

**REPORT OF**  
**MISSOURI DEPARTMENT OF TRANSPORTATION**  
**AND HIGHWAY PATROL EMPLOYEES'**  
**RETIREMENT SYSTEM**  
**JUNE 30, 2020**

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System

### Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System), as of June 30, 2020, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System at June 30, 2020, and the changes in fiduciary net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

## **Other Matters**

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 5 and the schedules of changes in the employers' net pension liability, employers' contributions, investment returns, changes in net OPEB liability and related ratios, MPERS' proportionate share of net OPEB liability, and related notes on pages 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The additional information presented on pages 32 through 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information presented on pages 32 through 34 is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Williams - Keepers LLC*

November 10, 2020

# Management's Discussion and Analysis

The management of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System, or MPERS) provides this discussion and analysis of the System's financial performance for the fiscal year ended June 30, 2020. While this discussion is intended to summarize the financial status of MPERS, readers should consider this information in conjunction with the information that is furnished in the more detailed financial statements and corresponding notes.

## DESCRIPTION OF BASIC FINANCIAL STATEMENTS

As required by the Governmental Accounting Standards Board (GASB) accounting standards, this financial report consists of *Management's Discussion and Analysis* (this section), the basic financial statements (including notes to the basic financial statements), and other required supplementary information.

**Financial Statements** report information about MPERS, using accounting methods similar to those used by private-sector companies, by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the System's overall financial status. These statements follow this *Management's Discussion and Analysis* section:

- The **Statement of Fiduciary Net Position** includes all the System's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position.
- The **Statement 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.

**Notes to the Financial Statements** are included following the financial statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

**Required Supplementary Information** follows the notes and further supports the information in the financial statements.

**Supplementary Information** follows the required supplementary information and provides additional detailed administrative and investment expense information.

## ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Overall, the financial position of MPERS declined by \$61.7 million, reported as the "net decrease". This is primarily a result of the decrease in the fair value of investments for the year ended June 30, 2020. However, even with this decrease, the funded status of the plan showed an increase of 0.82%, primarily due to actuarial gains and MPERS' contribution stabilization reserve fund.

The following schedules present summarized comparative data from the System's financial statements for each of the fiscal years ended June 30, 2020 and 2019. Following each schedule is a brief summary providing explanation and analyses of the major reasons for changes in the condensed financial statements.

# Management's Discussion and Analysis

## Summarized Comparative Statements of Fiduciary Net Position

	As of June 30, 2020	As of June 30, 2019	% Change 2020 / 2019
Cash and Receivables	\$ 19,630,328	\$ 19,474,188	0.8
Investments	2,352,666,839	2,419,349,739	-2.8
Invested Securities Lending Collateral	108,567,739	104,247,159	4.1
Capital Assets	321,676	569,044	-43.5
<b>Total Assets</b>	<b>2,481,186,582</b>	<b>2,543,640,130</b>	<b>-2.5</b>
<b>Deferred Outflows of Resources</b>	<b>31,054</b>	<b>32,014</b>	<b>-3.0</b>
Accounts Payable	2,868,289	7,708,336	-62.8
OPEB Obligation	1,552,393	1,538,442	0.9
Securities Lending Collateral	114,948,267	110,924,432	3.6
<b>Total Liabilities</b>	<b>119,368,949</b>	<b>120,171,210</b>	<b>-0.7</b>
<b>Deferred Inflows of Resources</b>	<b>248,799</b>	<b>239,104</b>	<b>4.1</b>
<b>Net Position Restricted for Pensions</b>	<b>\$ 2,361,599,888</b>	<b>\$ 2,423,261,830</b>	<b>-2.5</b>

The increase in cash and receivables is primarily attributable to an increase of investment sales receivable as of June 30, 2020. Fluctuations in this area are normal, based on investment activity.

The System's investments represent the main component of total assets. These investments include equities, fixed income, limited partnerships, hedge funds, and short-term investments. The decrease in fair value of investments as of June 30, 2020 is due to unfavorable market conditions experienced during the fiscal year. The volatile markets were a result of the global pandemic. The fiscal year 2020 investment return was negative 0.46% as calculated on a time-weighted rate of return methodology.

Capital assets decreased in fiscal year 2020 due to the depreciation of existing assets.

Deferred outflows of resources is related to Other Post-Employment Benefits (OPEB), required by Governmental Accounting Standards Board (GASB) Statement 75. The deferred outflows of resources relate to the timing of contributions paid.

The decrease in accounts payable for fiscal year 2020 is primarily attributable to lower investment purchases payable. Fluctuations in this area are normal, based on investment activity.

The largest component of liabilities is securities lending collateral. This represents the amount owed for collateral to be returned as the result of investment securities lent. The increase in securities lending collateral liability from fiscal year 2019 to fiscal year 2020 is due to more securities being utilized for lending. The corresponding securities lending collateral asset is valued at a lower amount than the securities lending collateral liability due to the fair value of the securities on loan being less than the collateral value.

Deferred inflows of resources is related to OPEB. The deferred inflows of resources relate primarily to the amortization of changes in actuarial assumptions.

The System's net position restricted for pensions was \$2.362 billion at June 30, 2020, a \$61.7 million decrease from the \$2.423 billion net position at June 30, 2019.

# Management's Discussion and Analysis

## Summarized Comparative Statements of Changes in Fiduciary Net Position

	Year Ended June 30, 2020	Year Ended June 30, 2019	% Change 2020 / 2019
Contributions	\$ 220,902,777	\$ 218,595,641	1.1
Net Investment (Loss) Income	(10,673,270)	154,326,511	-106.9
Other Income	5,412	307	1,662.9
<b>Total Additions</b>	<b>210,234,919</b>	<b>372,922,459</b>	<b>-43.6</b>
Benefits	267,605,833	259,817,811	3.0
Administrative Expenses	4,291,028	4,372,966	-1.9
<b>Total Deductions</b>	<b>271,896,861</b>	<b>264,190,777</b>	<b>2.9</b>
Net (Decrease) Increase	(61,661,942)	108,731,682	-156.7
Net Position-Beginning	2,423,261,830	2,314,530,148	4.7
<b>Net Position-Ending</b>	<b>\$ 2,361,599,888</b>	<b>\$ 2,423,261,830</b>	<b>-2.5</b>

Net investment income, a primary component of plan additions, was negative \$10.7 million for fiscal year 2020, which represented a negative 0.46% return for the fiscal year ended June 30, 2020. In comparison, the fiscal year 2019 gain of \$154.3 million represented an investment return of 6.84%. Annual fluctuations within the broad investment markets are outside the control of the System and are expected to fluctuate from year to year; however, volatility in the markets due to the global pandemic resulted in a decrease in net investment income for fiscal year 2020. The Board of Trustees has approved a diversified asset allocation that, over long periods of time, is expected to realize the assumed actuarial rate of investment return of 7.00%.

Total benefits increased \$7.8 million from 2019 to 2020. Benefits in 2020 increased due to an increase in the total number of retirees.

Administrative expenses were lower due to a decrease in building expenses incurred in 2019, and lower contracted expenses in the information technology category for 2020.

## CURRENTLY KNOWN FACTS AND RECENT EVENTS

Based on the June 30, 2020 actuarial valuation, the Board of Trustees approved no change in the required state contribution rate, effective July 1, 2021. The rate applied to both non-uniformed payroll (MoDOT, civilian patrol, and MPERS) and uniformed patrol payroll remains at 58.00%.

Based on the June 30, 2019 actuarial valuation, the Board of Trustees approved no change in the required state contribution rate, effective July 1, 2020. The rate applied to both non-uniformed payroll (MoDOT, civilian patrol, and MPERS) and uniformed patrol payroll remains at 58.00%.

## CONTACTING THE RETIREMENT SYSTEM'S MANAGEMENT

This financial report is designed to provide a general overview of the System's finances. Questions about this report or requests for additional financial information should be sent to:

MoDOT and Patrol Employees' Retirement System  
 PO Box 1930  
 Jefferson City, MO 65102-1930  
[mpers@mpers.org](mailto:mpers@mpers.org)

# STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2020

## ASSETS:

Cash	\$	617,479
Receivables		
Contributions		8,040,951
Accrued Interest and Income		5,695,747
Investment Sales		5,276,151
Total Receivables		<u>19,012,849</u>
Investments, at Fair Value		
Equities		308,896,711
Fixed Income		688,908,574
Limited Partnerships		998,139,973
Hedge Funds		109,891,158
Short-Term Investments		246,830,423
Total Investments		<u>2,352,666,839</u>
Invested Securities Lending Collateral		108,567,739
Capital Assets, net of Depreciation		
Land		84,000
Building and Improvements		581,619
Furniture, Equipment and Software		3,430,652
Accumulated Depreciation		<u>(3,774,595)</u>
Capital Assets, net of Depreciation		321,676
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>2,481,186,582</b>

**DEFERRED OUTFLOWS OF RESOURCES** **\$ 31,054**

## LIABILITIES:

Accounts Payable	\$	1,193,160
OPEB Obligation		1,552,393
Security Lending Collateral		114,948,267
Investment Purchases		<u>1,675,129</u>
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>119,368,949</b>

**DEFERRED INFLOWS OF RESOURCES** **\$ 248,799**

**NET POSITION RESTRICTED FOR PENSIONS** **\$ 2,361,599,888**

*See accompanying Notes to the Financial Statements.*

# STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2020

## ADDITIONS:

Contributions-Employer	\$ 210,871,852
Contributions-Employee	4,983,989
Contributions-Service Transfers from Other System	3,483,574
Contributions-Other	1,563,362
Total Contributions	<u>220,902,777</u>
Investment Income from Investing Activities	
Net Depreciation in Fair Value of Investments	(51,157,620)
Interest and Dividends	61,989,636
Less: Investment Expenses	21,698,678
Net Investment Loss	<u>(10,866,662)</u>
Income from Securities Lending Activities	
Securities Lending Gross Income	733,597
Less: Securities Lending Expenses, net	540,205
Net Income from Securities Lending Activities	<u>193,392</u>
Other Income	<u>5,412</u>
<b>TOTAL ADDITIONS</b>	<b><u>\$ 210,234,919</u></b>

## DEDUCTIONS:

Benefit Expenses	
Retiree and Survivor Annuity Benefits	245,194,376
BackDROP Payments	15,787,033
Disability Benefits	2,480,372
Death Benefits	890,000
Service Transfer Payments	2,457,945
Employee Contribution Refunds	796,107
Administrative Expenses	4,291,028
<b>TOTAL DEDUCTIONS</b>	<b><u>\$ 271,896,861</u></b>
NET DECREASE	\$ (61,661,942)
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	
Beginning of Year	<b><u>\$ 2,423,261,830</u></b>
End of Year	<b><u>\$ 2,361,599,888</u></b>

See accompanying Notes to the Financial Statements.



# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As established under Section 104.020 of the Revised Statutes of Missouri (RSMo.), the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) is a body corporate and an instrumentality of the State of Missouri (State). Due to the nature of MPERS' reliance on funding from the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP) and control of the overall plan document by the legislative and executive branches of state government, MPERS is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a component unit shown as a pension trust fund.

### **Note 1 (a) - Basis of Accounting**

The financial statements were prepared using the accrual basis of accounting. Contributions are due to MPERS when employee services have been performed. Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits are recognized when due and payable and expenses are recorded when the corresponding obligations are incurred. Dividend income is recognized when dividends are declared. Interest income is recognized when earned.

### **Note 1 (b) - Method Used to Value Investments**

Investments are reported at fair value on a trade date basis. Bonds and stocks traded on a national or international exchange are valued at the reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate and timber investments are based on net asset value estimates provided by the general partners' administrators or portfolio managers, which are compared to independent appraisals. Investments that do not have an established market are reported at estimated fair value. The fair value of the hedge fund portfolios and partnership portfolios are based on valuations of the underlying assets as reported by the general partner or portfolio manager.

### **Note 1 (c) – Net Investment in Capital Assets**

MPERS capitalizes assets with an expected useful life greater than one year and a cost greater than \$5,000. Capital assets are depreciated on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Furniture, Equipment and Software	3-10 years
Building and Improvements	30 years

### **Note 1 (d) - Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 – PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

MPERS is a body corporate and an instrumentality of the state as a multiple-employer, public employee retirement system with one plan that has three benefit structures known as the Closed Plan, the Year 2000 Plan, and the Year 2000 Plan-2011 Tier. The plan provides retirement, survivor, and disability benefits for employees of MoDOT, MSHP, and MPERS. The plan is administered in accordance with the requirements of a cost sharing, multiple-employer, public employee retirement plan under the Revised Statutes of Missouri. In MPERS are vested the powers and duties specified in sections 104.010 to 104.312, 104.601 to 104.805, and 104.1003 to 104.1093, RSMo., and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes outlined pursuant to these sections. Responsibility for the operation and administration of the System is vested in the Board of Trustees, which consists of eleven members, four elected by the active and retired plan members, three Highway and Transportation Commissioners, a State Senator appointed by the President Pro-Tem of the Senate, a State Representative appointed by the Speaker of the House,

# Notes to the Financial Statements

For the Year Ended June 30, 2020

and the MoDOT Director and MSHP Superintendent who serve as ex-officio members. Detailed information regarding contributions can be found in Note 5.

Generally, all covered employees hired before July 1, 2000, are eligible for membership in the Closed Plan. All covered employees hired on or after July 1, 2000, and before January 1, 2011, are eligible for membership in the Year 2000 Plan. All covered employees hired on or after January 1, 2011 are eligible for membership in the Year 2000 Plan's 2011 Tier.

## ***Membership in the Closed Plan, Year 2000 Plan, and 2011 Tier as of June 30, 2020***

	<u>Closed</u>	<u>Year 2000</u>	<u>2011 Tier</u>	<u>Total</u>
Retirees, Beneficiaries, and Disabilities				
Currently Receiving Benefits	4,936	4,271	19	9,226
Terminated Employees Entitled to				
But Not Yet Receiving Benefits	1,045	946	108	2,099
Active Employees				
Vested	1,953	2,199	951	5,103
Non-Vested	1	42	2,189	2,232
<b>Total Membership</b>	<b><u>7,935</u></b>	<b><u>7,458</u></b>	<b><u>3,267</u></b>	<b><u>18,660</u></b>

## **Closed Plan Description**

Employees covered by the Closed Plan are fully vested for benefits upon receiving 5 years of creditable service. Under the Closed Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 65 with 4 or more years of creditable service (active);
- Age 65 with 5 or more years of creditable service (terminated & vested);
- Age 60 with 15 or more years of creditable service (active or terminated & vested); or
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested).

The following provisions apply for uniformed patrol members of the Closed Plan:

- Age 55 with 4 or more years of creditable service (active);
- Age 55 with 5 or more years of creditable service (terminated & vested);
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested); or
- Mandatory retirement at age 60 (active).

All non-uniformed members may retire early, with reduced benefits, at age 55 with at least 10 years of creditable service.

The base benefit in the Closed Plan is equal to 1.6% multiplied by the final average pay multiplied by years of creditable service. For members of the uniformed patrol, the base benefit is calculated by applying the same formula, then multiplying the product by 1.333333.

Retired uniformed members will receive an additional benefit of \$90 per month, plus cost-of-living adjustments (COLAs), until attainment of age 65. This payment, however, is reduced by any amount earned during gainful employment. This benefit is not available to uniformed members hired on or after January 1, 1995, or to vested deferred members.

For members employed prior to August 28, 1997, COLAs are provided annually based on 80% of the increase in the consumer price index for all urban consumers for the United States (CPI-U). The minimum rate is 4% and the maximum rate is 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated and the annual COLA rate will be equal to 80% of the increase in the CPI-U (annual maximum of 5%). For members employed on or after August 28, 1997, COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

The BackDROP is a payment option that is available to eligible members upon retirement. This option provides for a benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

The life income annuity payment option (which contains no provision for survivorship) and the life income with 60 or 120 month guaranteed payment options are available to all members. Joint and 50% or 100% survivor options are available if married at the time of retirement. In the Closed Plan, the reduction for the joint & 100% survivor option is based on the difference between the age of the member and the survivor. There is no reduction for the joint and 50% survivor option.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse as beneficiary if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect a payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving normal or work-related disability benefits, on or after September 28, 1985, are provided a \$5,000 death benefit payable to designated beneficiaries.

## **Year 2000 Plan Description**

Employees covered by the Year 2000 Plan are fully vested for benefits upon earning 5 years of creditable service. Under the Year 2000 Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 62 and with 5 or more years of creditable service (active or terminated & vested);
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active).

The following provisions apply for uniformed patrol members of the Year 2000 Plan:

- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active);
- Mandatory retirement at age 60 (active only).

All members may retire early with reduced benefits at age 57 with at least 5 years of creditable service.

The base benefit in the Year 2000 Plan is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service. Members retiring under the Rule of 80, and uniform patrol members retiring at the mandatory retirement age (currently 60), receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that may be available to members upon retirement. This option provides for a monthly benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any temporary benefits, COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member's age at retirement, as well as the age difference between the member and the survivor.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has 1 year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after July 1, 2000, are provided a \$5,000 death benefit payable to designated beneficiaries.

## **Year 2000 Plan-2011 Tier Description**

Employees covered by the 2011 Tier are fully vested for benefits upon earning 5 years of creditable service if they were active on or after January 1, 2018. Under the 2011 Tier, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 67 and with 5 or more years of creditable service (active or terminated & vested);
- "Rule of 90" – at least age 55 with sum of member's age and service equaling 90 or more (active only).

Active MoDOT and civilian employees may retire early with reduced benefits at age 62 with at least 5 years of creditable service.

The following provisions apply for uniformed patrol members of the 2011 Tier:

- Age 55 and with 5 or more years of creditable service (active only);
- Mandatory retirement at age 60 with no minimum service amount (active only).

Terminated and vested uniformed patrol employees may retire at age 67 with 5 or more years of creditable service.

The base benefit in the 2011 Tier is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service. Members retiring under the Rule of 90, and uniform patrol members retiring at the mandatory retirement age (currently 60) or at age 55 with 5 years of creditable service, receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the change in the CPI-U, up to a maximum rate of 5%.

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member's age at retirement, as well as the age difference between the member and the survivor.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity, upon appropriate notification to MPERS.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

The member has 1 year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after January 1, 2011, are provided a \$5,000 death benefit payable to designated beneficiaries.

## **Contributions**

Beginning January 1, 2011, employee contributions of 4% of gross pay are required for those covered by the Year 2000 Plan-2011 Tier.

Employer contributions are determined through annual actuarial valuations. Administrative expenses are financed through contributions from participating employers and investment earnings.

Participating employers are required to make contributions to the plan based on the actuarially determined rate. Detailed information regarding contributions can be found in Note 5.

## **NOTE 3 – DEPOSITS AND INVESTMENTS**

The Board of Trustees has established policies and procedures by which funds are invested. Section 104.150, RSMo., provides the authority for the Board to invest MPERS funds. Plan assets are invested in a diversified portfolio following prudent standards for preservation of capital, with the goal of achieving the highest possible rate of return consistent with MPERS' tolerance for risk. The Board of Trustees establishes MPERS' asset allocation policy, and may amend the policy. The following is MPERS' current asset allocation policy:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>
Public Equity	40.0%
Private Equity	10.0%
Traditional Fixed Income	22.5%
Opportunistic Debt	7.5%
Real Assets	10.0%
Real Estate	10.0%
Cash	0.0%

### **Note 3 (a) - Deposit and Investment Risk Policies**

#### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Within the traditional asset classes (equities and fixed income), the consultant will aggregate exposures across asset classes to create measures of concentration including industries, countries and security issuer for Investment staff review.

#### **Investment Custodial Credit Risk**

Custodial credit risk is an investment risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or the collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the System's name. It is the policy of the System to require that all investments be clearly marked as to ownership and, to the extent possible, shall be registered in the name of the System.

#### **Cash Deposit Custodial Credit Risk**

Cash deposit custodial credit risk is the risk that, in the event of the failure of depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Missouri state law requires that all public funds must be collateralized with acceptable securities having fair values of at least 100% of the amount of funds on deposit (less any amount covered by FDIC insurance).

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **Market Risk**

Market risk is the risk that the fair value of an investment will be adversely impacted due to a change in value of the underlying market. The three primary market risks prevalent in the System's investment portfolio are equity prices, interest rates, and foreign currencies. Equity risk is the risk that stock prices fall and/or the volatility in the equity market increases. Interest rate risk is the risk that fixed income securities (or any investment primarily valued on a yield basis) will drop in value due to an increase in interest rates. Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The System protects the portfolio against market risks by adopting a diversified asset allocation that limits the amount of exposure to each underlying market risk. Market risks are also controlled by monitoring the types, amounts, and degree of risk that each investment manager takes for their specific mandate.

## **Investment Credit Risk**

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Unless authorized under a separate Investment Management Agreement or operating agreement, it is the policy of the System to limit fixed income managers to purchasing securities that possess a minimum credit rating of "Baa" by Moody's and "BBB" by Standard & Poor's. Issues subsequently downgraded below these ratings must be brought to the attention of the Chief Investment Officer. Where counterparty risk is present, the System's investment managers seek to control credit risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures.

## **Note 3 (b) - Cash Deposits**

Cash balances include short-term securities held by the custodial bank to meet future obligations and operating balances held by the depository bank. As of June 30, 2020, MPERS had a carrying amount of deposits of (\$206,298), and a bank balance of \$0. The FDIC covered the bank balances. To maximize investment income, cash is invested in overnight repurchase agreements, thus causing the negative cash amount disclosed above. The balances in these repurchase agreements at June 30, 2020 totaled \$823,776. As of June 30, 2020, no investments were held as repurchase agreements that were uninsured or unregistered, with securities held by the counterparty or by its trust department or agent but not in MPERS' name.

## **Note 3 (c) – Concentrations**

No investments in any one organization (other than those issued or sponsored by the U.S. government and those in pooled investments) represent 5% of plan net position.

## **Note 3 (d) – Rate of Return**

For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was negative 0.44%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **Note 3 (e) – Investments**

The following table shows MPERS' investments by type.

### **Summary of Investments by Type as of June 30, 2020**

	<b>Carrying Amount</b>	<b>Fair Value</b>
Equities	\$ 217,624,635	\$ 308,896,711
Fixed Income	684,572,571	688,908,574
Limited partnerships	1,068,652,607	998,139,973
Hedge	83,659,462	109,891,158
Short Term Securities	247,632,298	247,654,199
Securities Lending Collateral	108,567,739	108,567,739
<b>Total Investments</b>	<b>\$ 2,410,709,312</b>	<b>\$ 2,462,058,354</b>

### **Reconciliation to Statement of Fiduciary Net Position:**

Less: Repurchase Agreements	\$ (823,776)
Less: Securities Lending Collateral	(108,567,739)
<b>Investments per Statement of Fiduciary Net Position</b>	<b>\$ 2,352,666,839</b>

Certain investments are not listed on national exchanges, over-the-counter markets, nor do they have quoted market prices. Their valuation is based on the most current net asset values, independent appraisals, and/or good faith estimates of the investment's fair value provided by the general partner or portfolio manager, cash flow adjusted through fiscal year end. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed. The following investments were priced using those methods and comprised 48% of the total fair value of the System's investments as of June 30, 2020:

	<b>Fair Value</b>
Hedge Funds	\$ 109,891,158
Limited Partnerships	998,139,973
	<b>\$ 1,108,031,131</b>

## **Note 3 (f) – Fair Value Measurements**

MPERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

**Level 1:** Unadjusted quoted prices for identical instruments in active markets.

**Level 2:** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

**Level 3:** Values derived from valuation techniques in which significant inputs are unobservable. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## Investments Measured at Fair Value as of June 30, 2020

Investments by Fair Value Level	Fair Value	Level 1	Level 2	Level 3
Short Term Securities	\$ 246,239,332	\$ 246,239,332	\$ 0	\$ 0
Debt Securities				
Collateralized Debt Obligations	278,070,244	0	94,280,117	183,790,127
Commercial Mortgage-Backed Securities	32,506,233	0	27,807,796	4,698,437
Corporate Bonds	1,519,698	0	1,519,698	0
Government Commercial				
Mortgage-Backed Securities	10,881,701	0	0	10,881,701
Government Mortgage-Backed Securities	33,825,497	0	27,716,963	6,108,534
Municipal Bonds	160,505,772	0	52,631,474	107,874,298
U.S. Government Agencies	112,731,120	0	112,731,120	0
U.S. Treasury Securities	51,475,673	0	51,475,673	0
Total Debt Securities	681,515,938	0	368,162,841	313,353,097
Equity Securities				
Communication Services	585,017	585,017	0	0
Consumer Discretionary	3,223,281	3,223,281	0	0
Consumer Staples	1,799,082	1,799,082	0	0
Equity Other	23,283,733	23,283,733	0	0
Financials	54,661,189	54,336,233	324,956	0
Health Care	3,952,605	3,952,605	0	0
Industrials	3,714,684	3,714,684	0	0
Information Technology	5,313,291	5,313,291	0	0
Materials	223,721	223,721	0	0
Real Estate	3,041,281	3,041,281	0	0
Telecommunication Services	259,317	259,317	0	0
Utilities	542,532	542,532	0	0
Total Equity Securities	100,599,733	100,274,777	324,956	0
Private Markets				
Private Equity	345,236,079	0	0	345,236,079
Real Estate	126,229,335	7,102,266	0	119,127,069
Real Assets	281,649,907	0	0	281,649,907
Opportunistic Debt	207,227,716	(14,690)	0	207,242,406
Total Private Markets	960,343,037	7,087,576	0	953,255,461
Investment Derivative Instruments				
Equity Swaps	757,697	0	757,697	0
Total Investment Derivative Instruments	757,697	0	757,697	0
<b>Total Investments by Fair Value Level</b>	<b>\$ 1,989,455,737</b>	<b>\$ 353,601,685</b>	<b>\$ 369,245,494</b>	<b>\$ 1,266,608,558</b>
Investments Measured at Net Asset Value				
Activist Equity	13,294,378			
Commingled International Equity Fund	194,095,430			
Equity Long/Short	14,260,361			
Event	13,533,924			
Global Asset Allocation	28,836,899			
In-Liquidation	555,818			
Multi-Strategy	21,419,916			
Structured Credit - Relative Value	5,991,453			
Private Real Estate Fund	80,386,544			
Total Investments Measured at Net Asset Value	372,374,723			
<b>Total Investments</b>	<b>\$ 2,361,830,460</b>			
<b>Reconciliation to Statement of Fiduciary Net Position</b>				
Total Investments Measured at Fair Value and Derivatives	\$ 2,361,830,460			
Investment Sales Receivable	(5,276,151)			
Investment Purchases Payable	1,675,129			
Accrued Interest and Income	(5,695,747)			
Accrued Expenses	133,148			
<b>Total Investments per Statement of Fiduciary Net Position</b>	<b>\$ 2,352,666,839</b>			



# Notes to the Financial Statements

For the Year Ended June 30, 2020

Investments listed as level 1 include equity securities and futures contracts where the price comes from an exchange.

Investments listed as level 2 include debt securities where an independent pricing evaluator had direct observable information including: trading volume, multiple sources of market data and benchmark spreads. The equity index swap is included because the valuation inputs include an observable interest rate and the underlying index.

Investments listed as level 3 include debt securities where an independent pricing evaluator did not have direct observable information and had limited market information for comparable securities. Significant inputs used in the valuation are not available aside from the evaluator providing the price. Direct investments in private equity, real estate, credit, and real assets are included because the valuation techniques utilize discounted cash flows or other non-observable market information by manager.

## ***Private Markets Measured at Fair Value as of June 30, 2020***

<b>Private Markets</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>
Private Equity	345,236,079	107,781,000
Real Estate	126,229,336	105,761,000
Real Assets	281,649,907	118,521,000
Opportunistic Debt	207,227,715	200,878,000
<b>Total Private Markets</b>	<b>\$ 960,343,037</b>	<b>\$ 532,941,000</b>

### **Private Markets**

Private equity, real estate, real assets, and opportunistic debt are the four asset classes that fall into the category of private market funds. These funds invest in the equity or debt of private companies.

**Private Equity:** The private equity portfolio includes 23 direct fund investments and three fund of fund investments. These funds invest in private companies adding value through operational or industry expertise and vast networks. The majority of the private equity allocation is in buyout funds with a smaller portion in venture capital funds. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years.

**Real Estate:** The real estate portfolio consists of 26 real estate funds. The noncore real estate book includes 22 real estate funds that invest in value-add or opportunistic strategies. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of six to ten years. The remaining three investments are in core real estate funds. Three of these funds are open-ended. Two are eligible for redemption on a daily basis and one on a quarterly basis.

**Real Assets:** The real asset portfolio contains 27 funds that invest in private energy, aviation, mining and shipping companies. The timber portfolio, which includes both ownership in timber funds and direct timber investments, is also within the real assets portfolio. The timber portfolio has 11 direct timber investments. These funds and investments are not eligible for redemption. Distributions are received as underlying investments and investments within the funds are liquidated, which on average can occur over the span of six to ten years.

**Opportunistic Debt:** The opportunistic debt portfolio, comprised of 31 funds, provide financing to private companies. While this portfolio has a U.S. bias, some funds invest internationally with exposures in Europe and Asia. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of three to five years.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## Investments Measured at Net Asset Value as of June 30, 2020

<u>Investments at Net Asset Value</u>	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Hedge Funds				
Activist Equity	\$ 13,294,378	\$ 0	Yearly, Every 3 Years	90 Days
Equity Long/Short	14,260,361	0	Quarterly	45 Days
Event Driven	13,533,924	0	Monthly	90 days
Global Asset Allocation	28,836,899	0	Monthly	5-60 Days
In-Liquidation	555,818	0	In liquidation	
Multi-Strategy	21,419,916	0	Monthly	60-90 Days
Structured Credit - Relative Value	5,991,453	0	Quarterly	60 Days
Total Hedge Funds	97,892,749	0		
Commingled International Equity Funds	194,095,430	0	Daily, Monthly	0-30 Days
Private Real Estate Funds	80,386,544	0	Daily	90 Days
<b>Total Investments at Net Asset Value</b>	<b>\$ 372,374,723</b>	<b>\$ 0</b>		

### Hedge Funds

**Activist Equity:** Consisting of one fund, this strategy focuses on obtaining publicly traded shares of companies and effecting changes within the companies that it owns whether that be value creation through operational, financial or corporate governance changes. The fund's focus is on European and Nordic companies. Due to contractual lock-up restrictions and the necessity for activist managers to retain capital in order to realize the desired company changes, this strategy's investments are eligible for redemption on a rolling three-year basis.

**Equity Long/Short:** Consisting of one fund, this strategy invests in both long and short in Asia Pacific equity securities, with a goal of adding growth and minimizing market exposure. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next six months.

**Event Driven:** Consisting of one fund, this strategy seeks to gain an advantage from pricing inefficiencies that may occur at the onset or aftermath of a merger, corporate action or related event. Due to contractual lock-up restrictions, the value of this fund is eligible for redemption in the next four months.

**Global Asset Allocation:** Consisting of one fund, this strategy is highly diversified and uses fundamental research to develop systematic rules for trading positions. Due to contractual lock-up restrictions, the value of this fund is eligible for redemption in the next 35 days.

**Hedge Funds in Liquidation:** MPERS currently has a small investment in two hedge funds that are in liquidation. These funds have closed and MPERS is awaiting the sale of final assets.

**Multi-Strategy:** The two funds that make up this group aim to pursue varying strategies in order to diversify risks and reduce volatility. Due to contractual lock-up restrictions, the value of these investments is eligible for redemption in the next six months.

**Structured Credit - Relative Value:** Consisting of one fund, this strategy's main focus is to benefit from valuation discrepancies that may be present in related financial instruments by simultaneously purchasing or selling these instruments. As of June 30, a full redemption has been requested and will be received over the next four quarters.

### Commingled International Equity Funds

MPERS invests in three international equity funds that are considered to be commingled in nature. Due to contractual lock-up restrictions, 65% of this capital is eligible for redemption in one month; the remaining 35% has daily liquidity.

### Private Real Estate Funds

MPERS invests in three core private real estate funds that are commingled in nature. While each of these funds have daily liquidity, due to contractual restrictions, MPERS has to give 90 days notification of withdrawals.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **Note 3 (g) – Investment Interest Rate Risk**

The following table summarizes the maturities of government obligations, corporate bonds, convertible corporate bonds, mortgages, and asset-backed securities which are exposed to interest rate risk.

### **Summary of Weighted Average Maturities as of June 30, 2020**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>			
		<b>less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>more than 10</b>
Asset-Backed Securities	\$ 288,161,636	\$ 0	\$ 10,631,561	\$ 82,460,074	\$ 195,070,001
Commercial Mortgage-Backed Securities	23,424,024	0	0	0	23,424,024
Corporate Bonds	5,477,695	0	179,660	213,301	5,084,734
Government Agencies	94,097,841	0	0	23,394,774	70,703,067
Government Bonds	37,078,203	0	0	0	37,078,203
Government Mortgage-Backed Securities	26,402,792	0	280,931	1,474,317	24,647,544
Government-Issued Commercial Mortgage-Backed	1,941,588	0	0	0	1,941,588
Index Linked Govt Bonds	38,893,599	16,557,982	0	8,758,988	13,576,629
Municipal/Provincial Bonds	164,391,681	0	13,325,662	27,631,460	123,434,559
Non-Govt Backed C.M.O.s	9,039,514	0	0	130,013	8,909,501
Short Term Bills and Notes	10,364,973	10,364,973	0	0	0
<b>Total</b>	<b>\$ 699,273,546</b>	<b>\$ 26,922,955</b>	<b>\$ 24,417,814</b>	<b>\$ 144,062,927</b>	<b>\$ 503,869,850</b>

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## Note 3 (h) – Investment Credit Ratings

The following table summarizes the credit ratings of the government obligations, corporate bonds, mortgages, and asset-backed securities.

**Summary of Credit Ratings as of June 30, 2020**

Investment Type	AAA	AA	A	BBB	BB	B	CCC	CC	D	Not Rated	US Government	
											Guaranteed	Total
Asset Backed Securities	\$ 64,337,056	\$ 75,631,249	\$ 8,791,303	\$ 966,167	\$ 4,992,261	\$ 8,514,171	\$ -	\$ -	\$ -	\$ 124,929,429	\$ -	\$ 288,161,636
Commercial Mortgage-Backed	3,924,681	2,193,533	-	-	-	-	-	-	-	17,142,623	163,187	23,424,024
Corporate Bonds	-	5,084,233	-	213,301	-	-	-	-	-	180,161	-	5,477,695
Government Agencies	-	79,625,750	-	-	-	-	-	-	-	-	14,472,091	94,097,841
Government Bonds	-	-	-	-	-	-	-	-	-	6,123,125	30,955,078	37,078,203
Government Mortgage	-	-	-	-	-	-	-	-	-	-	-	-
Backed Securities	-	-	-	-	-	-	-	-	-	175,413	26,227,379	26,402,792
Government-Issued Commercial	-	-	-	-	-	-	-	-	-	-	1,941,588	1,941,588
Mortgage-Backed	-	-	-	-	-	-	-	-	-	-	-	-
Index Linked	-	-	-	-	-	-	-	-	-	-	-	-
Government Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	48,917,200	89,786,280	670,532	1,452,971	-	-	-	-	-	25,316,970	13,576,629	38,893,599
Non-Government	-	-	-	-	-	-	-	-	-	23,564,698	-	164,391,681
Backed C.M.O.s	66,714	-	213,424	-	-	393,639	171,997	130,611	647,911	7,415,218	-	9,039,514
Short Term Bills and Notes	-	-	-	-	-	-	-	-	-	-	10,364,973	10,364,973
<b>Total</b>	<b>\$ 117,245,651</b>	<b>\$ 252,321,045</b>	<b>\$ 9,675,259</b>	<b>\$ 2,632,439</b>	<b>\$ 4,992,261</b>	<b>\$ 8,907,810</b>	<b>\$ 171,997</b>	<b>\$ 130,611</b>	<b>\$ 647,911</b>	<b>\$ 204,847,637</b>	<b>\$ 97,700,925</b>	<b>\$ 699,273,546</b>

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **Note 3 (i) – Investment Foreign Currency Risk**

Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The following table summarizes MPERS' exposure to foreign currencies for all assets that are held in custody at the System's custodial bank. MPERS has exposure to foreign currencies in other areas of the portfolio, such as commingled international funds, hedge funds and private partnerships, which are held in the custody of other banks acting as administrators for the funds.

### **Exposure to Foreign Currency Risk as of June 30, 2020**

<b>Foreign Currency</b>	<b>Equities</b>	<b>Real Estate/ Partnerships</b>	<b>Cash</b>	<b>Total</b>
Australian Dollar	\$ 244,300	\$ 0	\$ 0	\$ 244,300
British Pound Sterling	267,106	6,228,251	0	6,495,357
Canadian Dollar	163,715	0	0	163,715
Euro	722,021	20,663,473	491,038	21,876,532
Hong Kong Dollar	517,339	0	0	517,339
Japanese Yen	820,355	0	0	820,355
Singapore Dollar	212,943	0	0	212,943
Swedish Krona	175,208	0	0	175,208
<b>Total Exposure Risk</b>	<b>\$ 3,122,987</b>	<b>\$ 26,891,724</b>	<b>\$ 491,038</b>	<b>\$ 30,505,749</b>

## **Note 3 (j) – Securities Lending**

In accordance with the Board of Trustees' investment policy, MPERS participates in a securities lending program. The Northern Trust Company administers the program. There are no restrictions on the amount of securities that may be lent.

Securities that may be loaned include U.S. government and agency securities, corporate equity, and fixed income securities. Collateral may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned in exchange for collateral valued at 102% of the fair value of the securities, plus any accrued interest. Non-U.S. securities are loaned in exchange for collateral valued at 105% of the fair value of the securities, plus any accrued interest. On June 30, 2020, MPERS had no credit risk exposure to borrowers, since the amount of collateral exceeded the amount of the loans.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. The average term of the System's loans was approximately 227 days as of June 30, 2020. Cash open collateral is invested in a short-term investment pool, which had an interest sensitivity of 31 days as of June 30, 2020. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. There were no known violations of legal or contractual provisions, or borrower or lending agent default losses. There were no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited on approximately the fifteenth day of the following month.

Indemnification deals with a situation in which a client's securities would not be returned due to the insolvency of a borrower and Northern Trust would fail to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses and demanding adequate types and levels of collateral.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

The collateral held (including both cash collateral recognized in the Statement of Fiduciary Net Position and non-cash collateral) is:

## ***Collateral Held as of June 30, 2020***

<b>Investment Type</b>	
Equities	\$ 32,870,725
Government & Government Sponsored Agencies	80,762,582
	1,314,960
<b>Total</b>	<b>\$ 114,948,267</b>

## **Note 3 (k) – Derivatives**

A derivative financial instrument is an investment whose value depends on the values of one or more underlying assets, financial indexes, or commodity prices. These investments include futures contracts, options contracts, and forward foreign currency exchange. Derivative financial instruments involve credit risk and market risk, as described in Note 3(a), in varying levels.

Through MPERS' external managers, MPERS holds investments in futures contracts, swaps contracts, options contracts, and forward foreign currency exchange contracts. MPERS enters into futures and swaps contracts to gain exposure to certain markets and enters into forward foreign exchange contracts primarily to hedge foreign currency exposure.

The notional value related to these derivative instruments is generally not recorded on the financial statements; however, the change in fair value of these instruments is incorporated in performance. The notional/fair value of \$583,524,473 for the various contracts in MPERS' portfolio as of June 30, 2020, is recorded in investments on the Statement of Fiduciary Net Position. The change in fair value of \$(22,337,749) for the year ended June 30, 2020, is recorded in investment income on the Statement of Changes in Fiduciary Net Position.

## ***Investment Derivatives as of June 30, 2020***

<b>Type</b>	<b>Classification</b>	<b>Notional / Fair Value</b>	<b>Unrealized Loss</b>
Futures Contracts	Investments, at fair value	\$ 438,617,374	\$ (6,437,526)
Swaps Contracts	Investments, at fair value	144,907,099	(15,900,223)
<b>Total</b>		<b>\$ 583,524,473</b>	<b>\$ (22,337,749)</b>

Through the use of derivatives, MPERS is exposed to risk that the counterparties involved in the contracts are unable to meet the terms of their obligation. MPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MPERS anticipates the counterparties will be able to satisfy their obligations under contract. The associated counterparty's credit rating is an A+.

## **NOTE 4 – RECEIVABLES**

### ***Receivables as of June 30, 2020***

<b>Type</b>	
Contributions-MoDOT	\$ 4,753,939
Contributions-MSHP Non-Uniformed	1,230,506
Contributions-MSHP Uniformed	2,056,506
Investment Interest & Income	5,695,747
Investment Sales	5,276,151
<b>Total</b>	<b>\$ 19,012,849</b>

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **NOTE 5 – CONTRIBUTIONS**

MoDOT, MSHP, and MPERS make contributions to the System, as do employees covered under the Year 2000 Plan-2011 Tier. MPERS permanent funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 30-year period, beginning July 1, 2006). (The objective is to reduce the period by one year each year.) A temporary accelerated policy has been adopted where the total contribution is based on entry-age 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 are closed periods starting July 1, 2010. This temporary accelerated policy was adopted by the MPERS' Board of Trustees on September 17, 2009, and will remain in effect until such time as the retiree liability becomes 100% funded or the permanent policy produces a higher contribution rate. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by state statute to be funded in advance. Actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation. The employee contribution rate for members of the Year 2000 Plan-2011 Tier is set by statute.

Required employer contributions totaling \$210,871,852 for fiscal year 2020, represent funding of normal costs and amortization of the unfunded accrued liability. Actual contributions made were 100% of required contributions. Contribution rates as determined by the System's actuary for the year ended June 30, 2020, are shown in the following table. The Board established actual rates to be the same as the actuarially determined rates.

<b><i>Contribution Rates</i></b>		
<b>MoDOT, MPERS &amp; Civilian Patrol</b>	<b>Uniformed Patrol</b>	<b>2011 Tier Employee</b>
58.00%	58.00%	4.00%

At the September 26, 2014 Board meeting, the Board adopted the use of a contribution rate stabilization reserve that would result in an MPERS employer contribution rate similar to the fiscal year 2015 rates. The reserve is intended to keep the contribution relatively level over time and may be used if the investment market experiences a downturn in the future. The Board further adopted (in February 2015) that the employer contribution rate would not fall below 58% unless 1) the fund became fully funded or 2) the contribution stabilization reserve reached \$250 million. The balance of the reserve as of June 30, 2020, was \$143,863,600.

## **NOTE 6 – DEFERRED RETIREMENT OPTION PROGRAM**

MPERS currently provides a BackDROP option. This is an election made at the time of actual retirement. In effect, it provides members an option to elect to receive a portion of their benefits as cash. Since the election is not made until the member actually retires, the option is not treated as a DROP provision in accordance with generally accepted accounting principles.

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **NOTE 7 – NET PENSION LIABILITY OF EMPLOYERS**

The components of the net pension liability of the employers at June 30, 2020, were as follows:

Total pension liability	\$4,092,097,897
Plan fiduciary net position	<u>(2,361,599,888)</u>
Employers' net pension liability	<u>\$1,730,498,009</u>

Plan fiduciary net position as a percentage of the total pension liability	57.71%
Covered Payroll	\$363,980,262
Employers' net pension liability as a percentage of covered payroll	475.44%

### **Actuarial Assumptions**

The total pension liability amounts were determined by actuarial valuations as of June 30, 2020, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0%
Salary Increases	3.0% to 12.45%
Investment Rate of Return	7.00%

The mortality tables, for post-retirement mortality, used in evaluating allowances to be paid to non-disabled pensioners were the RP-2014 Healthy Mortality Tables projected to 2022 using projection scale MP-2017. Pre-retirement mortality used were the RP-2014 Employee Mortality Table projected to 2022 using projection scale MP-2017 and multiplied by a factor of 65%. Disabled pension mortality was based on RP-2014 Disabled Retiree Annuitant Mortality Tables projected to 2022 using projection scale MP-2017.

The long-term (30 year) expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultants and actuary. These estimates for each major asset class included in MPERS' target asset allocation as of June 30, 2020, (see Note 3) are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Global Equity	3.9%
Private Equity	7.2%
Fixed Income	0.3%
Opportunistic Debt	4.5%
Real Assets	5.3%
Real Estate	2.4%

### **Discount Rate**

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The employers pay the same contribution rate for each employee regardless of the plan the employee was hired under. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



# Notes to the Financial Statements

For the Year Ended June 30, 2020

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's June 30, 2020 net pension liability, calculated using a single discount rate of 7.00%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

***Current Single Discount***

	<b>1% Decrease</b>	<b>Rate Assumption</b>	<b>1% Increase</b>
	<b>6.00%</b>	<b>7.00%</b>	<b>8.00%</b>
Net Pension Liability	\$2,206,172,744	\$1,730,498,009	\$1,333,006,794

## **NOTE 8 – EMPLOYER PROPORTIONATE SHARE**

MPERS, as the administrative agent for the pension system, is also an employer of the pension system. The administrative expenses of the pension system are included in the deductions to the pension system's fiduciary net position. While the employer contributions of the other participating employers are funded from outside revenue sources, the employer contributions of MPERS are funded from sources already recognized as revenues, such as earnings on plan investments or contributions paid by the other participating employers. Attempting to allocate a portion of the net pension liability to MPERS as an employer would result in an allocation of the net pension liability to the other participating employers. Accordingly, MPERS excludes its contributions from the employer proportionate share calculation for the reporting of a net pension liability, by assigning itself a proportionate share of 0%. This exclusion, in essence, shifts the portion of the net pension liability that would accrue to MPERS to the other participating employers.

## **NOTE 9 – PERSONNEL SERVICES AND RETIREMENT PLAN**

MPERS employed 17 full-time employees as of June 30, 2020. Eleven former MPERS employees have retired. Full-time employees are members of the System (see Note 8). For these employees, MPERS accrued 58.00% of payroll during fiscal year 2020, amounting to \$987,743. The amounts for fiscal year 2020 and the four preceding years are shown below. These amounts are recorded as both a contribution and administrative expense. Information regarding the retirement plans can be found in Notes 2 and 5.

***Net Obligations***

<b>Year Ended</b>	<b>Annual Contribution Accrual</b>	
	<b>June 30</b>	<b>Percent      Dollars</b>
2016	58.05%	\$ 996,378
2017	58.00%	1,087,268
2018	58.00%	1,127,506
2019	58.00%	987,370
2020	58.00%	987,743

# Notes to the Financial Statements

For the Year Ended June 30, 2020

## **NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

In addition to the retirement benefits described previously, MPERS provides a portion of health care insurance through the MoDOT and MSHP Medical and Life Insurance Plan (Insurance Plan) in accordance with Missouri State statutes. The Insurance Plan is considered an agent multiple-employer defined benefit plan and is administered by MoDOT. The Insurance Plan is financed on a pay-as-you-go basis and is an internal service fund of MoDOT. At June 30, 2020, there were 9 inactive (retired) members and 17 active employees participating in the Insurance Plan.

Medical insurance benefits are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Benefits include general inpatient and outpatient medical services; mental, nervous and substance abuse care; and prescriptions. Eligible members are employees who retired from the System with a minimum of 5 years of service and who participate in the Insurance Plan. MoDOT issues a publicly available financial report that includes financial statements and required supplementary information for the Insurance Plan. Requests for this report should be addressed to MoDOT, Financial Services Division, P.O. Box 270, Jefferson City, MO 65102.

Employer and member contributions are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Premiums vary by coverage categories, which include retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees.

### **Changes in Total OPEB Liability**

MPERS' proportionate share (0.14%) of the Insurance Plan's net OPEB liability is \$1,552,393 which was measured as of July 1, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

### **Summary of Changes in Net OPEB Liability for the Year Ended June 30, 2020**

	<b>Total</b>
Beginning Balance	\$1,538,442
Changes for the year:	
Service Cost	64,136
Interest Cost	61,346
Changes of benefit terms	0
Differences between expected and actual experience	(17,475)
Changes in assumptions	(58,897)
Benefit payments	(35,159)
Net changes	<u>13,951</u>
Ending Balance	<u>\$1,552,393</u>

### **Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020, MPERS recognized net OPEB expense of \$58,805. MPERS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

### **Deferred Outflows/Inflows**

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Differences between expected and actual experience	\$ 0	\$ 23,102
Changes of assumptions or other inputs	0	225,697
Contributions subsequent to measurement date	31,054	0
Total	<u>\$ 31,054</u>	<u>\$ 248,799</u>

# Notes to the Financial Statements

For the Year Ended June 30, 2020

Deferred outflows resulting from contributions subsequent to the measurement date will be recognized as a change to the net pension liability in each subsequent year. Other deferred mounts related to OPEB will be recognized in expenses as follows:

## **Amortization of Deferred Outflows/Inflows**

<b>Fiscal Year</b>	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
2021	\$ 31,054	\$ (66,677)
2022	0	(66,677)
2023	0	(66,677)
2024	0	(32,436)
2025	0	(14,588)
Total Thereafter	0	(1,744)

## **Actuarial Assumptions**

The following actuarial assumptions and other inputs, applied to all periods included in the measurement:

### **Actuarial Methods and Assumptions**

Cost method	Entry Age Normal based upon salary
Salary increases	2.50%
Discount rate	3.51%
Investment rate of return	n/a; the plan is unfunded
Health care cost trend rates	5.7%, decreasing to 4.5% in 2025
Retirees' share of benefit-related costs	43% - 60%
Admin Expense Trend (Inflation) Rate	3%

- The salary increases were based on projected salaries, which include COLAs, provided by MoDOT.
- The discount rate was based on Bond Buyer General Obligation 20-Bond Municipal Bond Index.
- Mortality rates were based on Pub-2010 Public Retirement Plans Safety Employees Mortality Table weighted by Headcount projected by MP-2018.
- The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2018-June 30, 2019.
- It is assumed the current employer and member contributions will continue as approved by the Commission.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87% in 2019 to 3.51% in 2020.

The following table illustrates the impact of interest rate sensitivity on the Net OPEB Liability as of June 30, 2020:

### **Interest rate sensitivity**

	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
Net OPEB Liability	\$1,879,723	\$1,552,393	\$1,299,037

# Notes to the Financial Statements

For the Year Ended June 30, 2020

The following table illustrates the impact of healthcare cost trend sensitivity on the Net OPEB Liability as of June 30, 2020:

<b><u>Healthcare cost trend sensitivity</u></b>			
	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
Net OPEB Liability	\$1,263,873	\$1,552,393	\$1,936,082

## **NOTE 11 – CAPITAL ASSETS**

### **Summary of Changes in Capital Assets**

	<b>June 30, 2019</b>		<b>Deletions /</b>		<b>June 30, 2020</b>	
	<b>Balance</b>	<b>Additions</b>	<b>Retirements</b>		<b>Balance</b>	
Land	\$ 84,000	\$ 0	\$ 0		\$ 84,000	
Building	581,619	0	0		581,619	
Furniture, Equipment and Software	3,430,652	0	0		3,430,652	
Less: Accumulated Depreciation	(3,527,226)	(247,369)	0		(3,774,595)	
<b>Total</b>	<b>\$ 569,045</b>	<b>\$ (247,369)</b>	<b>\$ 0</b>		<b>\$ 321,676</b>	

## **NOTE 12 – COMMITMENTS**

MPERS has committed \$1,559,899,137 of which \$1,026,958,137 has been invested, leaving total unfunded commitments to private equity, real estate, real assets and opportunistic debt of \$532,941,000 as of June 30, 2020. The total unfunded investment commitments are not recorded in the accompanying Statement of Fiduciary Net Position.

## **NOTE 13 – RISK MANAGEMENT**

MPERS is exposed to various risks of loss related to natural disasters, asset theft or damage, errors and omissions, torts, and employee injuries.

MPERS has purchased commercial insurance related to capital asset loss and damage. Ancillary coverage provided through the property policy includes coverage for accounts receivable, loss of money and securities, employee dishonesty, and forgery and alterations. MPERS carries a \$2 million umbrella liability policy. MPERS has coverage through Missouri Highway and Transportation Commission's Self-Insurance Fund related to workers' compensation. MPERS has also purchased a directors and officers liability policy with \$1 million aggregate coverage. This coverage is inclusive of legal defense costs and carries a \$35,000 deductible. The State's Legal Expense Fund covers all state employees and officers, and MPERS has purchased surety bonds for the executive director and staff. Settlements have not exceeded coverages for each of the past three fiscal years.

MPERS has a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations.

# Required Supplementary Information

## Schedule of Changes in the Employers' Net Position Liability Year Ended June 30

	2020	2019	2018	2017
<b>Total Pension Liability</b>				
Service Cost	\$ 44,048,083	\$ 43,971,030	\$ 46,621,377	\$ 45,713,403
Interest on the Total Pension Liability	274,791,358	271,174,089	286,457,436	283,568,441
Benefit Changes	0	0	(7,684)	0
Difference Between Expected and Actual Experience	3,494,582	203,459	(37,173,164)	(37,286,966)
Assumption Change	0	0	142,556,109	0
Benefit Payments	(262,710,811)	(255,310,406)	(254,131,209)	(246,617,775)
Refunds	(796,107)	(780,538)	(503,007)	(321,328)
Disability Premiums	(1,640,971)	(1,615,860)	(1,601,605)	(1,620,418)
Transfers to Other Retirement Systems	(2,457,945)	(2,111,007)	(2,823,042)	(2,724,631)
<b>Net Change in Total Pension Liability</b>	<b>54,728,189</b>	<b>55,530,767</b>	<b>179,395,211</b>	<b>40,710,726</b>
<b>Total Pension Liability - Beginning</b>	<b>4,037,369,708</b>	<b>3,981,838,941</b>	<b>3,802,443,730</b>	<b>3,761,733,004</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 4,092,097,897</b>	<b>\$ 4,037,369,708</b>	<b>\$ 3,981,838,941</b>	<b>\$ 3,802,443,730</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 210,871,852	\$ 210,166,927	\$ 204,955,180	\$ 206,562,924
Contributions - Employee	6,547,351	5,996,344	5,001,418	4,891,932
Pension Plan Net Investment Income	(10,667,857)	154,326,818	197,619,838	220,301,741
Benefit Payments	(262,710,811)	(255,310,406)	(254,131,209)	(246,617,775)
Refunds	(796,107)	(780,538)	(503,007)	(321,328)
Disability Premiums	(1,640,971)	(1,615,860)	(1,601,605)	(1,620,418)
Pension Plan Administrative Expense	(4,291,028)	(4,372,966)	(4,693,492)	(4,515,458)
Net Transfers	1,025,629	321,363	(955,597)	(980,524)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>(61,661,942)</b>	<b>108,731,682</b>	<b>145,691,526</b>	<b>177,701,094</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>2,423,261,830</b>	<b>2,314,530,148</b>	<b>2,168,838,622</b>	<b>1,992,073,946</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 2,361,599,888</b>	<b>\$ 2,423,261,830</b>	<b>\$ 2,314,530,148</b>	<b>\$ 2,169,775,040</b>
<b>Adjustment - GASB 75 Implementation</b>				<b>(936,418)</b>
<b>Plan Fiduciary Net Position - Ending as Restated</b>				<b>\$ 2,168,838,622</b>
<b>Employers' Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 1,730,498,009</b>	<b>\$ 1,614,107,878</b>	<b>\$ 1,667,308,793</b>	<b>\$ 1,632,668,690</b>
Plan Fiduciary Net Position as a % of Total Pension Liability	57.71%	60.02%	58.13%	57.06%
Covered Payroll	\$363,980,262	\$362,747,630	\$353,751,292	\$356,515,416
Employers' Net Pension Liability as a % of Covered Payroll	475.44%	444.97%	471.32%	457.95%

Note: These schedules are intended to present information for 10 years, but may be built prospectively. Additional years will be displayed as they become available.

# Required Supplementary Information

2016	2015	2014	2013
\$ 45,441,305	\$ 45,358,095	\$ 44,739,603	\$ 44,446,279
280,432,068	275,284,910	270,525,608	265,339,848
0	0	0	0
(39,810,009)	(13,324,219)	(17,614,321)	(13,690,794)
0	0	0	204,396,180
(236,488,629)	(236,905,323)	(227,958,108)	(220,623,394)
(198,106)	(107,395)	(18,686)	(29,300)
(1,567,825)	(1,554,676)	(1,531,578)	(1,512,685)
(1,921,451)	(3,147,482)	(1,876,336)	(629,246)
<b>45,887,353</b>	<b>65,603,910</b>	<b>66,266,182</b>	<b>277,696,888</b>
3,715,845,651	3,650,241,741	3,583,975,559	3,306,278,671
<b>\$ 3,761,733,004</b>	<b>\$ 3,715,845,651</b>	<b>\$ 3,650,241,741</b>	<b>\$ 3,583,975,559</b>

\$ 199,609,396	\$ 200,638,571	\$ 183,353,841	\$ 170,836,117
3,482,513	3,294,162	2,260,563	1,139,450
21,432,095	92,645,571	319,445,780	198,141,088
(236,488,629)	(236,905,323)	(227,958,108)	(220,619,035)
(198,106)	(107,395)	(18,686)	(29,300)
(1,567,825)	(1,554,676)	(1,531,578)	(1,512,685)
(4,370,860)	(4,066,944)	(3,736,355)	(2,997,225)
808,228	(2,033,045)	(91,954)	(629,246)
<b>(17,293,188)</b>	<b>51,910,921</b>	<b>271,723,503</b>	<b>144,329,164</b>
<b>2,009,367,134</b>	<b>1,957,456,213</b>	<b>1,685,732,710</b>	<b>1,541,403,546</b>
<b>\$ 1,992,073,946</b>	<b>\$ 2,009,367,134</b>	<b>\$ 1,957,456,213</b>	<b>\$ 1,685,732,710</b>

**\$ 1,769,659,058   \$ 1,706,478,517   \$ 1,692,785,528   \$ 1,898,242,849**

52.96%                      54.08%                      53.63%                      47.04%

\$344,635,441                \$342,264,593                \$336,590,797                \$323,205,767

513.49%                      498.58%                      502.92%                      587.32%

*Note: These schedules are intended to present information for 10 years, but may be built prospectively. Additional years will be displayed as they become available.*

# Required Supplementary Information

## Schedule of Employers' Contributions

Last 10 Fiscal Years

	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll*	Contributions as a Percentage of Covered Payroll
2011	\$ 149,952,750	\$ 149,952,750	\$ 0	\$ 363,345,651	41.27 %
2012	164,884,467	164,884,467	0	344,514,139	47.86
2013	170,836,117	170,836,117	0	329,863,134	51.79
2014	183,353,841	183,353,841	0	336,799,855	54.44
2015	200,638,571	200,638,571	0	342,211,446	58.63
2016	199,609,396	199,609,396	0	344,154,131	58.00
2017	206,562,924	206,562,924	0	356,142,972	58.00
2018	204,955,180	204,955,180	0	353,371,000	58.00
2019	210,166,927	210,166,927	0	362,356,771	58.00
2020	210,871,852	210,871,852	0	363,572,159	58.00

\*Values are estimated from contribution rate and actual contribution amount.

## Schedule of Investment Returns

Last 10 Fiscal Years

Fiscal Year Ended June 30	Annual Money-Weighted Rate of Return
2011	21.57 %
2012	2.80
2013	13.37
2014	17.58
2015	6.62
2016	1.02
2017	11.22
2018	9.20
2019	6.84
2020	(0.44)

## Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date .....	June 30, 2020
Actuarial Cost Method .....	Entry Age
Amortized Method.....	Level Percentage of Payroll, Closed
Remaining Amortization Period .....	12 Years (single equivalent period)
Asset Valuation Method.....	3-Year Smoothed Market: 20% Corridor
Inflation .....	2.25% (price inflation)
Actuarial Assumptions:	
Investment Rate of Return .....	7.00%
Projected Salary Increase .....	3.00% to 12.45% (including 3.00% wage inflation)
Cost-of-Living Adjustments .....	1.80% Compound

# Required Supplementary Information

## Other Post-Employment Benefit Plan (OPEB) Schedule of Changes in Net OPEB Liability and Related Ratios for MoDOT and MSHP Medical and Life Insurance Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service Cost	\$ 64,136	\$ 66,676	\$ 81,000
Interest Cost	61,346	54,714	49,929
Changes of benefit terms	0	0	0
Differences between expected and actual experience	(17,475)	(12,565)	0
Changes in assumptions	(58,897)	(81,559)	(238,129)
Benefit payments	<u>(35,159)</u>	<u>(34,004)</u>	<u>(37,055)</u>
<b>Net Change in total OPEB Liability</b>	13,951	(6,738)	(144,255)
<b>Total OPEB Liability (Beginning)</b>	<u>1,538,442</u>	<u>1,545,180</u>	<u>1,689,435</u>
<b>Total OPEB Liability (Ending)</b>	<u><b>\$ 1,552,393</b></u>	<u><b>\$ 1,538,442</b></u>	<u><b>\$ 1,545,180</b></u>
<b>Plan Fiduciary Net Position</b>			
Contributions	\$ 35,159	\$ 34,004	\$ 37,055
Benefit Payments	<u>(35,159)</u>	<u>(34,004)</u>	<u>(37,055)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	0	0	0
<b>Plan Fiduciary Net Position (Beginning)</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Plan Fiduciary Net Position (Ending)</b>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>
Net OPEB Liability (Ending)	\$ 1,552,393	\$ 1,538,442	\$ 1,545,180
Net Position as a Percentage of OPEB Liability	N/A	N/A	N/A
Covered-Employee Payroll	\$ 1,760,722	\$ 1,639,523	\$ 790,000
Net OPEB Liability as a Percentage of Payroll	88.17%	93.83%	195.59%

## Other Post-Employment Benefit Plan (OPEB) Schedule of MPERS' Proportionate Share of Net OPEB Liability for MoDOT and MSHP Medical and Life Insurance Plan

Year Ended June 30	Proportion of Net OPEB Liability	Proportionate Share of Net OPEB Liability	Covered Employee Payroll	Net OPEB Liability as % of Covered Employee Payroll	Net Position as % of Total OPEB Liability
2018	0.14%	\$1,545,180	\$790,000	195.59%	N/A
2019	0.14%	1,538,442	1,639,523	93.83%	N/A
2020	0.15%	1,552,393	1,760,722	88.17%	N/A

Note: These schedules are intended to present information for 10 years, but may be built prospectively. Additional years will be displayed as they become available.



# Supplementary Information

## Schedule of Administrative Expenses

For the Year Ended June 30, 2020

### Personnel Services:

Salary Expense	\$1,816,908
Employee Benefit Expense	1,403,497
<b>Total Personnel Services</b>	<b>3,220,405</b>

### Professional Services:

Actuarial Services	148,875
Audit Services	52,000
Legislative Consultant	30,600
Investment Special Consulting	15,000
Insurance Consultant	6,000
Other Consultant Fees	50,331
Fiduciary Insurance	18,286
IT Hosting and Support	232,002
Other	5,896
<b>Total Professional Services</b>	<b>558,990</b>

### Miscellaneous:

Depreciation	247,368
Meetings/Travel/Education	62,958
Equipment/Supplies	66,784
Printing/Postage	24,490
Bank Service Charge	9,305
Building Expenses	39,822
Other	60,906
<b>Total Miscellaneous</b>	<b>511,633</b>

<b>Total Administrative Expenses</b>	<b>\$4,291,028</b>
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# Supplementary Information

## Schedule of Investment Expenses

For the Year Ended June 30, 2020

### Investment Income Expenses:

#### Management and Performance Fees

##### Management and Performance Fees by Asset Class

Equities	\$2,780,847
Fixed Income Core	108,547
Opportunistic Debt	2,058,233
Real Estate	4,461,249
Private Equity	4,449,367
Real Assets	1,748,392
Hedge Funds	4,795,823

**Total Management and Performance Fees** 20,402,458

Investment Custodial Fee	63,737
Performance Management	214,617
General Consultant (Monitoring) Fee	342,089
Professional Fees	554,145
Other Fees/Expenses	121,632

**Total Investment Income Expenses** \$21,698,678

### Securities Lending Expenses:

Borrower Rebates (Refunds)	\$457,450
Bank Fees	82,755

**Total Securities Lending Expenses** \$540,205

## Supplementary Information

### Schedule of Consultant and Professional Expenses

For the Year Ended June 30, 2020

<u>Professional/Consultant</u>	<u>Nature of Service</u>	
Gabriel, Roeder, Smith & Co.	Actuarial	\$99,875
Cheiron	Actuarial Audit	49,000
LexisNexis Risk Data Management	Death Audit Services	1,800
MO Dept. of Health & Senior Services	Death Audit Services	630
Pension Benefit Information	Death Audit Services	3,466
Naught-Naught	Director's & Officer's Insurance	17,168
Alliant Insurance Services, Inc.	Employee Crime Bond	1,118
Williams-Keepers, LLC	Financial Audit Services	52,000
Midwest Computech	Information Technology	28,362
Huber & Associates	Information Technology	1,925
Levi, Ray & Shoup, Inc.	Information Technology	192,118
Sikich, LLP	Information Technology	7,311
Intermedia	Information Technology	2,286
Thompson Coburn, LLP	Legal Consulting	50,331
Michael G. Winter Consultants, LLC	Legislative Consulting	30,600
Evercore Group LLC	Market Research	15,000
Charlesworth Benefits	Risk Management Consulting	<u>6,000</u>
<b>Total Operating Consultant and Professional Expenses</b>		<b><u><u>\$558,990</u></u></b>
New England Pension Consultants	General Consulting/Monitoring	\$342,089
The Northern Trust Company	Performance Management	214,617
The Northern Trust Company	Investment Custodian	<u>63,737</u>
<b>Total Investment Consultant and Professional Expenses</b>		<b><u><u>\$620,443</u></u></b>

**MISSOURI DEPARTMENT OF TRANSPORTATION  
AND HIGHWAY PATROL EMPLOYEES'  
RETIREMENT SYSTEM**

**COMMUNICATION OF  
AUDIT RELATED MATTERS**

**JUNE 30, 2020**

November 10, 2020

To the Audit Committee of the Board of Trustees of the  
Missouri Department of Transportation and  
Highway Patrol Employees' Retirement System

We have audited the financial statements of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System) for the year ended June 30, 2020, and have issued our report thereon dated November 10, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to the System's Chairman of the Audit Committee of the Board of Trustees in a letter dated July 6, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All material significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: fair value of investments, useful lives of capital assets, and employers' total pension liability and related disclosures.

Management's estimate of the fair value of investments is based on quoted market prices; input from outside investment managers, consultants, and general partners; and current economic conditions. The estimated fair values of alternative investments represent particularly sensitive accounting estimates. Estimated useful lives of capital assets are generally based on past experience with similar assets. Employers' total pension liability and related disclosures are based on actuarial methods and assumptions determined in consultation with the System's actuary. We evaluated the key factors and assumptions used to develop those estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were investments and the net pension liability of employers.

The disclosures in the financial statements are neutral, consistent and clear.

#### *Difficulties Encountered in Performing the Audit*

We are pleased to report that we encountered no difficulties in dealing with management in performing and completing our audit. All system personnel cooperated with us fully during the conduct of our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management. We proposed no audit adjustments that could, in our judgment, either individually, or in the aggregate, have a significant effect on the System's financial reporting process.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter issued in connection with our audit.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### *Other Matters*

We applied certain limited procedures to the management's discussion and analysis and the schedules of changes in the employers' net pension liability, employers' contributions, investment returns, changes in net OPEB liability and related ratios, and the System's proportionate share of net OPEB liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedules of administrative expenses, investment expenses, and professional/consultant expenses, which accompany the basic financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial and statistical sections, which accompany the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### Internal Control

In planning and performing our audit of the financial statements of the System as of and for the year ended June 30, 2020, in accordance with U.S. generally accepted auditing standards, we considered the System's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Restriction on Use

We thank System management and staff for their assistance during the course of our audit. We will be pleased to discuss these or any other matters at your convenience. This information is intended solely for the use of the Board of Trustees and management of the System and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Williams-Keepers LLC". The signature is written in a cursive, slightly slanted style.

WILLIAMS-KEEPERS LLC