



MoDOT and Patrol Employees' Retirement System Board of Trustees Meeting Summary February 26, 2009

Board of Trustees

Mike Kehoe
Chairman

Highways & Transportation
Commissioner

Roger Stottlemire
Vice-Chairman
MSHP Retiree Representative

Duane Michie
Highways & Transportation
Commissioner

James B. Anderson
Highways & Transportation
Commissioner

Sue Cox
MoDOT Employees'
Representative

Senator John Griesheimer
Appointed by the President
Pro Tem of the Senate

Colonel Jim Keathley
Superintendent of MSHP

Pete Rahn
Director of MoDOT

Rep. Charlie Schlottach
Appointed by the
Speaker of the House

Bob Sfredo
MoDOT Retiree
Representative

Captain Juan Villanueva
MSHP Employees'
Representative

The following summary of the recent MPERS Board of Trustees meeting was prepared to keep you informed regarding the actions of the board and up-to-date on business affecting the retirement system.

♦ **Special Recognition to Mr. Michie and Mr. Anderson**
Presenter: Mike Kehoe, Chairman of the MPERS Board of Trustees

Mr. Duane Michie and Mr. Jim Anderson were honored for their contributions to the MPERS Board of Trustees. Both serve on the board as members of the Missouri Highways and Transportation Commission. Their terms on the Commission expire March 1, 2009. The Commission will be electing two new representatives to the MPERS board.

♦ **Modeling of Future Employer Contribution Rates**
Presenter: Ken Alberts, Gabriel, Roeder Smith & Company (GRS)

The actuaries at GRS are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render their actuarial opinion. A pension actuary is a highly trained professional whose job is to estimate how much money must be contributed each year to the pension fund in order to support the benefits that will become payable in the future.

At the [November 20, 2008](#) MPERS board meeting, Ken prepared and presented various funding projections for the board's consideration that estimate the impact of the recent market downturn. The purpose of having the actuary prepare the projections is to assist the board with future planning.

Nationwide, public pension plans are suffering investment losses. As a result, the plans are reevaluating benefits and finding ways to reduce costs. At the request of the MPERS board, GRS:

1. Developed a projection calculator that will allow the board to do "what if" modeling related to future employer contribution rates.
2. Provided a cost analysis related to changing benefit plan design for future hires.
3. Discussed the impact that employee contributions might have on the funding.

For illustrative purposes only, Ken presented a sample plan design (for future hires) that could decrease the contribution rate paid by your employer by approximately 2 percent. This would result in an annual savings of \$7.3 million to your employer.

Ken also discussed the impact that employee contributions might have on funding the system. Member contributions will reduce the employer contribution obligation. For each 1% of pay contributed by the member, employer contributions will decrease by approximately .93% of payroll (based on the proposed plan).

◆ **Investment Performance**

Presenter: Larry Krummen, MPERS Chief Investment Officer
Mark Caplinger, Summit Strategies

The fourth quarter of 2008 as far as investments were concerned was one for the history books. The total fund declined 28.4% for the year ended December 31, 2008. Mr. Krummen and Mr. Caplinger updated the board on short and longer-term plans related to the MPERS portfolio.

Staff presented the board with an outline related to future board education on investment issues that will lead to a new asset/liability study in late 2009. The following topics will be discussed at future board meetings:

- Defining and managing risk within the portfolio
- Portfolio diversification
- MPERS' liability structure and the results of the five-year experience study

Summit Strategies Group offers consulting services to some of the nation's top plan sponsors. Summit offers a full range of services to the plan sponsor community including sophisticated asset/liability and asset/spending analysis, portfolio implementation and monitoring, evaluation of defined contribution and defined benefit plans, and comprehensive investment research.

Mark Caplinger presented a research report from Summit Strategies providing their view of what has occurred in the investment markets during 2008, along with a high-level outlook for the five major asset classes:

- Public equities
- Public fixed income
- Private equity
- Real assets
- Hedge funds

◆ **Update on Vectis II Investment**

Larry Krummen, MPERS' Chief Investment Officer, reported that the contract with Vectis II has been reviewed and signed.

At the November 20 meeting, the Board of Trustees voted to invest in Vectis II. Vectis II is a private equity fund-of-funds focusing on life sciences and healthcare venture capital. Vectis will invest in other venture capital funds that in turn invest in companies seeking venture capital.

◆ **Legislative Update**

Presenter: Susie Dahl, MPERS Executive Director

The following bills have been introduced during the 2009 legislative session. Given the growing concern over the current financial downturn, it is unlikely any bills will pass that enhance benefits and

have a cost associated with them. Before a bill becomes law, it must be passed by the legislature and signed by the Governor.

House Bill 125 – Divorce After Retirement

Your MPERS retirement benefit is considered marital property. This bill would make your ex-spouse ineligible for benefits if the dissolution decree provides for “sole retention by the retired person of all rights in the retirement allowance.”

House Bill 210 – Eligible Retirement Withholding for Charitable Campaign

The proposed bill adds the Missouri State Employees Charitable Campaign as a deduction that can be withheld from retirement benefit payments.

House Bill 347 – Use of Overtime and Compensatory Pay in Final Average Pay

When MPERS calculates your retirement benefit, we use your highest 36 consecutive months of pay in the formula – referred to as final average pay. This bill eliminates the use of any overtime and compensatory pay received after June 30, 2010 when calculating your final average pay. This bill applies to both MPERS and MOSERS.

House Bill 477 – 2 Years of Free Military Service Credit (MOSERS Members Only)

The proposed legislation provides that an eligible veteran, who is a state employee with ten or more years of credited service, shall be given credit for two years of creditable service in the Missouri State Employees’ Retirement System (MOSERS). As written, this does not apply to MPERS members.

House Bill 478 – Retirement/Health Care Incentive

At this point, there are multiple versions of the bill. House Committee Substitute for House Bill 478 primarily removed the retirement incentive provision and made this a medical incentive only bill. As written, the bill gives discretion to the Highway Commission as to whether or not to offer the medical incentive to MoDOT and Patrol employees. MoDOT management has advised MPERS that they will not offer the health care incentive to members.

Senate Bill 28 – Cash Out Option

The proposed language allows a vested member of the Year 2000 Plan, who has terminated employment with the state, to make a one-time election to receive a lump sum payment equal to the present value of his/her retirement benefit. As written, members of the Closed Plan will not be eligible to cash out. The MPERS board authorized Ms. Dahl to testify in opposition of this bill. While there is a fiscal impact to this bill, an exact dollar amount cannot be determined because it is not known how many members might elect this provision.

Senate Bill 150 – Use of Overtime and Compensatory Pay in Final Average Pay

When MPERS calculates your retirement benefit, we use your highest 36 consecutive months of pay in the formula – referred to as final average pay. This bill eliminates the use of any overtime and compensatory pay received after June 30, 2010 when calculating your final average pay. This bill applies only to MPERS.

For your convenience, these bills may be tracked on the [General Assembly](#) website.

♦ **2009 Cost-of-Living Adjustment for Benefit Recipients (Retirees & Survivors)**

Presenter: Susie Dahl, MPERS Executive Director

MPERS provides an annual cost-of-living adjustment (COLA) to eligible retired members, eligible surviving spouses, beneficiaries, and work-related disability recipients. Generally speaking, the annual COLA rate is based on 80% of the change in the Consumer Price Index for All Urban Consumers (CPI-U). The COLA rate for 2009 will be **3.072%**.

2009 COLA Rate for Closed Plan Benefit Recipients:

(If eligible, the annual COLA rate in the Closed Plan will not be less than 4% or more than 5%, until the total increases equal 65% of your initial benefit.)

Hired prior to 8/28/97 **and** not reached 65% COLA Cap4.00%
Hired after 8/28/97 **or** already reached 65% COLA Cap.....3.072%

2009 COLA Rate for Year 2000 Plan Benefit Recipients:

All benefit recipients under the Year 2000 Plan.....3.072%

♦ **Miscellaneous Items on the Agenda**

- The March 26 board meeting has been cancelled.
- The next board meeting is set for Thursday, April 30, 2009.
- Future board meeting schedule:
 - Thursday, June 18
 - Thursday, September 17
 - Thursday, December 17

For more information about MPERS go to:

www.mpers.org