



November 29, 2012 Board Meeting

MPERS' Business Plan

Fiscal Years 2013, 2014 and 2015



MPERS Mission

“To provide a foundation for financial security to plan participants by delivering quality benefits and exceptional member service through professional plan administration and prudent management of assets, at a reasonable cost to the taxpayers of Missouri.”

MPERS Vision

“To be the best retirement system we can be by making strategic investment decisions and implementing technological tools that streamline our processes and enhance customer service.”

MPERS Core Values

- *Our members are our number one focus...we work for them.*
- *We strive to provide exceptional service **always**.*
- *We are committed to the security and privacy of our members' information.*
- *We make decisions in the best interest of our members based upon statutory guidance.*
- *We conduct business at a reasonable cost to the taxpayers of Missouri.*

Business Plan Fiscal Years 2013, 2014 and 2015

Below are the three primary System goals. Following these goals are tables that include action items, by fiscal year, that constitute MPERS' Business Plan as shown. Note the number to the left of each action item reflects the original goal this item is intended to support.

Goal 1: Provide MPERS' members with exceptional and cost-effective service.

Goal 2: Protect MPERS' trust fund and resources.

Goal 3: Increase MPERS' capability to outperform investment benchmarks.

FY2013 Actions

Goal	Actions	Target Completion Date
1	Create an annual Retiree Benefit Statement.	FY13
1	Develop participant workbook for Benefit Basics Seminar.	FY13 – Completed. We updated this workbook after the pre-retirement book. This, too, has been well received by participants.
1	Continue development of web-based communications; considering short topic videos or webinars related to MPERS benefits.	FY13 – Ongoing.
1	Benefit specialists network with local counterparts to observe other means of completing their work to identify efficiencies and improvements to their work.	FY13
2	Review, repeal and update appropriate Board rules, including Code of State Regulations (CSR) filed with Secretary of State.	FY13
2	Fully implement transition of new investment consultant, NEPC.	FY13 – Complete.
2	Transition system electronic document storage (non-member documents) from secure drive to SharePoint and arrange staff training.	FY13
2	Evaluate and implement best practices identified in the fiduciary benchmarking survey obtained through Cortex, MPERS' governance consultant.	FY13 - <i>Substantially completed, remaining items are included individually in Business Plan.</i>
2	Evaluate IT sourcing and staffing to identify options to: <ol style="list-style-type: none"> 1. Maintain and build upon our resources. 2. Improve performance, efficiency and accountability for IT service delivery. 3. Reduce the allocation of management and benefit staff time to this function. 	FY13 – IT assessment with Brown Smith Wallace is in progress.
2	Complete statutory review of chapter 104 and relevant 105 for staff, led by General Counsel.	FY13
2	Review and update staff personnel policies.	FY13, moved up from FY14

2	Update staff job procedures and descriptions in relation to the new pension administration system.	FY13
3	Implementation of asset allocation software to facilitate day-to-day positioning of portfolio.	FY13
3	Analyze investment staffing strategy to identify the best placement for additional personnel so that more in-house management can be realized along with the corresponding savings in management fees.	FY13

FY2014 Actions

Goal 1: Provide MPERS' members with exceptional and cost-effective service.

Goal 2: Protect MPERS' trust fund and resources.

Goal 3: Increase MPERS' capability to outperform investment benchmarks.

Goal	Actions	Target Completion Date
1	Develop and implement a MPERS' Communication Plan for members.	FY14
1	Hire and provide intense training of a new employee to replace a benefit specialist retiring in 2014. (tentative pending notice) <i>Due to the responsibility level of this position and the high risk associated with communicating complex benefit provisions, the goal would be to "double slot" this position for at least 6 months to provide ample training time before assuming counseling duties. Depending on the retirement volume, temporarily add ½ time Benefit Specialist to assist with Pre-Retirement Seminars through 2013.</i>	FY14
1	Develop backup assignments for primary and secondary duties.	FY14
2	Develop document retention policy.	FY14
2	Develop MPERS risk policy to document internal controls and manage areas of concern.	FY14
2	Develop and document MPERS' Disaster Recovery Plan.	FY14
2	Implement GASB 67 & 68.	FY14
2	Establish procedures for IRS 415 benefit limits.	FY14
2	Establish procedures for IRS 401(a)17 compensation limits.	FY14
2	Establish tax procedures and payment procedures for non-resident aliens.	FY14
3	Scan relevant investment documents to central files to realize electronic storage and accessibility to investment records.	FY14
3	Evaluate tax withholding implications within the investment portfolio and initiate procedures to reclaim or recover withholdings accordingly.	FY14

FY2015 Actions

Goal 1: Provide MPERS' members with exceptional and cost-effective service.

Goal 2: Protect MPERS' trust fund and resources.

Goal 3: Increase MPERS' capability to outperform investment benchmarks.

Goal	Actions	Target Completion Date
1	Secure mailbox for member communication via website.	FY15
1	Create contact center performance measures.	FY15
1	Implement document retention schedule.	FY15
1	Develop staff training plans for new benefit and payroll staff.	FY15
2	Develop a legal opinion repository that houses legal opinions making them searchable and functional.	FY15
2	Update benefit administration procedures. (i.e. document our primary processes with step-by-step instructions to guide our efforts and to make us more consistent.)	FY15
2	Transition members from paper communication to electronic communication. (May start with benefit payment stubs).	FY15
3	Develop concise, standard due diligence reporting for investments.	FY15

MPERS' Operating Environment and Resources

Performing a periodic review of the operating environment MPERS works within and evaluating available resources can guide our efforts toward future objectives. Deciding the steps to implement effective strategies creates MPERS' Business Plan.

National Environment

Public pension systems and programs continue to be criticized in the business and political press. This is occurring from the perspective of:

1. Stressed state and municipal budgets;
2. Polarized views toward organized labor;
3. The financial services industry desire to gain access to public retirement funds;
4. Federal budget stress driving an interest to limit the tax exempt status of qualified retirement plans;
5. Pension envy driven by an economic cycle that has depressed income growth, savings and job security in the public and private sectors; and
6. Lack of confidence in reported financial data – due to volatility, corporate and sovereign meltdowns, and manipulation of data in the public area including over-zealous investment return assumptions.

MPERS' must be heard and trusted by members, employers and policy makers. To be effective in this communication role, staff and board must be well informed. This can be accomplished through participation in the various state and national organizations that educate and advocate in the pension field and monitoring current events.

State Environment

The State of Missouri and our employers continue to be fiscally stressed. Although some level of pension reform has already occurred with the implementation of the 2011 Tier under the Year 2000 Plan, additional reform measures would not be a surprise particularly when you consider the extensive number of new legislators that will arrive in Jefferson City early next year. It will be more important than ever for us to be prepared to educate these stakeholders about the steps taken recently to address many of the concerns being seen on the national and state level.

MoDOT is winding down their “Bolder Five-Year Direction” (BFYD), which will provide some relief to MPERS staff with regard to the surge in retirements resulting from the MoDOT plan. As MoDOT's plan concludes, there will be a number of new hires covered by MPERS, which means enhanced education is necessary for them to realize the value of our benefits. While the 2011 Tier is positioned to reduce costs and provide what is viewed as a more responsible benefit for newly hired employees, it does not mean there is a token benefit in place with little value associated with it. To the contrary, this benefit will still provide a substantial component to an individual's future financial security. Communicating these points will continue to challenge our resources, much like the surge in retirements throughout the implementation of the BFYD.

The Medical Board of Trustees is implementing significant changes to the MoDOT and MSHP medical plan, in an effort to control costs and to reduce the portion of premiums paid by the employers. These changes are likely to trigger a second retirement surge that could extend to the end of fiscal year 2013. MSHP could face recruitment and training constraints that make it difficult or impossible to maintain a steady force level for a period of years. The changes in the staffing levels and retirement patterns could present operational challenges for MPERS in serving our members and processing retirements. In addition, these changes will impact the System's liabilities and increase our need for liquidity in our investment portfolio.

Our plan employers have been pro-active in restructuring their respective agencies in response to financial and economic stresses. Our state lawmakers have also responded by creating a new, more sustainable plan tier.

MPERS needs to educate and inform its stakeholders. Being advocates for the plan and DB plans in general is of utmost importance. Accomplishing this goal will require a public presence and educational information driven by our website.

Regulatory Environment

The Internal Revenue Service (IRS) continues to study and survey the public sector pension plan community, presenting the potential for increased regulatory and compliance burdens. Recently, the IRS published a long-awaited advance notice of proposed rulemaking relating to the definition of the term “governmental plan”. Currently, there are no regulations defining the term “governmental plan” and the IRS, in consultation with the Department of Labor (DOL), has been working for several years to develop this guidance. In addition to this issue, there continues to be an extension of the effective date of final regulations related to “normal retirement age”. Both of these regulatory issues could have an impact on our current plan and may require legislative changes, once final regulations become effective.

In addition, the Governmental Accounting Standards Board (GASB) has finalized GASB Statements 67 and 68 that will affect valuation methodologies and reporting and bring more scrutiny, volatility and uncertainty to accounting for pension assets and liabilities. We will work with relevant national associations and our actuary to realize compliance with these mandates, not to mention facilitate our employers so that they can also realize compliance with these standards.

MPERS will support our employers and serve the interests of our members by being an effective resource and principled advocate for the System. This role includes commenting on proposed accounting and regulatory standards that have a negative impact on the System. This role is enhanced through participation in the various state and national organizations that educate and advocate in the pension field for enlightened regulation on behalf of their member systems. Furthermore, once regulations are official, we will implement and facilitate implementation internally as well as with our external stakeholders.

Global Environment – Investments

The direction and level of global economic activity continues to be uncertain. The trauma of the fiscal crises of 2008 and 2009 has moderated modestly. However, governments world-wide have been late to adopt policy responses to fiscal imbalances and unsustainable sovereign debt levels. These events have resulted in market volatility and dislocations.

From a rate of return perspective, global interest rates are near all-time lows at a point when governments are forced to pare back current stimulus programs to address fiscal issues. The ability of the global economy to grow while consumers in developed markets face higher taxes and while governments curtail spending, is a major concern facing equity market investors. The low interest rate environment and a slow growing economy, coupled with the increased market volatility, suggest pension systems should be conservative in their expectations for investment returns in the coming years.

MPERS has responded to the volatility in the global investment environment by implementing a new asset allocation and investment policy. This policy was developed in light of current risks and our recent experiences. MPERS needs to continue to develop its relationship with NEPC and to develop additional internal resources to execute our sophisticated investment policy and to manage our growing portfolio. The cost of increasing internal staff should be more than offset by the enhanced performance and reduction in manager fees.

Internal Environment – Resource and Staffing Challenges

MPERS is in a phase that would be best described as maintain and develop. That means we should maintain the infrastructure and policy driving our organization from an investment and operational perspective and develop our strategies as deemed appropriate. By and large our investment program should be in a tactical period for some time to come. Our investment policy is sound and should only require subtle adjustments as we gain experience and realize new challenges or opportunities. From an operational standpoint, we have considerable room for development, but resources are tight which will limit our opportunities.

In the near term, we are close to finalizing our IT assessment which will identify areas of concern along with alternatives for dealing with our shortcomings. While addressing these issues in the short-term may extend resources, they will very likely minimize resources in the long-term as we are better able to utilize automation and electronic communication with our stakeholders.

MPERS can maximize resource utilization by retaining experienced staff, planning in advance for succession, and investing in smart staff development and growth. In this regard, MPERS should maintain its training and education programs and provide adequate resources to fund and advance the system's compensation plan. The information technology function at MPERS should be evaluated and consideration given to providing new or additional resources for this critical function.

The Result

MPERS' Board Governance Policy calls for the development of a rolling three-year business plan. Sound business planning should culminate in a plan that presents projects that promote MPERS' business goals and take into account the environment and maximization of resource utilization. The organization should be stronger, more focused, and more effective.

Because the environment is fluid and MPERS intends that this process will be re-visited each year, the Business Plan contains more tasks in the current year compared to successive years.

It should be noted that, on an annual basis, MPERS accomplishes many important and urgent tasks that represent core administrative and investment operations. These core activities are not presented in the Business Plan. Instead, this plan focuses on those tasks that are important to improving MPERS' performance and consistency, but do not necessarily have the urgency of core functions.
