peers. Any fund that fails to outperform its benchmark or peer group median for the specified time period may be placed on the Watchlist for further review. Improvement relative to long-term objectives will allow for a fund's removal from the Watchlist while continued underperformance could prompt the Board to terminate the fund. The Board has the authority at any time to terminate or replace an investment manager.

For FY 2025, PERS paid \$104.2 million to investment managers on PERS plan assets of \$36 billion, a combined investment management expense rate of 0.29% (the expense rate for the fiscal year ended June 30, 2024, was 0.31%).

In FY 2025, PERS paid \$104.2 million to investment managers on PERS plan assets of \$36 billion, a 0.29% investment management expense rate.

For more information on investment management fees, see Appendix C beginning on page 33.

Changes to PERS Enacted in the 2025 and 2026 Regular Sessions

House Bill 1, 2025 Regular Session, contained several sections that impact the PERS system. Most noteworthy of these is the “Tier Five” provision that created a new tier in the system. House Bill 4073, 2026 Regular Session, made changes to the provisions of this fifth tier set forth in H.B. 1.

This chapter discusses the retirement-related provisions in H.B. 1 and the changes to those provisions adopted in H.B. 4073.

Tier Five Provisions Set Forth in House Bill 1, 2025 Regular Session

Sections 15 through 23 of H.B. 1 create a new tier in the PERS System for employees who became members of the System on or after March 1, 2026, which consists of a defined benefit component and a defined contribution plan component meeting the requirements of Section 401(a) of the Internal Revenue Code.

Sections 15 through 23 of H.B. 1 create a new tier in the PERS System for employees becoming members of the System on or after March 1, 2026, which consists of a defined benefit component and a defined contribution plan component (i.e., meeting the requirements of Section 401(a) of the Internal Revenue Code). A portion of the employer’s contribution goes toward funding the defined benefit portion of the retirement benefit. Additionally, a portion of the employee's contributions is deposited into the employee's defined contribution account, as provided in MISS. CODE ANN. Section 25-11-123 (1972). Further, the employer may elect to contribute an amount up to the maximum pretax amount allowable under federal law for plans under Section 401(a) of the Internal Revenue Code. Members who fall under Tier Five are vested immediately in contributions to the defined contribution plan.

Highlights of the Tier Five Structure Set Forth in H.B. 1

Highlights of the Tier Five structure created by H.B. 1 include:

- Employee contribution is 9% of compensation:
 - 4% into the defined benefit plan (subject to vesting requirements); and,
 - 5% into the defined contribution plan (employee is immediately vested in these contributions).
- Defined benefit plan multiplier formula is 1% for all years of service.
- Final average salary is the eight highest consecutive years.
- Vesting is eight years of service and unreduced retirement eligibility is:
 - 35 years of service; or,
 - age 62 and 30 years of service; or,
 - age 65 and eight years of service.

- Military service will be included for determination of benefit service and retirement eligibility; however, unused leave will not be included.
- No guaranteed Cost-of-Living Adjustment (COLA) would be provided to retirees; however, ad hoc COLAs could be approved by the Legislature.
- No Partial Lump Sum Option (PLSO) would be provided.
- No employer match would be provided for the defined contribution plan; however, employers may elect to contribute an additional amount, and vesting would be immediate for the defined contribution portion.

Section 23

Regarding the future health of the PERS plan, Section 23 is significant. This section amends MISS. CODE ANN. Section 25-11-123 to provide that:

- For any employee who became a member of the system on or after March 1, 2026, the employee's contribution will be 9% of earned compensation, with 4% of such earned compensation amount to be deposited into the annuity savings account, and 5% of such earned compensation to be deposited into the employee's defined contribution account authorized in Section 15 of the bill.
- For each member who became a member of the System on or after March 1, 2026, except as provided in Section 15 of the bill, the employer's monthly payment will be applied to the System's accrued liability contribution fund.

House Bill 4073, 2026 Regular Session, Tier Five Changes

Sections 17 and 18 of H.B. 4073 make changes to the provisions of Tier Five in the areas concerning defined benefit retirement eligibility and the calculation of final average salary used for determining benefits.

Sections 17 and 18 of H.B. 4073 make changes to the provisions of Tier Five in the areas concerning defined benefit retirement eligibility and the calculation of "final average salary" used for determining benefits.

Originally, Tier Five members were eligible to retire upon termination from all PERS-covered employment after 35 years of creditable service at any age or age 62 and vested (having at least eight years of creditable service). If the member reached age 62 with less than 30 years of creditable service, an actuarial reduction is made for each year of creditable service below 30 years for each year in age below age 65, whichever is less.

H.B. 4073 changes this requirement to 30 years of service at any age or age 65 and vested.

The monthly defined benefit for all PERS members, regardless of the tier provisions to which they are subject, is based on a members' average compensation, years of service, and the benefit option selected at retirement. Originally, for Tier Five members, average compensation would have been calculated using a member's eight highest consecutive years of salary and payment of

up to 240 hours of accumulated leave. To determine a member’s eight highest years, PERS considers these scenarios:

- eight highest consecutive fiscal years of earned compensation;
- eight highest calendar years of earned compensation; or,
- final 96 months of earned compensation prior to termination of employment.

For calculating the defined benefit, PERS uses whichever amount is greater when looking at these scenarios.

H.B. 4073 changes the calculation for Tier Five members by using the four highest consecutive fiscal years of earned compensation, the four highest calendar years of earned compensation, or the final 48 months of earned compensation prior to termination of employment, whichever is greater.

Impact of Changes Made to Tier Five by H.B. 4073

The actuary for PERS performed analytical work to illustrate the impact of the changes H.B. 4073 made to Tier Five. The actuary noted the main impact would be on the underlying cost of the plan design.

The actuary for PERS performed analytical work to illustrate the impact of the changes H.B. 4073 made to Tier Five. The actuary noted the main impact would be on the underlying cost of the plan design, which is referred to as the normal cost rate. “Normal cost” is the amount of funding required to cover the retirement benefits earned by employees in the current or any given year. It represents the annual expense calculated by an actuary for future benefits and administrative costs. The actuary defines the total normal cost rate as the value of a given year’s expected benefit accruals for every member summed together and then divided by that year’s given payroll.

Regarding the change to defined benefit retirement eligibility, the actuary calculated the Tier Five normal cost rate and the estimated projected funded ratio in 2055, as shown in Exhibit 11 on page 24.

Exhibit 11: Analysis of Impact of Changing Service Requirement from 35 Years to 30 Years on Estimated Projected Funded Ratio in 2055

Requirement	Tier Five Total Normal Cost Rate	Employee Contribution Rate	Tier Five Employer Normal Cost Rate	Estimated Projected Funded Ratio in 2055
35-Year Retirement Tier Five	5.27%	4.00%	1.27%	77.1%
30-Year Retirement Tier Five	5.73%	4.00%	1.73%	75.6%

SOURCE: CavMac Memo: *Tier 5 Unreduced Retirement at 30 Years of Service, dated February 9, 2026.*

As shown in Exhibit 11, changing from a 35-year requirement to a 30-year requirement increases the total normal cost rate by approximately 0.46% of Tier Five payroll. It also lowers the estimated projected funded ratio in 2055 by 1.5%.

While the actuary did not perform a stand-alone analysis of the projected effect of changing the final compensation averaging period from eight to four years, the actuary noted that making such a change would most likely cause the normal cost rate to increase in a March 11, 2026, memorandum to PERS regarding an actuarial analysis of Senate Bill 2103 (as amended by the House), 2026 Regular Session. S.B. 2103 did not pass, but in this memorandum, the actuary noted that since PERS is currently being funded using statutory contribution rates set by the Legislature, with a fully phased-in contribution rate of 19.90% of annual compensation, a higher employer normal cost rate allows a lower portion of the statutory contribution rate to be applied toward reducing the unfunded actuarial accrued liability.

The actuary calculates the impact of the change in the final average compensation from the eight highest consecutive years to the four highest consecutive years would be to increase the total normal cost rate by 0.17% of Tier Five payroll. It would also lower the estimated projected funded ratio in 2055 by approximately 1%.

An amendment to H.B. 4073 includes provisions that shorten the return-to-work waiting period for retired state employees. Any retired state employee can return to work within 30 days instead of the 90-day waiting period formerly required by law. Although this provision does not speak directly to the funding of PERS, this change to the return-to-work rules is tangentially related to the sustainability of PERS.

It is important to note that the Federal Internal Revenue Code, specifically Section 401(a), establishes the rules for qualified employer-sponsored retirement plans, including plans administered by states. This code section considers an individual's retirement valid only if it is a bona fide retirement. While the code does not specifically define what makes a retirement bona fide, the retiree's intent is central to the perceived validity of the retirement. The separation from service would need to be genuine and not conditional. No agreement to return to work after retirement, written or unwritten, can exist at the time of separation. Also, the retirement could not be a planned means to avoid taxes. The Internal Revenue Service can assess a 10% early withdrawal penalty if an individual's retirement is judged invalid and the retiree is under the age of 59 ½.

After the 30-day period has elapsed, retired employees can receive retirement distributions (their full retirement allowance) from PERS and earn up to 80% of a position's salary while working part-time or full-time. The intent is to increase flexibility for retired state employees who want to re-enter the workforce and to support reemployment of a highly experienced workforce with significant institutional knowledge by allowing retirees to return to work in a more timely fashion.

A re-employed member earns no additional PERS benefits, and the employer pays any required employer and employee contributions. The actuary for PERS has noted that, since the cost of this legislation is highly dependent on the breakdown of how many active members or retired members will return to work, the true cost may not be known until PERS has a few years of actual experience.

Summary and Conclusions

Changes made to the PERS plan in the 2025 and 2026 are significant. Currently, actuarial projections show promising potential for reducing plan liabilities over time. Reports PEER will produce over the next two years will provide a clearer picture of the impact these changes are having. This promise is predicated upon the plan(s) meeting all actuarial assumptions, including investment returns, which are not under the control of PERS or state policy makers.

Given that Tier Five has only recently seen its entry date for new employees, the true impact of the changes Tier Five could have on PERS is not currently known. It has been noted in the press that some entities in the public sector are concerned that changes in retirement benefits could impact an employee's decision to commence a career in public service or remain in public service. Further, there could be an issue to funding for the plan in the future. Employees choosing or not choosing to begin work, or remain working, in state government positions could impact both wage growth and the active member to retiree ratio. Both issues have been previously discussed in PEER reports.

As previously mentioned, the actuary's recommended ADC was 25.98% for FY 2025 while the Legislature's mandated employer contribution rate was 18.40% for FY 2025. It is possible that the PERS plan will require additional funding in future periods if the actuary opines that a higher ADC is required. Other employer groups in the PERS System (e.g., counties, municipalities, school districts) have made comments related to the prospective impacts that increases to the employer contribution rate will have on their entities. If funding increases become necessary in the future, decisions will have to be made on what employers will bear these costs increases.

The Legislature could consider future appropriations to PERS to potentially reduce the need for increases in the employer's share paid per covered position. The impact of providing a set sum could be reviewed annually by the PERS actuary to determine the amount needed to influence growth in the employer's contribution rate.

Appendix A: PERS Payroll Growth for FY 2020 through FY 2025

Employer Group	Payroll for the Fiscal Year Ending June 30 (in thousands) †						Percentage Change
	2020	2021	2022	2023	2024	2025	2020-2025
State Agencies	\$1,114,860	\$1,076,040	\$1,098,269	\$1,222,668	\$1,257,104	\$1,330,323	19.33%
State Universities	\$1,020,097	\$996,451	\$1,020,005	\$1,124,528	\$1,151,310	\$1,216,013	19.21%
Public Schools	\$2,387,606	\$2,403,327	\$2,522,339	\$2,770,308	\$2,826,797	\$2,788,574	16.79%
Community/Junior Colleges	\$299,391	\$300,435	\$298,907	\$312,666	\$322,834	\$332,057	10.91%
Counties	\$520,773	\$572,144	\$587,889	\$638,592	\$661,563	\$706,658	35.69%
Municipalities	\$600,156	\$595,147	\$626,517	\$680,269	\$704,160	\$746,962	24.46%
Other Political Subdivisions	\$344,559	\$302,533	\$300,834	\$316,388	\$322,056	\$322,992	-6.26%
Total Payroll Reported to PERS	\$6,287,442	\$6,246,077	\$6,454,760	\$7,065,419	\$7,245,824	\$7,443,579	18.39%
Actuarial Assumed Rate of PERS Plan Salary Growth	2.65%	2.65%	2.65%	2.65%	2.65%	2.65%	
Actual Rate of PERS Plan Salary Growth	2.32%	-0.66%	3.34%	9.46%	2.55%	2.73%	

† Payroll totals reported here have been rounded and may be different from the payroll figures reported on page 7.

SOURCE: PERS annual valuations for years ending June 30, 2020, through June 30, 2025.

Appendix B: PERS Funding Policy Technical Appendix

Progress of the PERS plan’s funding policy is tracked through the use of three metrics:

- the funded ratio;
- cash flow as a percentage of assets; and,
- the actuarially determined contribution.

These metrics are tracked through a tiered method called the “signal light” approach, in which each level of the predefined metric tranches is assigned a color and a definition (Exhibit B1).

Exhibit B1: PERS Funding Policy “Signal Light” Levels and Definitions

Status	Definition
Green	Plan passes metric and PERS funding goals and objectives are achieved.
Yellow	Plan passes metric but a warning is issued that negative experience may lead to failing status.
Red	Plan fails metric and PERS must consider contribution increases.

SOURCE: PERS Board of Trustees policy.

The current funding policy, like its most recent predecessor, also includes a provision that serves as a safety net for the plan. If any one of the metrics is in red signal-light status in conjunction with the annual valuation report and the projection report, the actuary will determine and recommend to the Board for its consideration an employer contribution rate increase that is sufficient to get all three metrics back into green signal-light status.¹²

Funded Ratio

The calculation of a plan’s funding level is an accounting measure that quantifies the plan’s ability to meet its projected future obligations, based on service already performed, with assets currently available.

This metric uses information from the 30-year projection reports developed by the plan’s actuaries to assess the plan’s funding level at a defined point in the future (for now, FY 2047).

Exhibit B2 presents the funding policy’s defined channels for the funded ratio signal lights.

¹² Any resulting contribution rate increase would be effective for July 1, 18 months following the completion of the associated projection report. The delay allows the state, counties, municipalities, and political subdivisions ample time to incorporate the increase into their operating budgets.

Exhibit B2: Signal Light Definitions for Funded Ratio

Funded ratio above 80% in 2047.
Funded ratio between 65% and 80% in 2047.
Funded ratio below 65% in 2047.

SOURCE: PERS Board of Trustees policy.

For the year ended June 30, 2025, the projected funding ratio in FY 2047 is 63.7% placing the PERS System in the red signal-light status.

As noted previously, one of the policy’s goals is to maintain an increasing trend in the funded ratio over the projection period with the ultimate goal being 100% funded. However, the use of a 100% funded ratio can be seen differently when used as a target of financial health versus a goal of a pension’s funding policy.

Even with the assignment of being 80% funded as the threshold for green status, there is no industry statement or requirement for a pension plan’s funding level to be at 80% to be defined as “healthy.” Neither the Governmental Accounting Standards Board nor the American Academy of Actuaries uses an 80% funded ratio to define a plan as financially healthy.

Cash Flow as a Percentage of Assets

The PERS funding policy defines “cash flow as a percentage of assets” as the difference between total contributions coming into the trust and the benefit payments made to retirees and beneficiaries withdrawn from the trust as a percentage of beginning year market value of assets. The formula for cash flow as a percentage of assets also can be defined as follows:

$$\frac{\text{Total Annual Contributions} - \text{Benefit Payments}^{13}}{\text{Beginning of Year Market Value of Assets}}$$

For example, computing the cash flow as a percentage of assets for FY 2025 (in thousands) is calculated as follows:

$$\frac{(2,174,255 - 3,707,804)}{33,535,621} \times 100 = -4.57\%$$

PERS testing of cash flow as a percentage of assets is not only a point-in-time comparison for the current fiscal year, but it also will be evaluated over the entirety of the period reviewed during the actuary’s 30-year projection report, with the lowest current or projected cash flow as a percentage of assets used as the metric result.

Exhibit B3 defines signal-light statuses for cash flow as a percentage of assets.

¹³ For purposes of this calculation, PEER included any refunds made to inactive members as benefit payments.

Exhibit B3: Signal Light Definitions for Cash Flow as a Percentage of Assets

Net Cash Flow Percentage above –5.25% during the projection period.

Net Cash Flow Percentage between –5.25% and –7.00% during the projection period.

Net Cash Flow Percentage below –7.00% during the projection period.

NOTE: The targets utilized in this metric were adjusted during the April 2024 Board meeting to correspond with the approved changes in the plan’s utilized investment return rate.

SOURCE: PERS Board of Trustees policy.

For the projection period, the lowest cash flow rate is –6.2% in FY 2047, which places the PERS plan in the yellow signal-light status for this metric.

The *Public Fund Survey* also provides data on cash flow as a percentage of assets. According to the December 2025 report, nearly all systems in the survey had a negative cash flow, and the median cash flow as a percentage of assets for plans in its survey, as of FY 2024, was –1.98%.¹⁴ While this can be compared to the PERS result of –6.3% for FY 2024, it must also be noted that this is not a direct comparison. As discussed previously, PERS cash flow as a percentage of assets metric is not a point-in-time comparison (like the *Public Fund Survey*) but a measure over its full projection period, and the *Public Fund Survey* metric accounts for administrative expenses, while the PERS metric excludes administrative expenses from the calculation.

ADC/FCR Ratio

The ADC/FCR ratio is a comparison of the plan’s actuarially determined contribution (ADC) and the plan’s fixed contribution rate (FCR).

The plan’s funding policy defines the ADC as the potential payment to the plan as determined by the actuary based on the following principal elements disclosed in the funding policy:

- actuarial cost method;
- asset valuation method; and,
- amortization method.

The purpose of the ADC is to provide a measure of the potential contribution rate necessary to allow the PERS plan to reach its funding goals within a 30-year period under the prescribed methods outlined in the Board’s funding policy.

The plan’s funding policy defines the FCR as the employer contribution rate set by the Board.¹⁵

The ADC/FCR ratio is determined by dividing the ADC calculated during the actuarial valuation for the fiscal year (typically released during the Board’s December meeting) by the FCR set by the Board for the

¹⁴ The *Public Fund Survey* cash flow as a percentage of assets figure also includes administrative expenses within plan outflows in its methodology.

¹⁵ To help potentially limit annual fluctuations to members’ and employers’ contribution expenditures, the Board adopted funding policies that “fix” the employer contribution rate as a percentage of covered payroll.

same period. The results of this calculation will be compared to the signal-light levels described in Exhibit B4.

Exhibit B4: Signal Light Definitions for Actuarially Determined Contribution/Fixed Contribution Rate

For FY 2024/FCR ratio at or below 100% of fixed contribution rate at valuation date.
ADC/FCR ratio between 100% and 110% of fixed contribution rate at valuation date.
ADC/FCR ratio above 110% of fixed contribution rate at valuation date.

SOURCE: PERS Board of Trustees policy.

For the fiscal year ended on June 30, 2025, the plan’s ADC/FCR ratio was 130.6%, placing it in red signal-light status.¹⁶ This indicates that the statutory rate set by the Legislature is smaller than the ADC, and the difference between these two figures, in the opinion of the plan’s actuary, is outside the range established. It must also be noted that this result is calculated using the Legislatively mandated maximum rate that will not be reached until FY 2029. According to the plan actuary, CavMac, because the valuation and projection report is calculated using the Legislature’s phased-in approach to raising the employer contribution rate from 17.40% to the targeted 19.90%, the full 19.90% contribution rate must be used in the calculation of the ADC/FCR ratio. The use of this rate could cause the ratio results to reflect a lower ADC/FCR ratio than what the PERS plan is currently experiencing.

According to the PERS funding policy, if any one metric is in the red signal-light status in conjunction with the annual valuation report and the projection report, the actuary will determine and recommend to the Board an employer contribution rate increase to consider that is sufficient to get all three funding policy metrics back into the green-light status.

Amortization Method Assumptions for the Actuarially Determined Contribution

A plan’s amortization period is the length of time necessary for a plan’s unfunded liabilities to be paid if all actuarial assumptions are met over that period. Under the Board’s prior funding policy, the amortization period fluctuated, which was not an uncommon practice among plans. To help align the plan with actuarial standards of practice, the PERS Board, as advised by its actuarial consultants, adopted a layered amortization¹⁷ for use in calculating the actuarially determined contribution.

Under a layered amortization approach, the Board has elected to amortize the plan’s existing unfunded actuarial accrued liability balance (as of June 30, 2018) over a closed¹⁸ 30-year amortization period and any future changes to the unfunded balance (i.e., actuarial gains/losses, assumption changes, and plan changes) over a closed 25-year amortization period. These amortization assumption methods pertain to the calculation for the ADC only.

¹⁶ For the year ended on June 30, 2025, the plan’s ADC was 25.98% and the plan’s FCR was 19.90%.

¹⁷ Layered amortization is the amortization of components of the UAAL over a separate fixed period as they emerge.

¹⁸ A closed amortization period is a type of amortization period utilized by pension plans that results in the full amortization of specific items within a finite (or predefined) period (i.e., a traditional 30-year mortgage on a home).

Actuaries must have a component of the funding model that can be adjusted to account for asset changes. The PERS Board, in attempting to maintain its legislatively mandated rate of 19.90%, has elected to continue using the plan's amortization period as this variable. As discussed previously, the PERS plan's projected UAAL payment period, as of June 30, 2025, is 42 years.

Because the new amortization assumptions apply to the calculation of the ADC only, it is possible for the projected payment period of the plan to extend past the 30-year target included in the ADC calculation. To help ensure that the plan's projected payment period does not deviate too far from these assumptions, the Board's funding policy includes a metric that requires the comparison of the plan's fixed contribution rate to the ADC annually.

SOURCE: PEER analysis.

Appendix C: PERS Investment Management Fees, FY 2024 and FY 2025

Type	Manager	FY 2024 (\$ in thousands)	FY 2025 (\$ in Thousands)
Domestic Equity	Artisan	\$2,196	\$2,522
	Dimensional SC	\$955	\$972
	Eagle	\$5,860	\$5,815
	Northern Trust S & P	\$281	\$297
	Riverbridge Domestic Equity	\$0	\$2,380
	Northridge Domestic Equity	\$2,312	\$0
	Victory Middle Capital Markets	\$2,578	\$2,646
	Wellington NC	\$2,141	\$0
	Wellington SC	\$0	\$2,237
	Debt Instruments	Alliance B Global	\$1,764
Loomis Sayles		\$1,969	\$1,934
Manulife asset Mngt		\$962	\$1,020
Northern Trust BB		\$27	\$0
PIMCO Pacific		\$982	\$1,047
PIMCO Global		\$1,798	\$1,846
Prudential		\$1,535	\$1,593
Wellington		\$3,137	\$3,353
Sit Short Duration		\$570	\$1,948
Global Equity		Acadian	\$3,863
	Epoch	\$4,343	\$3,659
	Harding Loevner	\$3,860	\$4,152
	LSV Global	\$3,500	\$3,771
	PIGM Global Equity	\$0	\$33
Non-US Equity	Arrowstreet	\$3,602	\$3,317
	Ballie Gifford	\$2,665	\$2,878
	Fisher Investments	\$3,835	\$4,254
	Lizard EM	\$2,274	\$2,409
	Marathon International	\$4,865	\$5,326
	Mondrian International SC	\$1,813	\$0
	Northern Trust Intl. SC	\$13	\$392
	Northern Trust MSCI World	\$229	\$249
	Principal Global SC Intl	\$1,336	\$1,326
Real Estate	CenterSquare AM	\$633	\$907
	Cohen and Steers REIT	\$459	\$510

	AEW IX	\$321	\$459
	AEW VII	\$0	\$1
	AEW VIII	\$113	\$73
	AEW X	\$0	\$890
	AG Core Plus III	\$7	\$0
	AG Core Plus IV	\$397	\$249
	AG Core Value X	\$723	\$674
	AG Realty Value XI	\$1,002	\$1,039
	Hancock Timber	\$594	\$520
	Heitman IV	\$218	\$147
	Heitman V	\$397	\$397
	Invesco RE IV	\$79	\$76
	Invesco RE V	\$815	\$745
	Invesco VA Fund VI	\$1,116	\$223
	Invesco US Income	\$3,183	\$1,417
	J.P. Morgan SPF	\$3,183	\$2,507
	Principal CF	\$6,513	\$5,734
	TA Realty XI	\$108	\$0
	TA Realty XII	\$1,354	\$1,119
	TA Realty XIII	\$1,165	\$857
	TA Realty CPF	\$0	\$73
	UBS TPF	\$1,878	\$1,732
	UBS TPG	\$2,194	\$1,771
	Westbrook Fund X	\$278	\$195
	Westbrook Fund XI	\$1,194	\$854
Private Equity	GCM Grosvenor 09	\$1,051	\$948
	GCM Grosvenor 14	\$2,021	\$1,843
	GCM Grosvenor 18	\$2,100	\$2,008
	GCM Grosvenor 24	\$0	\$370
	Pathway 2008	\$1,077	\$909
	Pathway 2013	\$2,363	\$2,012
	Pathway 2016	\$3,705	\$3,554
	Pathway 2021	\$2,005	\$1,944
	Blue Owl Lending PC	\$0	\$174
	GCM Grosvenor PC 23	\$94	\$159

SOURCE: PERS staff and PERS FY 2024 and FY 2025 *Annual Comprehensive Financial Report*.

Agency Response



Providing Benefits for Life

May 29, 2026

Mr. Ted Booth
Executive Director
Joint Committee on Performance Evaluation and Expenditure Review
Woolfolk Building, Suite 301-A
501 North West St.
Jackson, MS 39201

Dear Mr. Booth:

Thank you for the opportunity to review and meet with your team on the draft of the PEER report titled *2025 Update on Financial Soundness of the Public Employees' Retirement System*. In general, this appears to be a well-done report as in the past. We provided some feedback to PEER staff, but overall, we feel this is an accurate report that generally reconciles with our information.

However, I would like to take this opportunity to emphasize that PERS needs additional funding, in some manner, more in line with actuarial recommendations. As noted in the report, the actuarially determined contribution (ADC) was last calculated at 25.98% of payroll, which the PERS Board recommended to the legislature. Any assistance you all can provide in reiterating the importance of significant and/or recurring funding for PERS with your committee would be greatly appreciated.

Again, we thank you for the chance to review the draft and your continued support of PERS. Please contact me at 601-359-2241 if you need further information. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Ray Higgins, Jr." with a stylized flourish at the end.

H. Ray Higgins, Jr.
Executive Director

H. Ray Higgins, Jr. <i>Executive Director</i>	<i>Board of Trustees:</i>	Bill Benson <i>County Employees, Chair</i>	George Dale <i>Retirees, Vice Chair</i>	Kelly Breland <i>State Employees</i>	Kimberly Hanna <i>Municipal Employees</i>	Chris Graham <i>Gubernatorial Appointee</i>
		Randy D. McCoy <i>Retirees</i>	David McRae <i>State Treasurer</i>	Brian Rutledge <i>Institutions of Higher Learning Employees</i>	Jay Smith <i>Public Schools Community/Jr. Colleges</i>	Terrance Yarbrough <i>State Employees</i>

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