

# Minutes of Meeting

June 22, 2017





**TABLE OF CONTENTS**

**Approval of Minutes ..... 1**

**Consent Agenda ..... 2**

**Expression of Thanks to Major Kemp Shoun for His Service**

**to the Board of Trustees ..... 2**

**Results of Special Election and Welcome To Sergeant Matthew Broniec**

**to the Board of Trustees..... 2**

**Investment Committee Report**

**Liquidity Study ..... 3**

**CIO Investment Report**

**Investment Performance Report for Quarter Ending March 31, 2017 ..... 3**

**Current Asset Allocation Overview/Positioning Relative to Targets ..... 3**

**Budget Committee Report**

**FY 2018 Budget ..... 4**

**Review Travel Expenses for Executive Director & Trustees (FY2017) ..... 4**

**MPERS Business Plan – FY2017, 2018 and 2019 ..... 4**

**New Board Rules – Qualified Status ..... 5**

**Legislative Update..... 5**

**Pension Buyout & New Board Rules ..... 6**

**Risk Consultant Report ..... 7**

**Director’s Comments**

**Board Member Orientaiton ..... 7**

**MAPERS Conference ..... 7**

**Trustee’s Comments ..... 8**

**Committee Appointments ..... 8**

**Report on Trustee Education - FY2017 ..... 8**

**Membership Information**

**Benefit Payments and Member Data – May 2017 ..... 8**

**Retirement Inceptions (FY) – July 2016 through May 2017 ..... 8**

**Adjourn**



**BOARD OF TRUSTEES' MEETING**

**THURSDAY, JUNE 22, 2017**

**1:00 p.m.**

**1913 William Street  
Jefferson City, Missouri**

**TRUSTEES PRESENT:** Ms. Sue W. Cox, Chair  
Mr. William "Bill" Seibert, Vice Chair  
Mr. John Briscoe  
Colonel Sandy Karsten  
Mr. Mike Pace  
Representative Shawn Rhoads  
Senator Dave Schatz (via phone at 1:15 p.m.)  
Mr. Gregg Smith  
Mr. Todd Tyler

**TRUSTEES ABSENT:** Mr. Patrick McKenna

**STAFF PRESENT:** Mr. Scott Simon, Executive Director  
Mr. Greg Beck, Assistant Executive Director  
Mr. Larry Krummen, Chief Investment Officer  
Ms. Greta Bassett-Seymour, General Counsel  
Ms. Jennifer Even, Chief Financial Officer  
Ms. Lois Wankum, Executive Assistant

**GUESTS/PRESENTERS:** Mr. Kevin Leonard, NEPC  
Mr. Mike Winter, Legislative Consultant

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, June 22, 2017, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Ms. Sue Cox pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

\* \* \* \* \*

**APPROVAL OF MINUTES**

Upon a motion by Mr. Smith, and seconded by Mr. Pace, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on February 23, 2017 and April 13, 2017.

The Chair and Executive Director were authorized and directed to sign and certify said minutes and to file same in the office of the Executive Director.

\* \* \* \* \*

**CONSENT AGENDA**

To make the most efficient use of Retirement Board meeting time and to ensure the Trustees are well informed on issues requiring their action, the Executive Director prepares in advance and submits to the Trustees, items consisting of advice, opinions, and recommendations related to subjects on the Board meeting agenda. Items considered by staff to be of a routine or non-controversial nature are placed on the consent agenda. During the meeting, items may be removed from the consent agenda at the request of any one Trustee. Items not removed from the consent agenda are approved with a single motion and a unanimous vote by a quorum of the Trustees in attendance.

Minutes reflecting approval of items on the consent agenda are singly reported herein and thus, are intermingled with minutes reflecting action on related subjects as discussed. Reference to “consent agenda” is made in each minute approved via the process described above. Minutes reflecting action on items removed from the consent agenda and openly discussed reflect the open discussion and the vote thereon.

No items were removed from the consent agenda. Upon a motion by Mr. Pace and seconded by Mr. Smith, all items on the consent agenda were unanimously approved.

\* \* \* \* \*

**EXPRESSION OF THANKS TO MAJOR KEMP SHOUN FOR HIS SERVICE TO THE BOARD OF TRUSTEES**

The Board expressed appreciation to Major Kemp Shoun for his dedication and service to the MPERS Board of Trustees. Major Shoun served on MPERS’ Board as the active MSHP employee representative since July 1, 2015. His retirement from MSHP was effective May 1st.

\* \* \* \* \*

**RESULTS OF SPECIAL ELECTION AND WELCOME TO SERGEANT MATTHEW BRONIEC TO THE BOARD OF TRUSTEES**

The Executive Director presented the results of the special election to the Board. The election was held to fill the unexpired 4-year term of Major Kemp Shoun. Major Shoun was the active member of the Missouri State Highway Patrol on the Board. The term expires on June 30, 2018.

The election was conducted electronically through *myMPERS* secure member access online. The voting period ended at 4:00 p.m. on June 9, 2017. The Executive Director certified the results as follows:

<u>Active MSHP Employee</u>	<u>370</u>
Matthew J. Broniec, Sergeant Troop F, Jefferson City	156
Steve P. Davis, Lieutenant Troop I, Rolla	65
Kyle Marquart, Captain General Headquarters, Jefferson City	149

Based on the tally of votes cast, the Executive Director recommended the Board adopt a motion to certify the election result as presented and declare Sergeant Matthew (Matt) Broniec as the successful candidate to the Board of Trustees effective immediately.

Upon motion made by Colonel Karsten and seconded by Mr. Tyler, the Board unanimously declared Sergeant Matt Broniec as the successful candidate as recommended by the Executive Director.

The Board officially welcomed Sergeant Broniec to the Board.

\* \* \* \* \*

### **INVESTMENT COMMITTEE REPORT**

*– by Mr. Mike Pace, Investment Committee Chair*

- **Liquidity Study**

Mr. Pace stated the Investment Committee met prior to the Board meeting. Mr. Pace stated NEPC presented the Plan’s annual liquidity study. NEPC provided the Committee with information on base case and stressed case scenarios. NEPC believes the plan’s liquidity is sound and should maintain its current allocation.

\* \* \* \* \*

### **CIO INVESTMENT REPORT**

*– by Mr. Larry Krummen (MPERS) and Mr. Kevin Leonard (NEPC)*

- **Investment Performance Report for Quarter Ending March 31, 2017**

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance. As of March 31, 2017, MPERS’ fund value was \$2.11 billion. MPERS’ fiscal year-to-date return (July 1, 2016 through June 13, 2017), was an estimated 10.5%. MPERS’ portfolio generated a healthy 3.2% return in the 1st quarter of 2017, led by the equity markets which continue to build momentum since Mr. Trump’s presidential election last year.

Longer term performance remains solid relative to policy benchmarks and the public fund peer universe. MPERS’ three and five year returns rank in the top 1% of the peer universe, and the ten year returns ranks in the 36<sup>th</sup> percentile of performance. MPERS’ ten year risk profile continues to rank at the bottom 25% of our peers (with risk defined by standard deviation of returns), producing a very nice risk/return profile relative to peers.

- **Current Asset Allocation Overview/Positioning Relative to Targets**

MPERS’ maintained a slight overweight to the equity markets based on the strong market momentum, improving tax and regulatory environment (specifically in the U.S.), and to improved fundamentals in developed international markets. It is only a slight overweight, as we are also mindful of the heightened level of optimism priced into today’s valuations and are monitoring the position closely for any significant change in market sentiment. The largest deviation from the targeted asset allocation is the underweight position in fixed income, given the historically low interest rate environment, an economy that continues to show signs of growth, and a Federal Reserve that continues to raise the Federal Funds rate.

As of June 14, 2017, MPERS’ cash balance stands at \$40.5 million, or 1.9 % of assets.

\* \* \* \* \*

## **BUDGET COMMITTEE REPORT**

*– by Ms. Sue W. Cox, Budget Committee Chair*

- **FY2018 Budget**

Ms. Cox reported the Budget Committee met with MPERS staff, on May 16, 2017, to review the proposed budget. Ms. Jennifer Even, MPERS' Chief Financial Officer, gave a brief overview of each budget category and summarized the increases and decreases in each budget category. Budgeted expenditures would have been essentially the same as last year except for the addition of the actuarial experience study (required every five years), the allocation for document retention software, and the addition of new part-time assistant chief financial officer. With those items included, the approved total budget proposal increased by 4.36% over last year.

Mr. Simon presented the Board with information similar to the Cost Effectiveness Measurement (CEM) Benchmarking Survey used previously, which offered context for how MPERS "cost per member" compared to several other similar small pension plans. The information showed MPERS is operating at a low cost. Mr. Simon also presented a 10-year budget comparison to illustrate the operations budget is less today than it was 10 years ago.

Mr. Simon advised the Board additional funding may be requested if the Governor signs the Pension Buyout bill. The budget was not modified to include additional costs associated with the implementation of this legislation; however, Mr. Simon stated the current budget may be able to absorb the costs.

Mr. Pace made a motion to accept the Budget Committee's recommendation to approve the FY2018 Budget as presented. Mr. Smith seconded the motion. By unanimous vote of all members present, the motion carried.

- **Review Travel Expenses for Executive Director & Trustees (FY2017)**

Per the Board policy, the Travel Expense Report was also provided.

\* \* \* \* \*

## **MPERS' BUSINESS PLAN – FY2018, 2019 and 2020**

*– by Mr. Scott Simon, MPERS Executive Director*

MPERS' Business Plan for Fiscal Years 2018, 2019 and 2020 was presented to the Board. Although the plan was described as aggressive, Mr. Simon indicated it is necessary to continue the evolution of the system and to continue to provide outstanding customer service to members of MPERS.

Mr. Briscoe made a motion to approve MPERS' Business Plan for Fiscal Years 2018, 2019 and 2020. Colonel Karsten seconded the motion. By unanimous vote of all members present, the motion carried.

\* \* \* \* \*

## **NEW BOARD RULES – QUALIFIED STATUS**

*– by Mr. Scott Simon, MPERS’ Executive Director*

MPERS recently went through the application and review process for a determination letter (a process that confirms MPERS’ qualified status as a governmental plan), with the Internal Revenue Service (IRS). As a result, MPERS was informed by the IRS that in order to retain a qualified status, the Board is required to adopt a number of Board Rules to satisfy the Internal Revenue Code in both form and function. Even though MPERS was doing everything administratively required by these new board rules, the processes and policies were not in writing in a formal document approved by the Board.

Since there wasn’t much discretion to the changes in the board rules, the Governance Committee concurred to offer the following board rules for adoption by the full Board (in lieu of getting statutory amendments) to remain compliant in the eyes of the IRS.

- ***Board Rule 1-9 Benefits are Nonforfeitable if Plan Terminates***
- ***Board Rule 1-10 Compliance with Internal Revenue Code and Regulations Incorporated by Reference***
- ***Board Rule 1-11 Internal Revenue Code Compliance with the Uniformed Services Employment and Reemployment Rights Act (USERRA) and the Heroes Earnings Assistance and Relief Tax Act (HEART)***
- ***Board Rule 1-12 Required Minimum Distributions***
- ***Board Rule 1-13 Actuarial Equivalent Reduction Factors for Various Survivor Options***
- ***Board Rule 1-14 Compliance with United States v. Windsor and Application of Same-Sex Marriage Laws***

Mr. Tyler made a motion to adopt the new Board Rules as presented. Representative Rhoads seconded the motion. By unanimous vote of all members present, the motion carried.

\* \* \* \* \*

## **LEGISLATIVE UPDATE**

*– by Mr. Scott Simon, MPERS’ Executive Director*

Mr. Simon stated Senate Bill 62 (SB 62) was an omnibus bill that passed in the last days of the regular session, and is still subject to the governor’s signature. The bill includes three provisions relevant to MPERS; pension forfeiture cleanup, a change in the 2011 Tier vesting, and a pension buyout option for vested-former members.

The pension forfeiture cleanup of Section 105.669, RSMo., requires employers to give notice to MPERS when an individual is terminated from employment in connection with a listed felony committed in the course of his/her employment. It further requires the employer to provide MPERS with any relevant information that may assist MPERS in implementing the statute. (This same legislation was also passed in SB 34.)

The pension buyout amendment (to be adopted at the discretion of the Board) would allow vested-former members of the Closed and Year 2000 plans to elect to receive a lump sum buyout instead of a monthly benefit at retirement age. The buyout provision also gives discretion to the Board for a number of details, including whether or not to implement the buyout amendment at all and if implemented, at what percentage to pay out lump sum benefits.

Lastly, the bill decreased the vesting requirement in the 2011 Tier from ten years to five years. For those 2011 Tier members who are employed on or after January 1, 2018, vesting will be five years instead of ten. Anyone in the 2011 Tier terminating employment prior to January 1, 2018, will not be eligible for this change. There are also a few other changes to benefits that will apply only to 2011 Tier vested members terminating employment prior to retirement. These changes do not affect any employees active at the time of retirement.

\* \* \* \* \*

## **PENSION BUYOUT & NEW BOARD RULES**

– *by Mr. Scott Simon, MPERS' Executive Director*

Mr. Simon outlined the provisions of SB 62 which includes a buyout provision for vested-former members of the Closed Plan and Year 2000 Plan, subject to Board adoption. The buyout gives the Board discretion to offer a limited window of opportunity during which, vested-former members could elect to receive a lump sum distribution (cash or rollover) in lieu of a future monthly annuity. The Board would stipulate at what level (discount) the lump sum distribution would be set. After discussion, the following criteria was considered by the Board.

- Vested-former members who will not be eligible for retirement prior to January 1, 2018, are eligible to participate, with some exceptions.
- Eligible members who elect the buyout will receive 50% of the present value of the deferred annuity as calculated by the actuary.
- The present value will be determined as of October 1, 2017, for all eligible members.
- Eligible members will receive an estimate comparing the amount of the buyout payment with the projected monthly benefit payment payable on the date of eligibility for normal retirement.
- Eligible members must make the election by November 30, 2017 (application and required documentation must be postmarked or received by the system by close of business November 30, 2017).
- Payments will be made between January 1 and May 31, 2018, to members who elect the buyout.
- The system will make reasonable efforts to locate vested-former members who have not maintained a current address, but all members are subject to the limited window ending November 30, 2017, even if they were not located timely.

To implement SB 62, the following Board Rules were considered for adoption.

- ***3-7 (Closed Plan) and 4-7 (Year 2000 Plan) Vested-Former Member Buyout Program***

Mr. Pace made a motion to adopt the new Board Rules as presented. Mr. Tyler seconded the motion. By unanimous vote of all members present, the motion carried. The new Board Rules are subject to the governor's approval of SB 62.

\* \* \* \* \*

## **RISK CONSULTANT REPORT**

*– by Mr. Scott Simon, MPERS’ Executive Director*

MPERS provides its members with a long term disability plan (LTD) in order to provide security to active members if some unforeseen medical condition prohibits the employee from performing normal duties. MPERS has contracted with The Standard to provide LTD coverage to covered members. MPERS also employs Charlesworth Consultants to review the LTD plan (administered by The Standard) to ensure the LTD program is operating effectively and benefits are provided appropriately. Mr. Bob Charlesworth provided a letter stating he met with The Standard in June 2017 to review the plans experience and reminded MPERS the “rate hold” guaranteed by The Standard until July 1, 2020 continues to be competitive to the claims experience of MPERS.

Mr. Charlesworth’s letter also reminded MPERS of the addition of the Claim Fluctuation Reserve (CFR) account which began July 1, 2016, that was established within The Standard’s contract. The CFR allows MPERS to capture positive claim experience, if/when it occurs, in order to protect against poor future claim experience, lower future funding, or even generate a possible refund. This is important in that over a 5-year evaluation period, MPERS claims can vary and any positive fluctuations can help offset years that are not performing quite as expected.

Mr. Charlesworth will continue to monitor the claims experience and reserving practices of The Standard to confirm the pricing and service model of this risk transfer meets the needs of MPERS. The addition of the CFR Account provision is key to keeping the rates competitive since MPERS rates are heavily developed by the groups’ own experience.

\* \* \* \* \*

## **DIRECTOR’S COMMENTS**

- **Board Member Orientation**

Mr. Simon stated Board Member Orientation for Sergeant Matthew Broniec, the newly elected MSHP Active employee representative, will be scheduled in the next few weeks.

- **MAPERS Conference**

Mr. Simon stated most of the Trustees are registered to attend the Missouri Association of Public Employee Retirement Systems (MAPERS) Educational Conference on July 12-14, 2017, at Tan-Tar-A Resort at Lake of the Ozarks.

Mr. Ken Alberts, MPERS’ actuary, along with Ms. Heidi Barry of Gabriel Roeder Smith & Company (GRS) will be presenters during the educational session on Wednesday, July 12<sup>th</sup>.

\* \* \* \* \*

**TRUSTEE’S COMMENTS**

• **Committee Appointments**

With the addition of Sergeant Broniec, Ms. Cox stated the committee appointments were updated as shown below:

**Audit Committee**

Bill Seibert – *Chair*  
John Briscoe  
Todd Tyler

**Budget Committee**

Sue Cox – *Chair*  
Bill Seibert – *Vice Chair*  
Representative Shawn Rhoads

**Governance Committee**

Todd Tyler – *Chair*  
Sergeant Matt Broniec  
Colonel Sandy Karsten  
Senator Dave Schatz

**Investment Committee**

Mike Pace – *Chair*  
Patrick McKenna  
Gregg Smith  
Bill Seibert

\* \* \* \* \*

**REPORT ON TRUSTEE EDUCATION – FY2017** (*Consent Agenda*)

Per the Monitoring and Reporting Policy, the Board was provided with the “*Report on Trustee Education*” for FY2017. Via approval of the consent agenda, the Board unanimously accepted the report.

\* \* \* \* \*

**MEMBERSHIP INFORMATION** (*Consent Agenda*)

• **Benefit Payments and Member Data – May 2017**

The Executive Director provided current member and benefit data to the Board. Via approval of the consent agenda, the Board unanimously accepted the reports.

\* \* \* \* \*

**RETIREMENT INCEPTIONS** (*Consent Agenda*)

The Executive Director provided the Board with a summary of retirement inceptions for the months of July 2016 through May 2017. Via approval of the consent agenda, the Board unanimously accepted the report.

\* \* \* \* \*

**ADJOURN**

A motion to adjourn was made by Mr. Smith and seconded by Colonel Karsten. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

\* \* \* \* \*

## CERTIFICATION

We, Sue W. Cox, Board Chair, and Scott Simon, Executive Director, Board of Trustees, MoDOT & Patrol Employees' Retirement System, hereby certify that the foregoing are full, true, and complete minutes of the meeting of the Board held on June 22, 2017 in Jefferson City, Missouri, as approved by said Board at its meeting held June 22, 2017.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on September 28, 2017.



---

Chairman



---

Executive Director