

Missouri Department of Transportation and Highway Patrol Employees' Retirement System



Trustee Orientation

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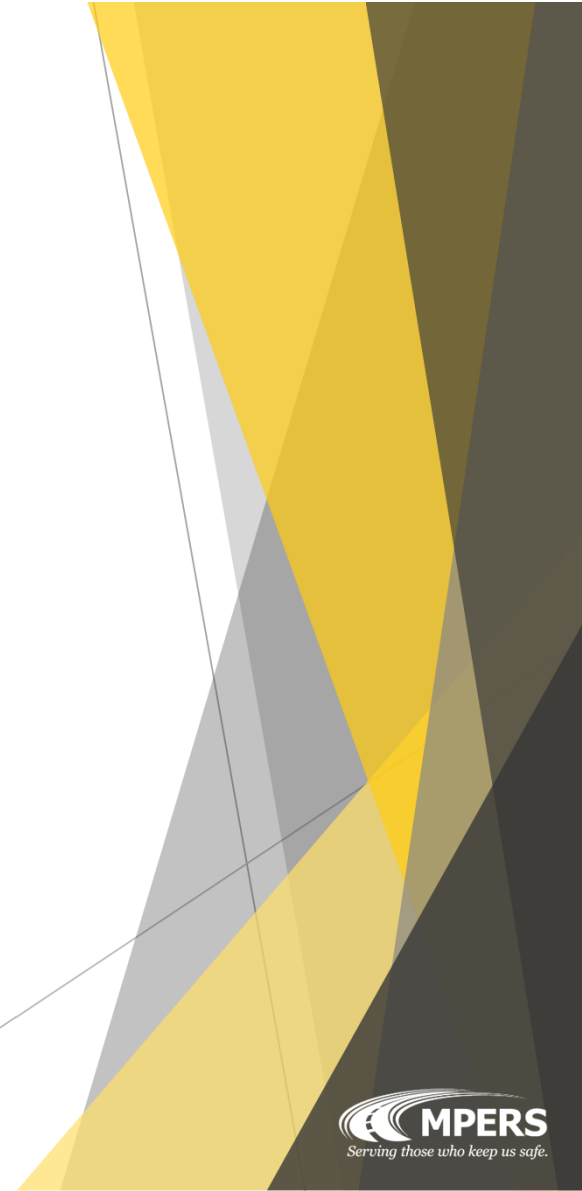
Our Mission

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.

Introductions

- ▶ MPERS is a statutory defined benefit plan that was created in 1955 to expand the benefits package for eligible employees.
- ▶ MPERS covers employees of MoDOT, MSHP, and MPERS.
- ▶ Although we operate independently, we are an integral part of the benefit package offered by covered employers to help facilitate the employer's recruitment and retention efforts.
- ▶ Benefits are set by the General Assembly and codified in Chapter 104 of the Missouri Revised Statutes (RSMo.).
- ▶ MPERS' benefits are funded by MoDOT and MSHP, primarily from fees and gas tax revenues. Some General Revenue dollars come from MSHP.
- ▶ MPERS is a surprisingly significant economic driver for the state of Missouri.
- ▶ Governance Policies, initiated in 2009, are critical to success.
- ▶ Staff is a very experienced and highly educated group.

Introductions



Introductions

- Director's Office
- Financial Services
- Investments
- Legal Services
- Member Services
 - Benefits Unit
 - Payroll Unit

Board of Trustees

- ▶ The general administration of, and responsibility for, the proper operation of the system are vested in a board of trustees through powers vested in statute. (Section 104.210, RSMo.)
- ▶ Trustees exercise discretion independently, but the governance of the System is vested in the Board as a body, not in any individual trustee.
- ▶ Trustees are fiduciaries.
 - ▶ A fiduciary is a person who has the power and obligation to act for another under circumstances which require total trust, good faith, and honesty.
- ▶ Oversight of the system includes express and implied authorities granted by state law.
- ▶ Some trustees may struggle with conflicting roles.

Board of Trustees

- ▶ The Board maintains ultimate responsibility for the system, however, it has delegated the operational management of the system consistent with the law, board rules, and policies to the executive director.
- ▶ The Board, executive director, staff, and others are subject to fiduciary standards.
- ▶ The Board and staff utilize various consultants to meet not only fiduciary needs, but also general guidance of the organization.
- ▶ Independent consultants include: GRS, NEPC, Northern Trust, Williams-Keepers, Thompson Coburn, CBIZ, Bob Charlesworth, and Mike Winter

Powers of the Board (Section 104.210)

- ▶ Subject to the limitations of law, the Board shall formulate and adopt rules and regulations for the administration of the system.
- ▶ Decisions of the Board are final and conclusive on all persons, except for the right of review as provided by law.
- ▶ The Board has the power to subpoena witnesses or obtain records when necessary.
- ▶ Subject to the provisions of the constitution and chapter 104, the Board has exclusive jurisdiction and control.

The Authorities of the Board

- ▶ The Board focuses on the powers reserved exclusively for the Board in order to provide prudent oversight to the System. These authorities are generally broken down as follows:
 - ▶ Conduct the business of the Board
 - ▶ Set direction and policy and prudently delegate
 - ▶ Approve key decisions
 - ▶ Oversee and report
 - ▶ Obtain independent advice and verification
- ▶ Close adherence to these powers clarifies the distinctions between the Board, staff, and advisors. It also will help meeting efficiency and discipline. Furthermore, it may be imprudent NOT to delegate. This is a lay board with limited time and usually no direct experience with pension plan administration.

Board of Trustees

- ▶ Simplified...
 - ▶ Hires executive director
 - ▶ Establishes objectives and policies
 - ▶ Sets budget
 - ▶ Sets actuarial rates and assumptions
 - ▶ Attends meetings
 - ▶ Reads materials and updates
 - ▶ Hears appeals
 - ▶ Avoids short-termism
 - ▶ Exercises trustee authority collectively

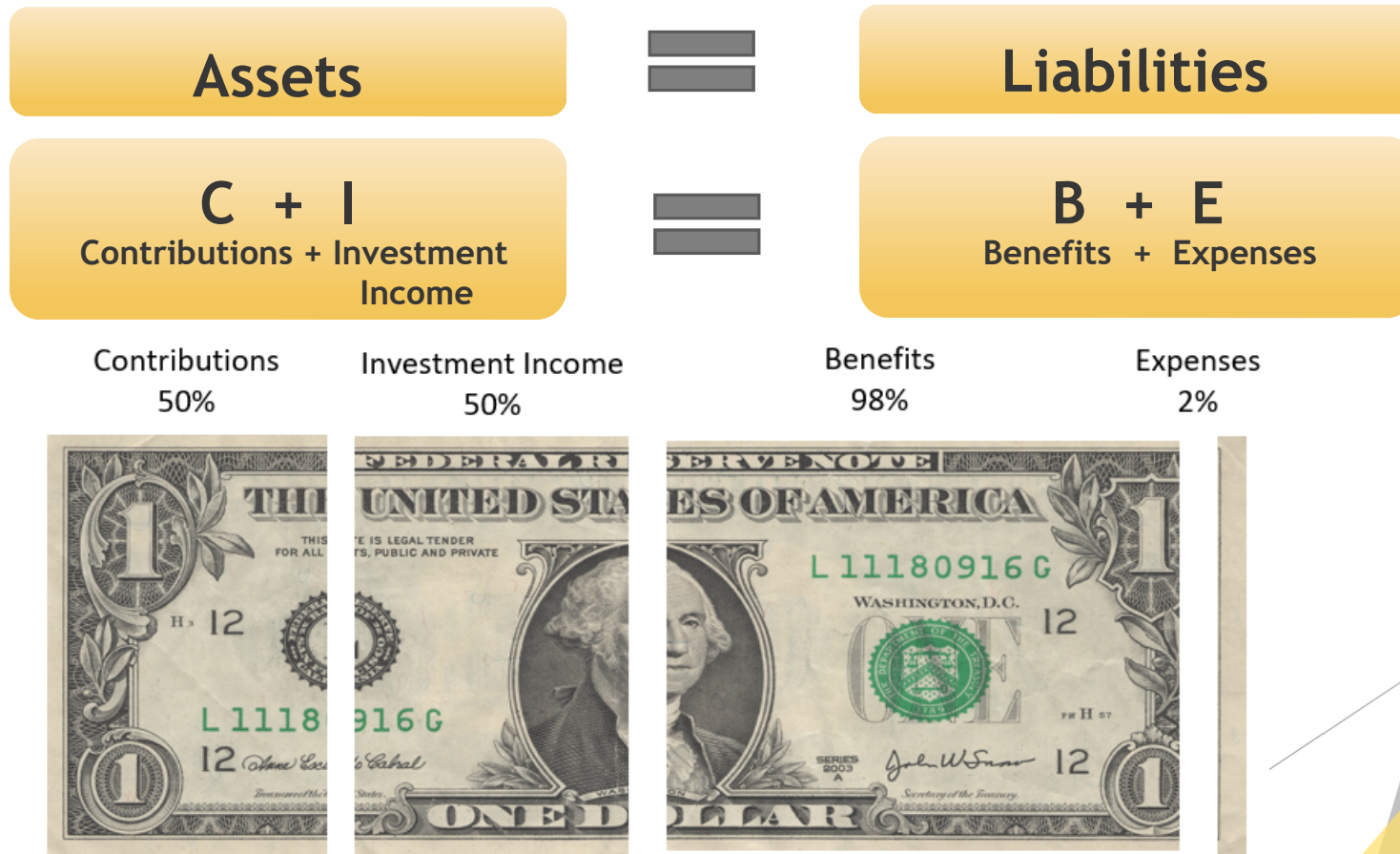
Governance

- ▶ Good governance is critically important in order to achieve optimal performance and maintain confidence.
- ▶ Six common principles of good governance:
 1. Effective and capable fiduciaries
 2. Ethical leaders
 3. Open and accountable to stakeholders
 4. Risk intelligent and insightful in decisions
 5. Long-term view
 6. Continuous learning and adaptability

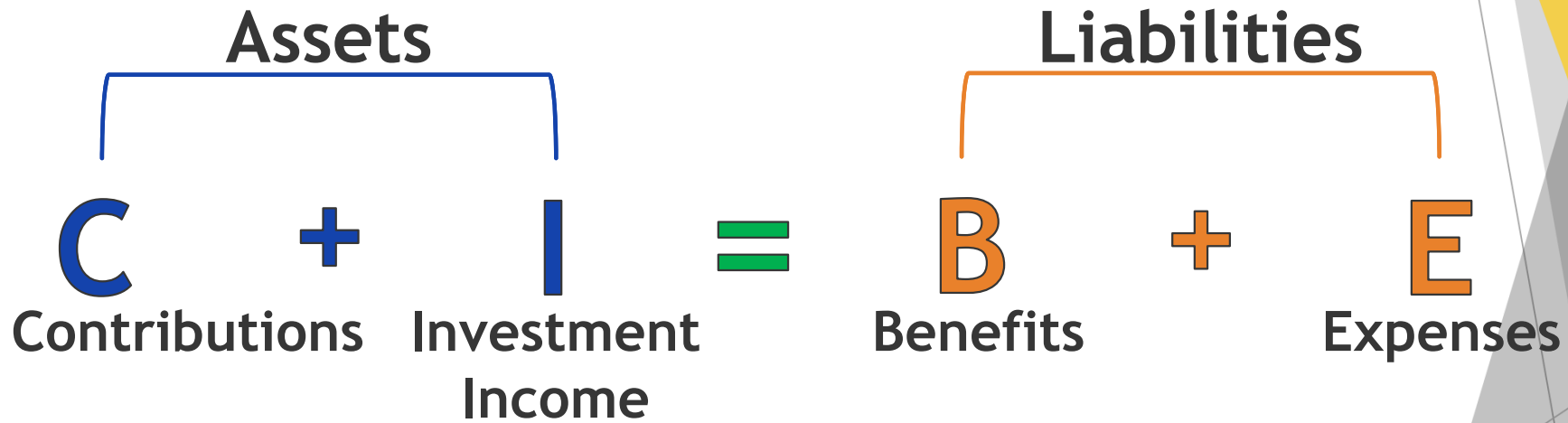
Governance Policies

- ▶ Policies of Note
 - ▶ Introduction to Governance Manual
 - ▶ Board Charter
 - ▶ Communications
 - ▶ Trustee Code of Conduct and Conflict of Interest
 - ▶ Staff Compensation

The Foundation Formula for Oversight



The Foundation Formula for Oversight



Breakdown of Combined Contribution Rate for FY 2020

	Required Contribution	Contribution Dollars
Normal Cost (portion of future benefits allocated to the current year): <small>Includes administrative costs & disability</small>	11.47%*	\$43.9 Million
Catch-Up Payment to Pay Off the IOU/Mortgage	46.53%	\$178.1 Million
Total Contribution Rate	58.00%	\$222.0 Million

For FY 2021, the Board's funding plan assumes a 4-year amortization period for the retiree liability and a 19-year amortization period for the remainder of the liability.

*2011 Tier Employer Normal Cost = 4.15% Non-Uniformed, 9.54% Uniform—Combined 6.15%

Summary of Actuarial Assumptions and Methods

Valuation Date:	Annually on June 30
Actuarial Cost Method:	Entry age normal
Amortization Method:	Closed, level percent of payroll
Remaining Amortization Period	*13 years
Asset Valuation Method:	3-year smoothing
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increase	3.00% to 12.45%
Cost-of-Living Adjustments	1.8% compound
Price Inflation	3.00%

*single equivalent period

MPERS' Funded Status: How Did We Get Here?

- ▶ The short answer is, we did not prefund all benefits until 1999.
- ▶ The longer answer includes a list of oversights, changes, and distractions that resulted in the plan not being funded appropriately.
 - ▶ Initiated unfunded retirements immediately in 1957
 - ▶ Funded benefit enhancements on a pay-as-you-go basis
 - ▶ Conservative investment history
 - ▶ Refunded employee contributions all at once
 - ▶ Changed actuarial funding methods
 - ▶ Extended amortization periods
 - ▶ Significant market downturns since 2001

Funding a Defined Benefit Plan

- ▶ The actuary performs an annual actuarial valuation, which is essentially a financial checkup of the plan.
- ▶ The purpose of the valuation is twofold:
 1. To predict the cost of future pension benefits
 2. To determine what level of contributions, when combined with expected investment income, is needed to provide benefits over the long term

Funding Objectives

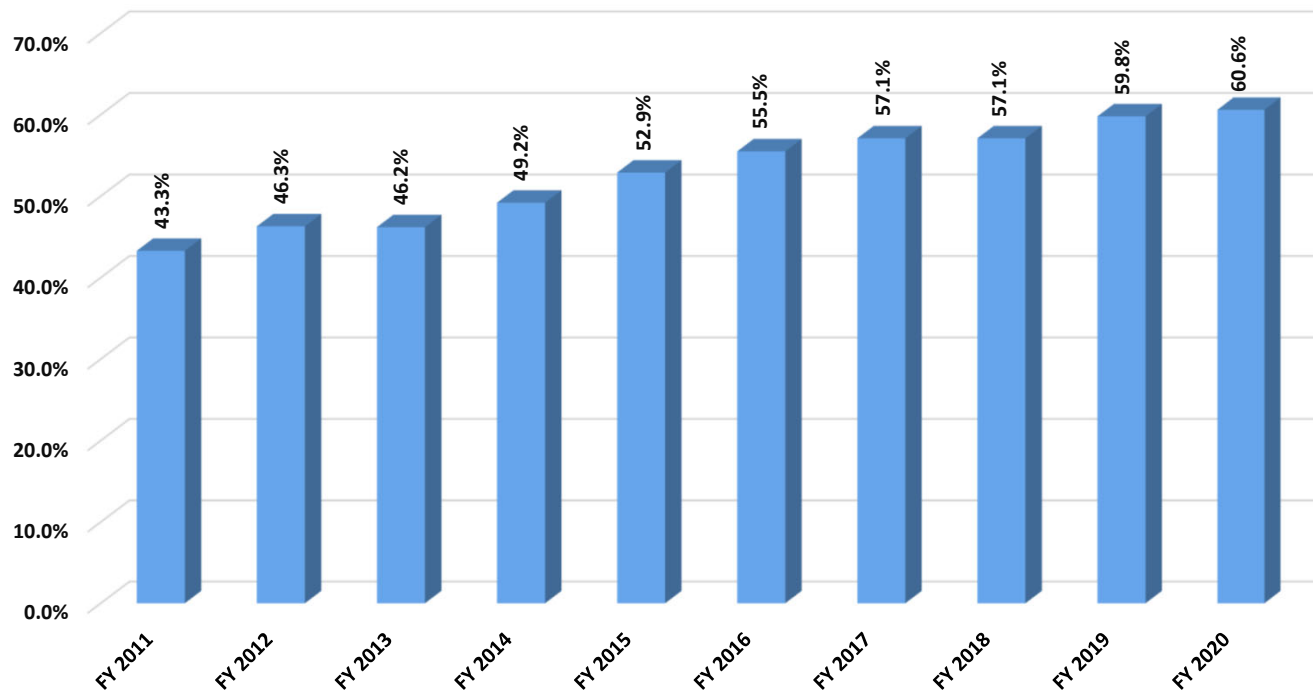
- ▶ Intergenerational equity with respect to plan costs
- ▶ Stable or increasing ratio of assets to liabilities
- ▶ Stable pattern of contribution rates

Funding Policies

- ▶ Permanent Policy (2006)
- ▶ Temporary Accelerated Policy (2010)
- ▶ Rate Stabilization Reserve Fund (2014)

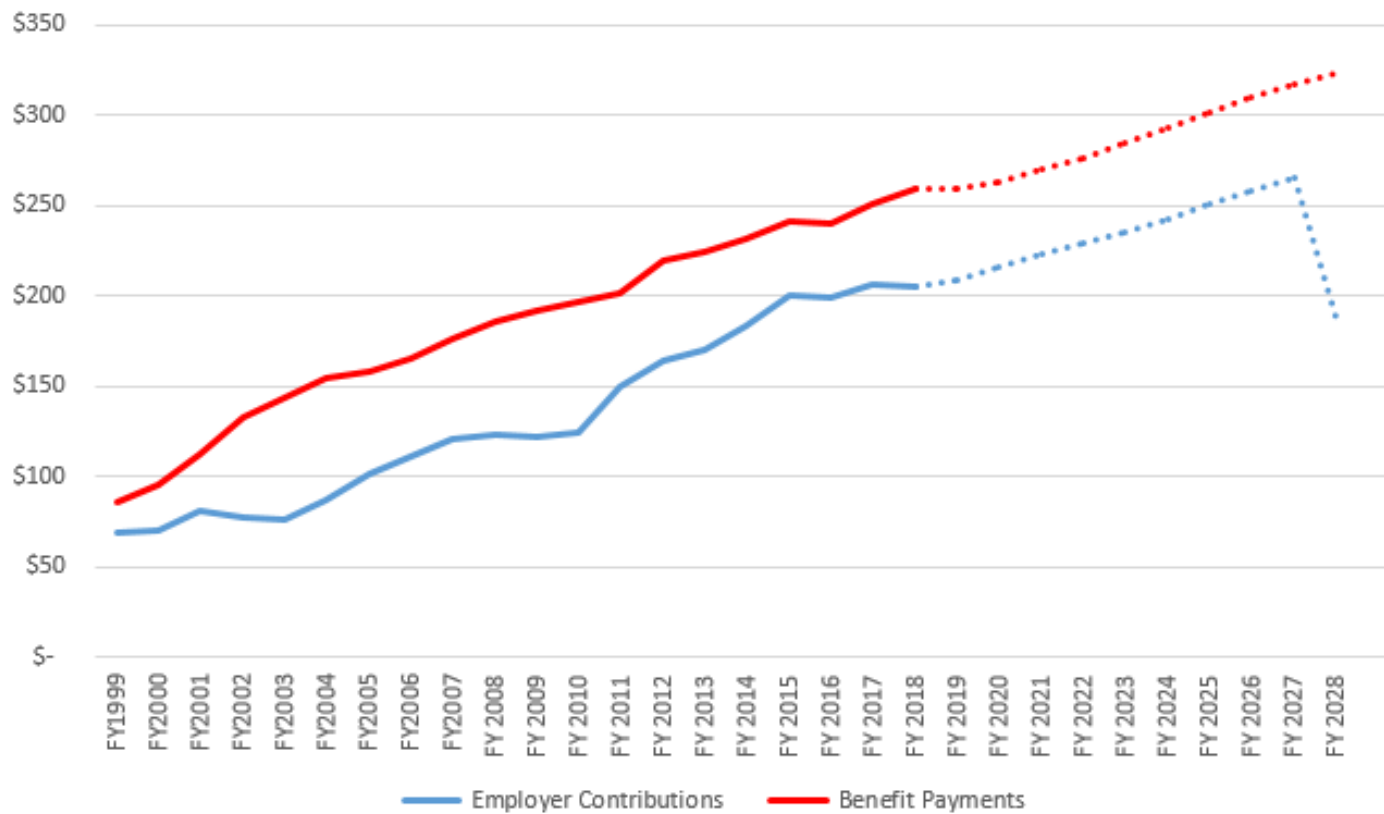
History of MPERS' Funding Status

History of Funded Status

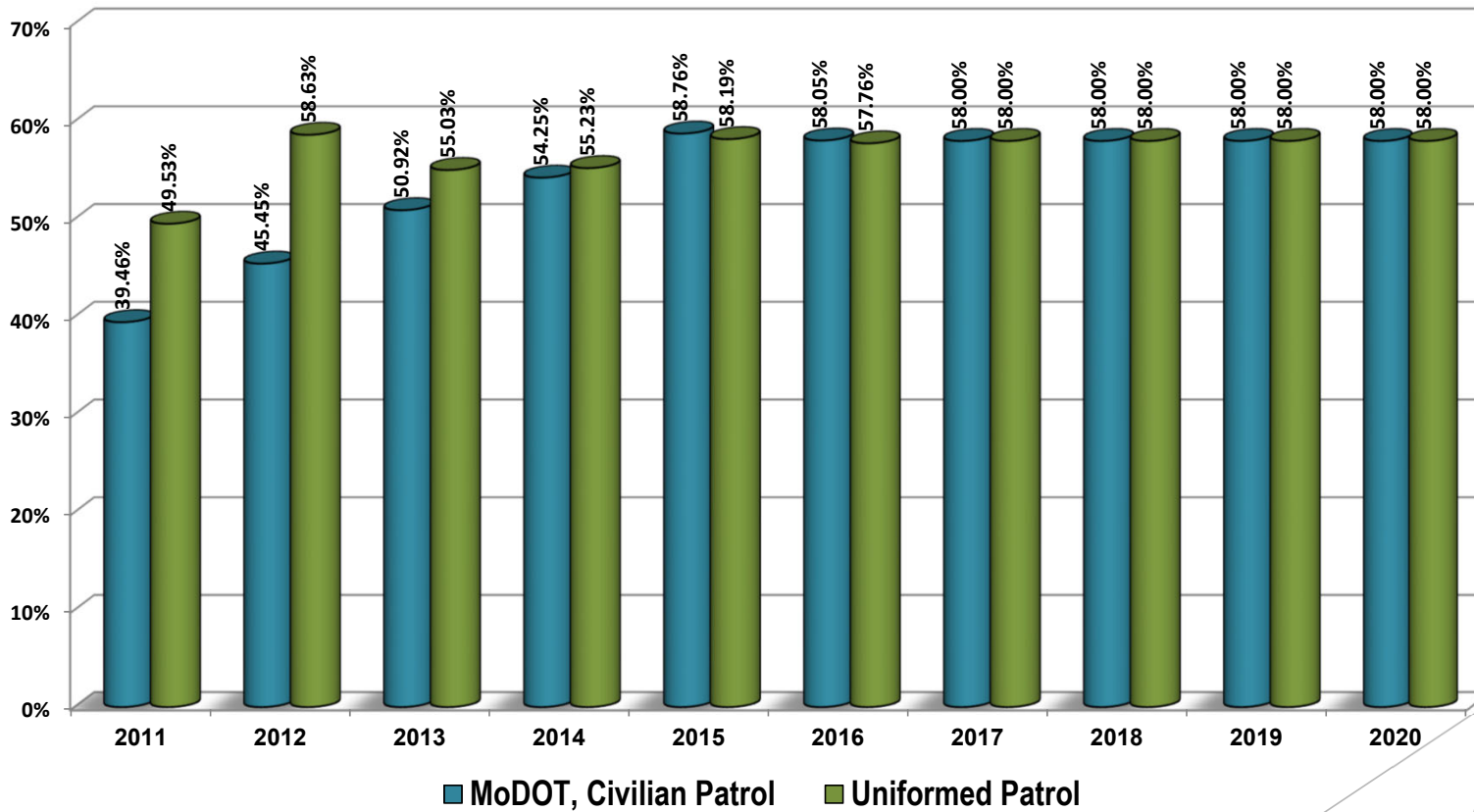


Advantage of Pre-Funding

Contribution Dollars vs. Benefit Payout Dollars



History of Contribution Rates



The Importance of Public Pension Benefits

- ▶ Three Key Points:
 - ▶ Public pension benefits are paid from trust funds
 - ▶ Public pension benefits are generally modest
 - ▶ Pension dollars benefit the economy

Public Pension Benefits Are Paid from Trust Funds

- ▶ Benefits are paid from the trust fund
- ▶ Covered employers contribute to the trust fund during the employees working years
- ▶ Contributions are pooled, and held in collective trust
- ▶ Contributions are invested in diverse markets
- ▶ Investment earnings fund most benefits

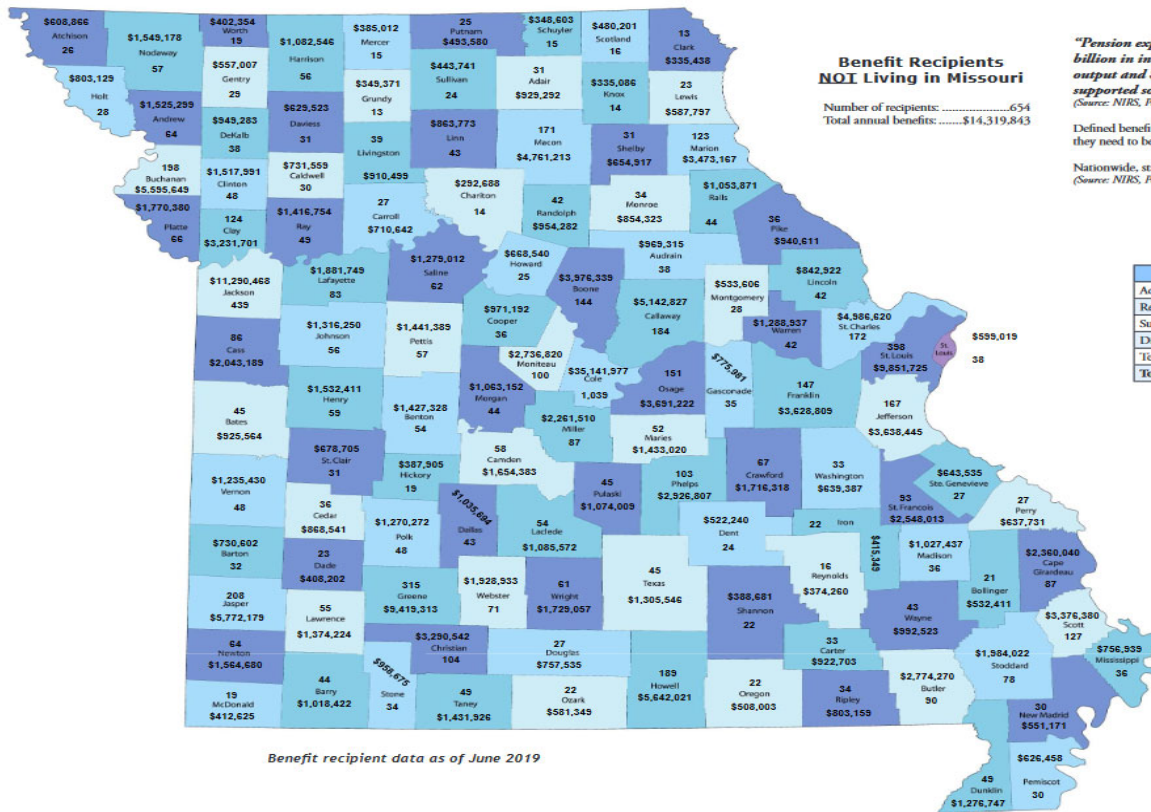
Public Pension Benefits Are Generally Modest

- ▶ Nationally, the average pension benefit is \$28,000 per year or \$2,335 per month
- ▶ MPERS' average new retiree benefit is \$30,288 or \$2,524 per month
- ▶ Overall, MPERS' average benefit is \$2,179 per month

Pension Dollars Benefit the Economy

- ▶ For every dollar paid out in pension benefits, over \$2 in economic output is created
- ▶ Nationally, pension benefits contribute over \$1.2 trillion in economic output
- ▶ MPERS pays out over \$247 million to residents of Missouri creating nearly \$500 million in economic output

Economic Impact of MPERS



"Pension expenditures supported some 50,829 jobs in Missouri that paid \$2.23 billion in income. Pension benefits accounted for some \$7.2 billion in total economic output and \$4.0 billion in value added in Missouri. These expenditures also supported some \$1.3 billion in tax revenue at the local, state and federal levels."
 (Source: NIRS, Pensionomics 2018: Measuring the Economic Impact of Defined Benefit Pension Expenditures)

Defined benefit (DB) pensions play a vital role in ensuring that older Americans have the resources they need to be self-sufficient in retirement.

Nationwide, state and local pensions support 7.51 million jobs and 629 billion in economic activity.
 (Source: NIRS, Pensionomics 2018)

MPERS Benefit Recipients (as of June 30, 2019)

	MoDOT & MPERS	Highway Patrol	Total
Actives	5,098	2,318	7,416
Retirees	5,343	1,734	7,077
Survivors/Beneficiaries	1,537	329	1,866
Disability	119	24	143
Terminated-Vested	1,633	418	2,051
Total	13,730	4,823	18,553

Averages for a New MPERS' FY 2019 Retiree

Status Retired From	# of Retirees	Average Benefit	Average Service	Average FAP	Average Age
Normal retirement or disability status (members retiring directly from active employment)	241	\$2,441	23.6 yrs	\$4,511	56.7 yrs
Vested, but no longer working for state	67	\$806	15.6 yrs	\$3,048	58.9 yrs
Overall average		\$2,085	22.3 yrs	\$4,187	57.2 yrs

8,460

Number of MPERS benefit recipients (retirees and beneficiaries) living in Missouri.

\$226,789,587

Annual amount of MPERS benefits paid to Missouri residents.

Why Two State Systems?

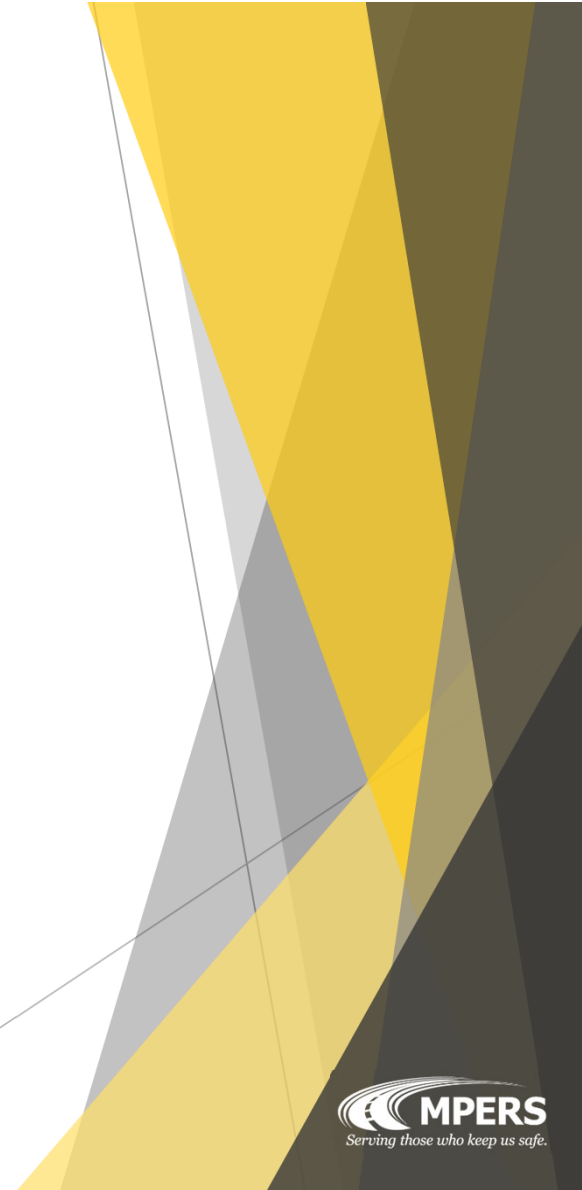
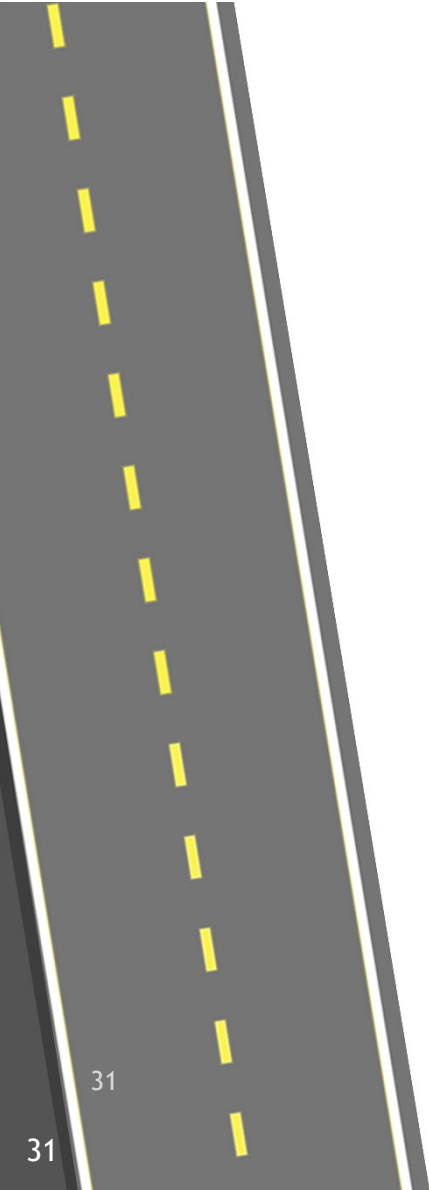
- ▶ MPERS and MOSERS
- ▶ Date created
- ▶ Benefit structure
- ▶ Funding source
- ▶ Public safety
- ▶ Investment policy

Key Takeaways



- ▶ Policy setting board
- ▶ MPERS has become a sophisticated financial institution with experienced and highly educated staff.
- ▶ Aggressive funding policies have acknowledged shortfalls of the past. The policies are working.
- ▶ The MPERS Board continues to look for ways to minimize risk and increase the return on assets.
- ▶ The Board and the employers are committed to funding the plan appropriately. The ultimate funding goal is 100%.

Questions?



A Brief Review of Portfolio Development Concepts

$$C + I = B + E$$

