FUNDING AND CONTRIBUTION RATE DETERMINATION POLICY

Introduction

The Board of Trustees adopts this policy to improve and maintain the funded status of MPERS. This policy recognizes that imprudent benefit changes or inadequate contributions undermine the stability, soundness and funded status of MPERS.

Funded Status

The funded status goal (ratio of actuarial value of assets to actuarial accrued liability) of MPERS is 100%. In years in which the funded status is not 100% (whether higher or lower), the Board will establish contributions to the System that are approximately level (as a percentage of covered payroll) and result in the funded status gradually trending toward 100% according to sound actuarial standards. Under state law the Board may not adopt or implement newly enacted benefit enhancements when MPERS is less than 80% funded and may not adopt or implement newly enacted benefit enhancements that would cause MPERS to be less than 75% funded. Unfunded actuarial changes associated with benefit enhancements shall be amortized over a period not to exceed 20 years for purposes of determining contributions. In the event MPERS is less than 60% funded, the actuary will prepare an accelerated contribution schedule based on a descending amortization period for inclusion in the actuarial valuation.[1]

Contribution Rate Determination[2]

The Board will certify the actuarially determined contribution rate by October first of each year.[3] The determination of contribution rates requires regular actuarial valuations, which shall be made by MPERS' actuary using assumptions and methods adopted by the Board after consultation with the actuary. Such assumptions and methods include, but are not limited to, the asset smoothing method, unfunded accrued liability amortization period, demographic assumptions, and economic assumptions.[4] The contribution rate will fund the liabilities of the System in a manner that will remain approximately level from one generation to the next as determined by the actuary, in accordance with accepted actuarial principles, and based on entry age-normal cost valuation plus level percentage of payroll financing of all MPERS' unfunded liabilities.

The Board's actuarial assumptions and methods are adopted pursuant to a five-year experience study performed by the actuary and in accordance with the law. The Board will review and update, if necessary, the actuarial assumptions and methods at least once every five years, taking into account the results of the following: 1) a current experience study; 2) the recommendations of the actuary; and 3) the current condition of the System. The Board will order an actuarial valuation annually in accordance with accepted actuarial procedures.[5] By practice, the Board also consults with others, such as the Executive Director, Chief Investment Officer and general investment consultant with respect to the economic assumptions to be used in the actuarial valuations.

[1] Section 105.684, RSMo.
[2] Revised September 25, 2014; revised June 20, 2019.
[3] Section 104.1066, RSMo – the specified date assures the rate is certified 90 days prior to the regular legislative session.
[4] Revised June 20, 2019.
[5] Section 105.664, RSMo.

The Board will consult with the General Counsel and retain outside counsel, if necessary, in the event a certified contribution is not timely paid to ensure the System's interest is represented appropriately in the proper forum.

Validation of the Work of the Retained Actuary[6]
An actuarial audit report shall be prepared by an actuarial firm (other than the retained actuary) selected by the Board. The purpose of this report is to provide the Board with an independent assessment of the quality of the work of the retained actuary with respect to both process and reasonableness of assumptions and results and the reasonableness of the related fees. Such an audit shall be conducted periodically as directed by the Board.

The Executive Director may recommend changes to the contract with the actuarial firm that currently provides actuarial services to the Board or the issuance of a request for proposal from additional actuarial firms based on the information provided in the actuarial audit report, or whenever the Executive Director determines it is appropriate to do so.

Overall Conformance with Professional Standards of Practice[7]
The work of the actuary in connection with this policy shall conform to actuarial standards of practice for public employee retirement plans promulgated by the Actuarial Standards Board and shall satisfy the requirements of the Governmental Accounting Standards Board (GASB) with respect to the development of information needed by the System and by employers for financial reporting purposes.

MPERS will take responsibility for delivering to all participating employers the information needed for pension information disclosures in their annual financial statements. Modifications to GASB requirements (statements 67 and 68) will change disclosure requirements in financial statements for public pension plans and their covered employers prospectively. These changes are not to be confused with MPERS' funding policy as described in this policy.

Permanent Funding Policy[8]
The total contribution rate for each employee group (uniform and non-uniform) will be based on the normal cost plus the amortization of the unfunded actuarial accrued liabilities over a closed period.

<u>Amortization Method</u>:
Effective for the fiscal year beginning July 1, 2023, MPERS will finance unfunded liabilities in two parts:

1. The current unfunded retiree liability (if any) will be completely funded with the FY 2025 employer contribution, which is determined as of the June 30, 2023 valuation.
2. All other unfunded liabilities will be amortized over a closed 16-year period starting with the FY 2025 employer contribution, which is determined as of the June 30, 2023 valuation. All changes in unfunded liabilities will be made to this portion in future valuations. The amortization period will reduce by one year in each future valuation.

Contribution Rate Stabilization Reserve Fund[9]
In 2014, the Board adopted a Contribution Rate Stabilization Reserve Fund (CSR) from experience gains to: 1) reduce contribution rate volatility and 2) improve the System's funding status. The CSR is an accounting entry within the actuarial valuation, which is added to the unfunded liabilities of the plan for contribution rate determination purposes. In the absence of gains and losses, the CSR will increase funding more rapidly than without the CSR and it will ultimately result in the plan being slightly more than 100% funded. A partially or fully funded CSR will help mitigate contribution

[6] Revised September 25, 2014.
[7] Revised September 25, 2014.
[8] Revised June 20, 2019, and June 22, 2023. In June 2023, the Board adopted the temporary accelerated funding policy as the permanent policy.
[9] Added to policy June 22, 2023 and significantly revised February 16, 2024 to reflect specific funding details for each of the employee groups.

rate volatility whenever experience losses are realized.

The CSR is the amount necessary to contribute to the unfunded liability for the funding policy to produce an employer contribution rate equal to the Board-established minimum employer contribution rate. If the CSR is at the Board-established maximum, the employer contribution rates will drop below the Board-established minimum employer contribution rates. If the CSR is below the Board-established maximum, the employer contribution rate will be the minimum rate established by the Board. If there is no CSR balance, the contribution rate would be at or above the minimum rates established by the Board.

Effective February 2024, the Board established maximum balances for the CSR for each covered employee group, both non-uniformed and uniformed. For the non-uniformed group, the maximum CSR will be $250 million and a corresponding minimum employer contribution rate of 45% of payroll. The maximum CSR for the uniformed group will be $75 million and a corresponding minimum employer contribution rate of 58% of payroll.

If the CSR is below the Board-established maximum for the applicable employee group, the employer contribution rate will be no less than the minimum established actuarial rate of 45% of payroll for the non-uniformed group or 58% of payroll for the uniformed group. If the CSR is at the Board-established maximum, the applicable employer contribution rate will be determined by adding the maximum balance to the unfunded liability. The corresponding employer rate will then fall below the minimum rate.

Given that no policy is expected to work in every future situation, the actuary is charged with monitoring the funding policy and informing the Board if any of the policy parameters (such as the maximum CSR, minimum employer rate, or financing periods) need to be reviewed or changed to maintain the Board's goals of relatively level contribution rates and continued strengthening of the System's funded status.