

MoDOT & Patrol Employees' Retirement System

MPERS FYI

Popular Annual Financial Report for the Fiscal Year Ended June 30, 2022

A Foundation for the Future



**Missouri Department of Transportation and Highway Patrol Employees' Retirement System
A Component Unit of the State of Missouri**

A Message from the Director



Scott Simon
Executive Director

This For Your Information (FYI) brochure is prepared to provide a reader friendly summary of MPERS' information, which members and other stakeholders may find useful. For additional, more detailed information, please refer to our Annual Comprehensive Financial Report (Annual Report), available on our website at www.mpers.org.

MPERS' membership is comprised of benefit-eligible employees (actives) of the Missouri Department of Transportation (MoDOT), the Missouri State Highway Patrol (MSHP or Patrol), and MPERS, in addition to all benefit recipients (retirees, survivors, etc.). The System administers retirement, survivor, and disability benefits in accordance with Chapter 104 of the Missouri Revised Statutes. MPERS operates as a 401(a) tax-qualified defined benefit plan. Benefits are based on a formula that is set by law.

The theme of the 2022 Annual Report, as well as the FYI brochure, is "A Foundation for the Future." During the past year, and perhaps more than ever, it has been critically important for individuals to have confidence in their financial interests. During what has been, and continues to be, an adverse life experience, MPERS has seamlessly distributed benefit payments every month. In addition, we have managed to protect the corpus of the fund.

While many of our peers realized negative investment returns for FY 2022, MPERS managed a 3.9% return. As you will see, this return and the returns over longer time horizons puts MPERS results among the better performing plans in the country. MPERS has also recognized a number of other strategic planning issues that are important to continuing the success that has been built over the past few decades. These planning issues will set the foundation for material changes that will occur in the coming years and are essential to maintaining and building upon the successes of the past. MPERS' members have come to expect prompt, courteous, personalized, and professional service; timely payments made in compliance with the law; accurate and transparent communications; and relevant information and education. We are proud to report that we were able to continue this mission to our members and stakeholders over the past year.

MPERS' funding objective is to meet current and future benefit obligations for retirees and beneficiaries. Benefits are funded by investment earnings and payroll contributions. The funding should remain approximately level from generation to generation. During the fiscal year ending June 30, 2022, the funded status of MPERS increased by 3.9% to 66.3%.

As of June 30, 2022, MPERS' investment portfolio had a fair value of \$3.06 billion, representing a return of 3.94% for the fiscal year. Relative to MPERS' peer group (the InvestorForce Public Fund Universe) the 3.94% return for Fiscal Year 2022 ranked MPERS in the 1st percentile. The trailing 3-, 5-, and 10-year performance of 10.6%, 9.6%, and 9.7% respectively, also ranks MPERS in the 1st percentile relative to the peer group. We express our gratitude to the Board, the staff, the consultants, and the many people who have worked so diligently to ensure the continued successful operation of MPERS. The steady monthly benefit payments offered by defined benefit plans like MPERS provide peace of mind and security for retirees and their families. For over 65 years, MPERS has provided a foundation for financial security to plan participants through the delivery of quality benefits, exceptional member service, and professional plan administration.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Simon".

Scott Simon
MPERS' Executive Director

Contents

About MPERS	3
Financial.....	4
Investments.....	5
Funding.....	6
Funding.....	7
Benefits.....	8
Membership.....	9
Retiree Location	10

MPERS operates under the direction and control of an 11-member Board of Trustees. The Board of Trustees has the ultimate fiduciary responsibility for the System and those covered by the System. Fiduciary duty is a legal relationship of trust between parties, where one party is acting for the benefit of another. Fiduciaries of pension funds have strict standards imposed upon them by law. The Board's primary fiduciary responsibilities are the duty of loyalty, the duty of prudence, and the duty of care.

In addition to administrative rules, the Board adopted governance policies that set forth the expectations the Board has for itself and formalize the way the Board conducts business. The policies are intended to help the Board meet its fiduciary responsibilities. The governance policies set forth the structure, manner, and process by which the Board exercises its authority and control. As of June 30, 2022, the Board consisted of the following members:



Lt. Colonel Eric Olson
Board Chair
Superintendent of MSHP
Ex Officio Member



Todd Tyler
Board Vice Chair
MoDOT Employee
Representative



Senator Mike Bernskoetter
State Senator



W. Dustin Boatwright
Commission Member
MO Highways & Transportation
Commission



Lt. Matt Broniec
MSHP Employee
Representative



Sue Cox
MoDOT Retiree
Representative



Terry Ecker
Commission Member
MO Highways & Transportation
Commission



Representative Barry Hovis
State Representative



Patrick McKenna
Director of MoDOT
Ex-Officio Member



William "Bill" Seibert
MSHP Retiree Representative



Gregg Smith
Commission Member
MO Highways & Transportation
Commission

Financial

Financial statements report information using accounting methods similar to those used by private sector companies. The net position reported below is an indicator of the System's financial standing at the end of the fiscal year. For more financial information, refer to the Annual Comprehensive Financial Report at www.mpers.org.

Assets and Liabilities

The *Summarized Comparative Statements of Fiduciary Net Position* includes all of the System's assets and liabilities, with the difference between the two reported as net position.

	As of June 30, 2022	As of June 30, 2021	% Change 2022 / 2021
Cash and Receivables	\$ 119,368,464	\$ 27,488,024	334.3
Investments	3,058,469,276	3,002,537,498	1.9
Invested Securities Lending Collateral	23,800,466	117,448,756	-79.7
Capital Assets	388,915	383,217	1.5
Total Assets	3,202,027,121	3,147,857,495	1.7
Deferred Outflows of Resources	513,253	361,851	41.8
Accounts Payable	108,303,592	19,344,757	459.9
OPEB Obligation	2,367,620	2,019,603	17.2
Securities Lending Collateral	24,560,325	122,747,636	-80.0
Total Liabilities	135,231,537	144,111,996	-6.2
Deferred Inflows of Resources	115,751	182,122	-36.4
Net Position	<u>\$3,067,193,086</u>	<u>\$3,003,925,228</u>	2.1

Income and Expenses

The *Summarized Comparative Statements of Changes in Fiduciary Net Position* accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

	As of June 30, 2022	As of June 30, 2021	% Change 2022 / 2021
Contributions	\$ 225,366,897	\$ 217,389,127	3.7
Net Investment Income (Loss)	122,767,485	699,644,251	-82.5
Other Income	195	286	-31.8
Total Additions	348,134,577	917,033,664	-62.0
Benefits	279,637,701	270,122,851	3.5
Administrative Expenses	5,229,018	4,585,473	14.0
Total Deductions	284,866,719	274,708,324	3.7
Net Increase (Decrease)	63,267,858	642,325,340	-90.2
Net Position—Beginning	3,003,925,228	2,361,599,888	27.2
Net Position—Ending	<u>\$3,067,193,086</u>	<u>\$3,003,925,228</u>	2.1

Investment Policy

The primary objective of MPERS is to provide active and retired employees with adequate retirement benefits. The investment portfolio is constructed to generate a total return that, when added to employer contributions, is sufficient to meet the benefit obligations. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the plan's tolerance for risk as determined by the Board in its role as fiduciary.

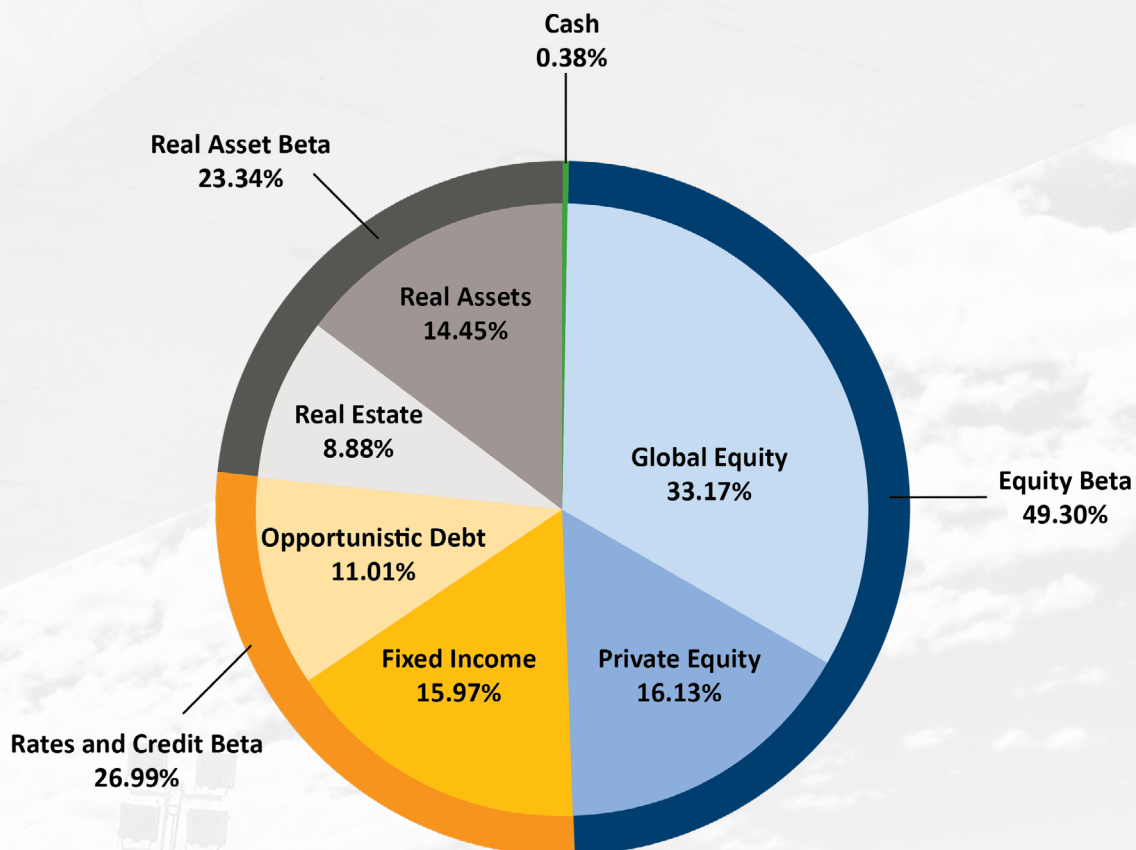
Investment Performance

MPERS' investment portfolio generated a 3.94% return for the year, net of all management fees and based on time-weighted rates of return and market valuations. As of June 30, 2022, MPERS' investment portfolio had a total fair value of \$3.06 billion, representing an increase of \$58 million from June 30, 2021.

	FY 2022	FY 2021	FY 2020
Asset Value	\$3.0 billion	\$3.0 billion	\$2.3 billion
1-Year Return	3.94%	30.80%	-0.46%
Policy Benchmark	-4.34%	23.47%	4.03%
3-Year Return	10.61%	11.63%	5.18%
Policy Benchmark	7.11%	11.79%	6.81%
5-Year Return	9.61%	11.10%	5.51%
Policy Benchmark	7.56%	10.79%	6.60%
10-Year Return	9.71%	9.59%	8.80%
Policy Benchmark	7.98%	8.79%	8.18%

Asset Allocation

MPERS' investment consultant completes an asset/liability study every five years to determine whether or not changes are needed to the asset allocation. The asset allocation is reviewed annually by the Board.



Funding

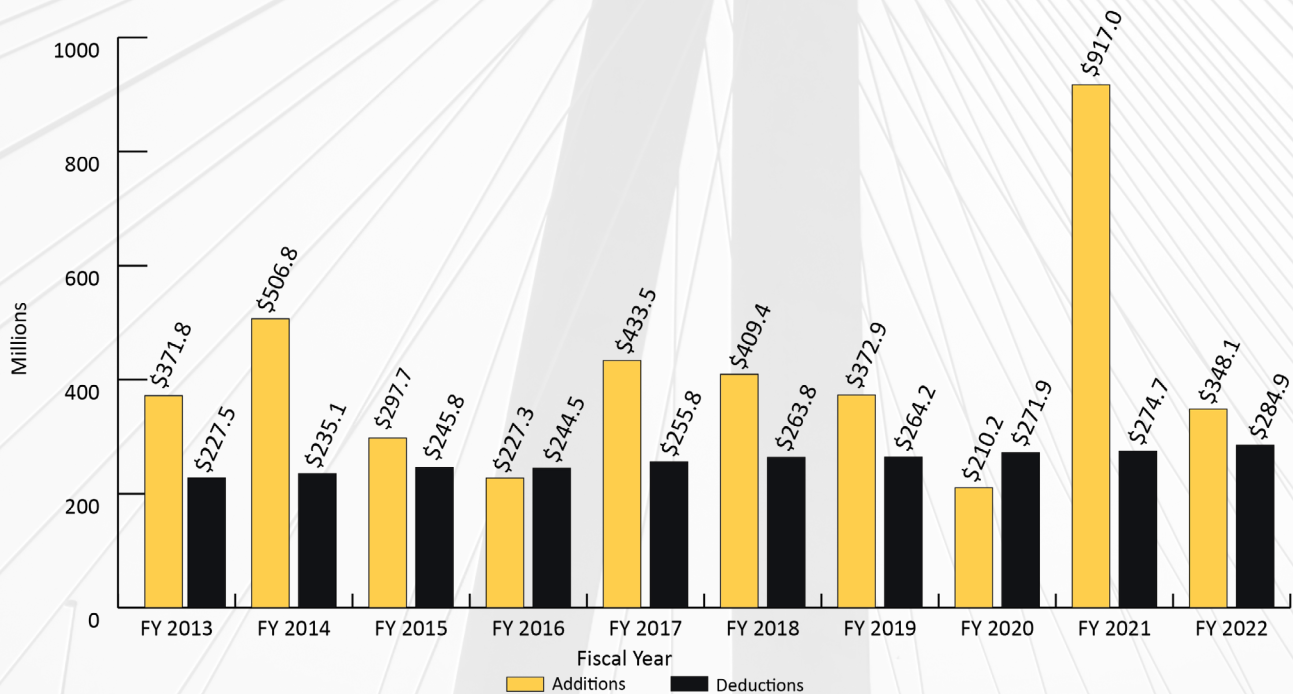
Pension Plan Funding

MPERS' funding objective is to meet current and future benefit obligations of retirees and beneficiaries through contributions and investment earnings.

Each year, an actuary calculates the liability associated with the benefits, determines the funded status, and recommends the contribution rate necessary to fund the System in accordance with the Board-approved funding policies.

The contribution rate is based on a number of factors, including the current level of benefits, the number of participants, current and future pay levels, members' age and average life expectancy, expected earnings on investments, and the plan's unfunded liability. The investment portfolio is constructed to generate income that, when added to employer contributions, is sufficient to meet benefit obligations and expenses.

Contributions + Investment Income vs. Benefit Payments + Expenses
(additions) (deductions)



Permanent and Temporary Funding Policies

In an effort to address the System's underfunded status, the Board has adopted policies intended to improve MPERS' funded status over time. The unfunded actuarial accrued liabilities are amortized as follows:

Permanent Policy: In September 2006, the Board adopted a policy where the total contribution is based on normal cost plus a 29-year amortization of unfunded liabilities. The amortization period began July 1, 2007.

Temporary Accelerated Policy: In September 2009, after the market downturn, the Board adopted a policy where the total contribution is based on normal cost plus a 15-year amortization period for unfunded retiree liabilities and a 30-year amortization period for other unfunded liabilities. Both amortization periods started July 1, 2010.

The temporary accelerated policy will remain in effect until the retiree liability becomes 100% funded or the permanent policy produces a higher contribution rate.

Permanent and Temporary Funding Policies Remaining as of July 1, 2022

Permanent Policy	14 years
Temporary Policy (retirees)	3 years
Temporary Policy (other)	18 years

Contribution Rates

When the plan was created in 1955, both employees and employers paid contributions equal to four percent of the employee's first \$7,500 of salary. In 1976, legislation was passed which made the System non-contributory and all contributions, plus interest, were refunded to members. From then until 2011, the cost of the plan was funded solely by employer contributions and investment income. In 2010, legislation was passed that created the contributory 2011 Tier. Employees hired for the first time in a benefit-eligible position on or after January 1, 2011, contribute 4 percent of their salary to help fund their retirement benefits.

The Board sets the contribution rate, as a percentage of payroll, based on actuarial recommendations.

FY 2022 Employer Contribution Rates

	MoDOT & Civilian Patrol	Uniformed Patrol
Normal Cost of Benefit	9.250%	17.230%
Administrative Expenses	1.220%	1.220%
Disability Insurance Premium	0.475%	0.475%
Total Normal Cost	10.945%	18.925%
Catch Up Payment on the Unfunded Liabilities	47.055%	39.726%
Total Employer Contribution Rate	58.000%	58.651%

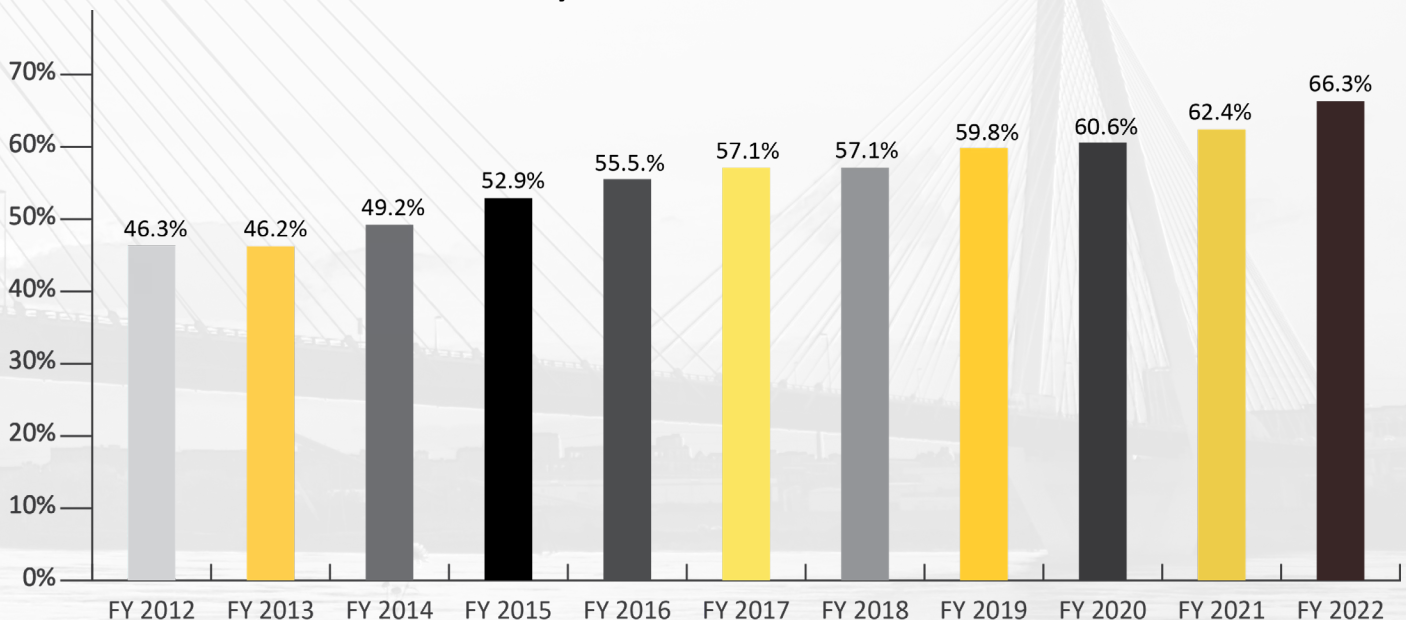
Funded Status Calculation

MPERS' funding objective is to meet future benefit obligations of retirees and beneficiaries through investment earnings and payroll contributions. During the fiscal year ending June 30, 2022, the funded status increased by 3.92% to 66.33%.

The current funded status can be calculated by dividing the the current actuarial value of assets by the total actuarial accrued liability (what is needed to fund future benefits).

$$\begin{array}{rcl}
 \text{Current Actuarial Value of Assets} & \div & \text{Total Actuarial Accrued Liability} \\
 \$2,925,561,398 & & \$4,410,685,047 \\
 & & = \\
 & & \text{Current Funded Status} \\
 & & 66.33\%
 \end{array}$$

History of MPERS' Funded Status



Benefits

Retirement Plans

To participate in MPERS, an employee must be employed in a benefit-eligible position for the Missouri Department of Transportation (MoDOT), the Missouri State Highway Patrol (MSHP), or the MoDOT & Patrol Employees' Retirement System (MPERS). A benefit-eligible position requires the performance of duties during at least 1,040 hours per year (half-time or greater). Based on hire date, members participate in one of three plans.

Closed Plan (non-contributory)

The Closed Plan was the original plan for benefit-eligible employees hired prior to July 1, 2000.

At retirement, these members may elect to retire under the Closed Plan or the Year 2000 Plan.

Year 2000 Plan (non-contributory)

Benefit-eligible employees hired for the first time on or after July 1, 2000, but prior to January 1, 2011, are members of the Year 2000 Plan.

2011 Tier (contributory)

A contributory tier was added to the Year 2000 Plan for benefit-eligible employees hired for the first time on or after January 1, 2011.

The employee and the employer make monthly contributions to fund the retirement of 2011 Tier members.

Benefit Formula

Benefits are calculated using a formula that is set by law. The benefit formula includes final average pay, credited service, and a multiplier set by law.



Final Average Pay

The average of the highest 36 consecutive months of pay.

X



Credited Service

Years and months of service worked, purchased, and/or transferred.

X



Multiplier

A percentage set by state law.

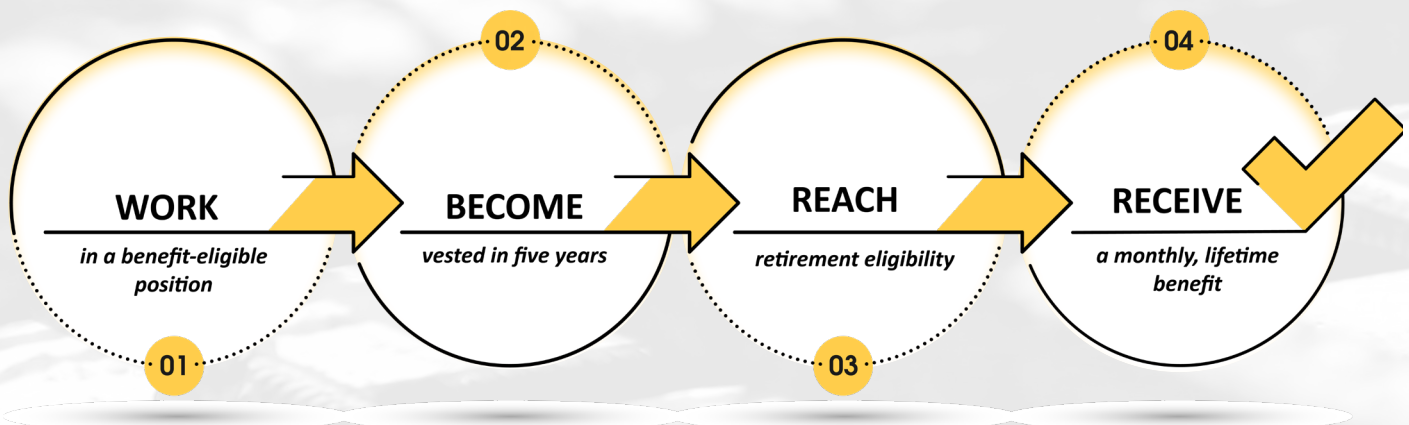
=



Monthly Base Benefit

Paid for the lifetime of the benefit recipient and/or eligible spouse.

Steps of a Defined Benefit Retirement Plan



During the 2022 fiscal year, MPERS' overall membership decreased by 40. Retired members and their beneficiaries increased by 195, active members decreased by 338, and terminated-vested members increased by 103.

Active members include active employees who work in a benefit-eligible position at MoDOT or MSHP. Once an active member has five years of credited service, they are considered vested and are eligible to receive a retirement benefit at a future date.

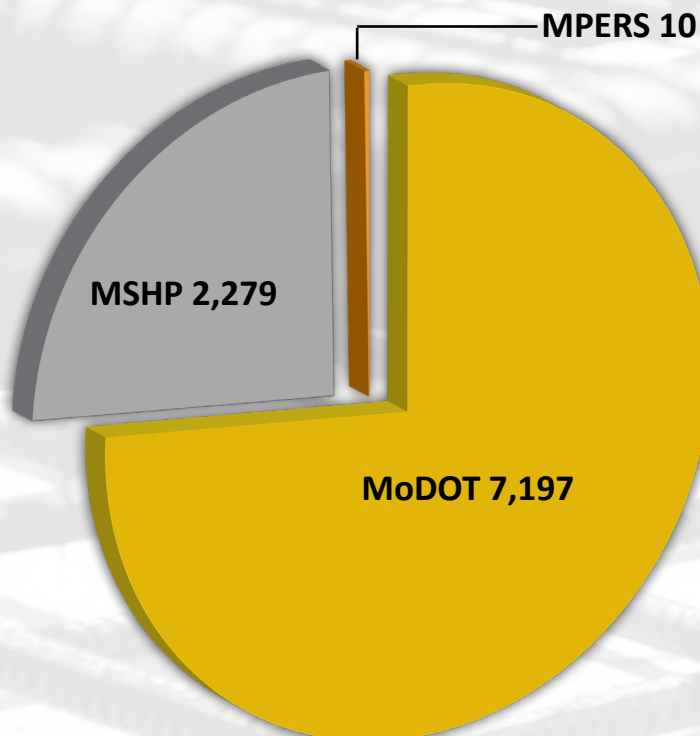
Terminated-vested members are those who left employment at MoDOT or MSHP after being vested, but prior to reaching retirement eligibility. Once certain age and service requirements are met, these individuals will be eligible to begin collecting retirement benefits.

MPERS provides long-term disability and work-related disability benefits for active employees of MoDOT and MSHP.

Membership in the Closed Plan, Year 2000 Plan, and 2011 Tier as of June 30, 2022

	Closed	Year 2000	2011 Tier	Total
Retirees, Beneficiaries, and Disabilities Currently Receiving Benefits	4,809	4,622	55	9,486
Terminated Employees Entitled to But Not Yet Receiving Benefits	929	1,025	302	2,256
Active Employees				
Vested	1,504	1,960	1,342	4,806
Non-Vested	<u>3</u>	<u>51</u>	<u>1,996</u>	<u>2,050</u>
Total Membership	<u>7,245</u>	<u>7,658</u>	<u>3,695</u>	<u>18,598</u>

Benefit Recipients as of June 30, 2022



Total Benefits Paid
\$279,637,701

2022 Retirees

MoDOT	297
Uniformed MSHP	59
Civilian MSHP	73

New Retiree Averages

Final Average Pay	\$4,116
Years of service	21.8

Retiree Location

This map represents the demographic distribution of retirees by state and country for the year ended June 30, 2022.

