

MPERS FYI

Popular Annual Financial Report For the Fiscal Year Ended June 30, 2019

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

Dear Members and Stakeholders:

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



SCOTT SIMON
Executive Director

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

MPERS' investment portfolio had a return of 6.84% for the fiscal year, ranking MPERS in the 32nd percentile, outpacing 68% of other public funds within the peer group. The trailing three- and five-year performance of 9.15% and 6.97% ranks MPERS in the top 32% and 9% of the peer group.

Statutory requirements for new trustee orientation were increased. The necessity for effective trustee education cannot be over-emphasized. The extended orientation combined with a broader utilization of personnel for the orientation has improved a very important function for the System. Staff has also created a "white paper" library

intended to address more complicated topics. This library will be expanded as additional subject matter is identified and as time permits.

With the addition of a communications specialist to the MPERS team last year, there were a number of improvements made during the year with plans for more changes in the years to come. A focus on reaching our members earlier in their careers about the importance of the benefits MPERS administers has become a key objective for the System. This will also serve an important role for the recruitment and retention efforts of our covered employers.

Risk management activities continue to be a priority for the System. With a sound enterprise risk management structure in place, the perpetual review of risk is important to be sure we are prudently administering the plan.

We express our gratitude to the members of the Board, the staff, the consultants, and the many people who have worked so diligently to assure the continued successful operation of MPERS. For over 60 years, MPERS has been committed to providing a foundation for financial security to plan participants through the delivery of quality benefits, exceptional member service, and professional plan administration.

Sincerely,



Scott Simon
Executive Director

FYI

**59.8%
FUNDED**

\$226,789,587

**BENEFITS PAID TO
MISSOURI RESIDENTS**

**8,894
RETIREES AND
BENEFICIARIES**

7,421

ACTIVE MEMBERS



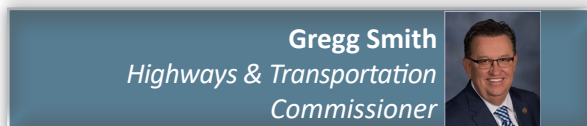
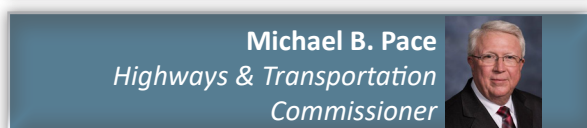
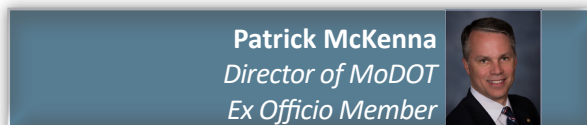
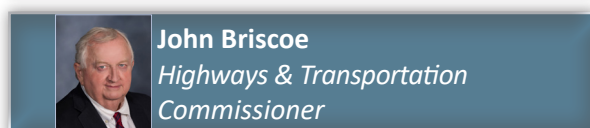
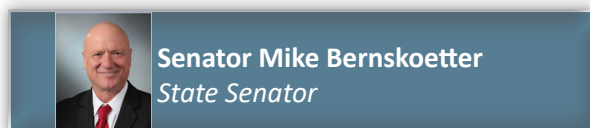
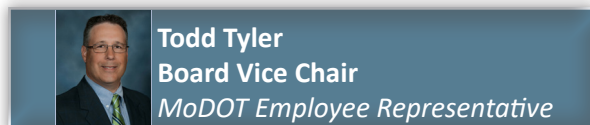
Benefits are a part of the compensation package used to recruit and retain employees who will provide high quality services to Missouri citizens. When combined with social security and personal savings, MPERS' retirement benefit provides the basic foundation for our members to enjoy their retirement years with the dignity and peace of mind they deserve.

About MPERS	2
Financial Information	3
Investments.....	4
Funding	5
Membership and Benefits	7
Retiree Location	8

Board of Trustees

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

In addition to administrative rules, the Board adopted governance policies that set forth the expectations the Board has for itself and formalize the way the Board conducts business. The policies are intended to help the Board meet its fiduciary responsibilities. The governance policies set forth the structure, manner, and process by which the Board exercises its authority and control. As of June 30, 2019, the Board consisted of the following members:



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

Assets and Liabilities

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

	FY 2019	FY 2018	FY 2017
Assets			
Cash and Receivables	\$ 19,474,188	\$ 22,452,794	\$ 18,697,840
Investments	2,419,349,739	2,306,942,650	2,162,264,152
Invested Securities			
Lending Collateral	104,247,159	133,616,408	56,823,478
Capital Assets	569,044	858,546	1,204,317
Total Assets	\$ 2,543,640,130	\$ 2,463,870,398	\$ 2,238,989,787
Deferred Outflows of Resources	\$ 32,014	\$ 34,090	\$ --
Liabilities			
Accounts Payable	\$ 7,708,336	\$ 8,789,084	\$ 10,109,326
OPEB Obligation	1,538,442	1,545,180	715,962
Securities Lending			
Collateral	110,924,432	138,840,857	58,389,459
Total Liabilities	\$ 120,171,210	\$ 149,175,121	\$ 69,214,747
Deferred Inflows of Resources	\$ 239,104	\$ 199,219	\$ --
Net Position	\$ 2,423,261,830	\$ 2,314,530,148	\$ 2,169,775,040



Overall, the financial position of MPERS strengthened by \$109 million, reported as the net increase. This is primarily a result of net appreciation in the fair value of investments for the year ended June 30, 2019.

	FY2019	FY2018	FY 2017
Additions			
Contributions	\$ 218,595,641	\$ 211,824,042	\$ 213,198,963
Investment Income	189,753,418	228,899,700	251,035,802
Less Investment Expenses	(35,426,907)	(31,280,333)	(30,734,675)
Other Income	307	472	614
Net Additions	\$ 372,922,459	\$ 409,443,881	\$ 433,500,704
Deductions			
Benefits	259,817,811	259,058,863	251,284,152
Administrative Expenses	4,372,966	4,693,492	4,515,458
Total Deductions	\$ 264,190,777	\$ 263,752,355	\$ 255,799,610
Net Increase	\$ 108,731,682	\$ 145,691,526	\$ 177,701,094
Net Position-Beginning	2,314,530,148	2,168,838,622	1,992,073,946
Net Position-Ending	\$2,423,261,830	\$2,314,530,148	\$2,169,775,040

Income and Expenses

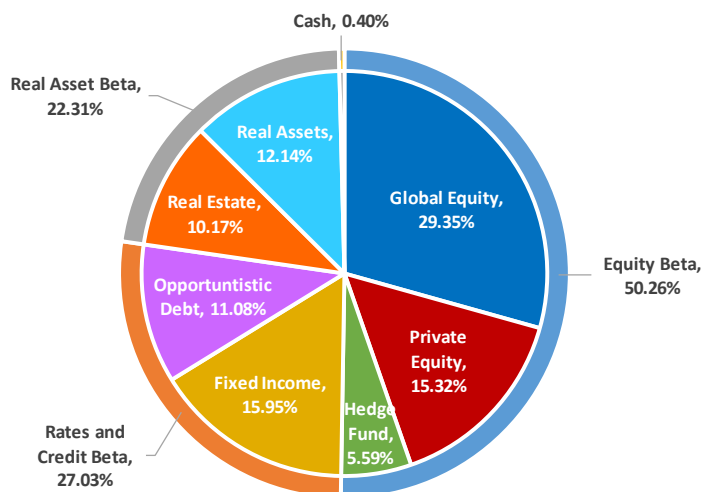
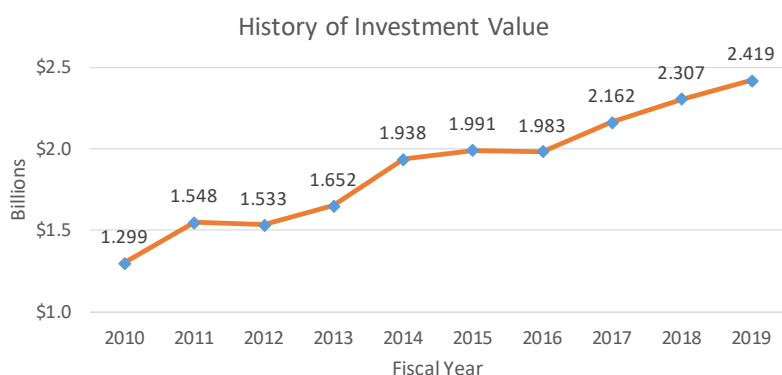
The *Summarized Comparative Statements of Changes in Fiduciary Net Position* accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

Investment Policy

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

Asset Allocation

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



Pension plans invest with a long-term goal in mind because pension costs are spread over the working career of plan participants. Asset allocation in the investment portfolio is positioned to maximize returns while minimizing risk. This approach protects the System against a volatile and uncertain global economy and should perform well across various market environments.

Investment Performance

MPERS' investment portfolio generated a 6.84% return for the year, net of all management fees and based on time-weighted rates of return and market valuations. As of June 30, 2019, MPERS' investment portfolio had a total fair value of \$2.42 billion, representing an increase of \$111 million from June 30, 2018. Over the course of the year, an additional \$46 million was transferred out of the fund to meet benefit payments and other obligations. When viewed together, the net increase to the portfolio from investment activity equated to \$157 million.

	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Asset Value	\$2.4 billion	\$2.3 billion	\$2.2 billion	\$2.0 billion	\$2.0 billion
1-Year Return	6.84%	9.42%	11.22%	1.01%	6.62%
Policy Benchmark	8.80%	7.69%	10.90%	1.85%	5.22%
3-Year Return	9.15%	7.12%	6.20%	8.19%	12.45%
Policy Benchmark	9.13%	6.75%	5.92%	7.05%	9.85%
5-Year Return	6.97%	9.04%	9.82%	8.10%	12.21%
Policy Benchmark	6.85%	7.94%	8.40%	6.83%	9.78%
10-Year Return	10.19%	6.40%	5.19%	5.77%	7.20%
Policy Benchmark	9.22%	6.20%	5.26%	5.86%	6.91%

Contribution Rates

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

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

FY 2019 Employer Contribution Rates

	MoDOT & Civilian Patrol	Uniformed Patrol
Normal Cost of Benefit	9.96%	15.98%
Catch Up Payment on the Unfunded Liabilities*	46.30%	40.28%
Administrative Expenses	<u>1.21%</u>	<u>1.21%</u>
Subtotal	57.47%	57.47%
Disability Insurance Premium	<u>0.53%</u>	<u>0.53%</u>
Total Employer Contribution Rate	58.00%	58.00%

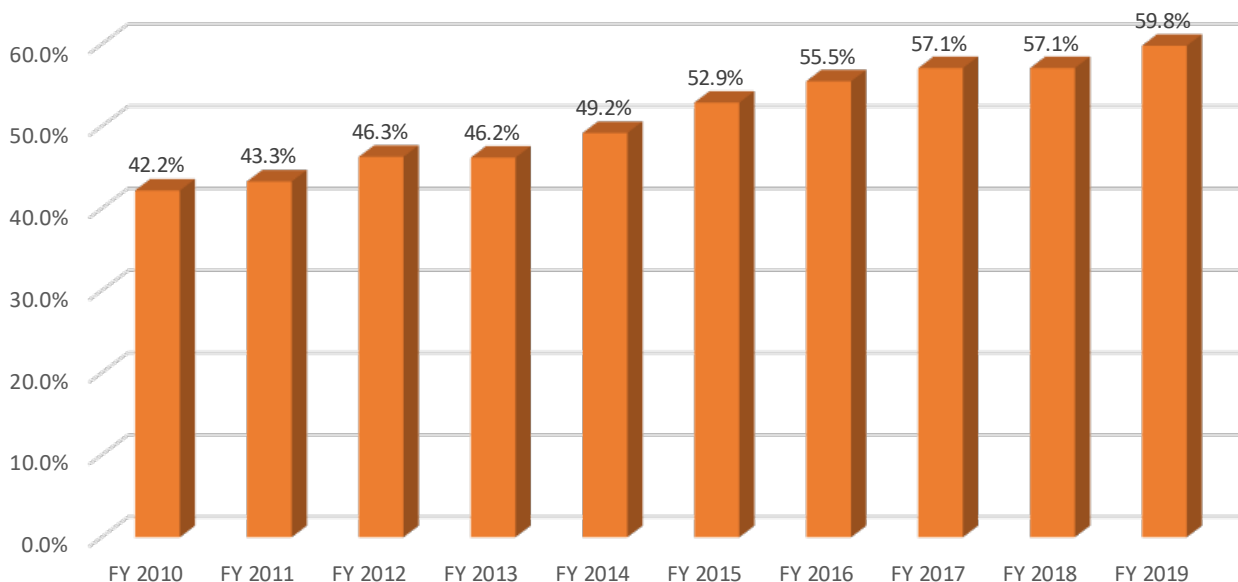
* The "Catch Up Payment on the Unfunded Liabilities" is just that—extra contributions, over a set period of time, to improve our funded status.



The funded status of the System is calculated by dividing the current value of MPERS' assets by the amount needed to fund future benefits. MPERS' funded status has increased 17.6% over the past nine years!

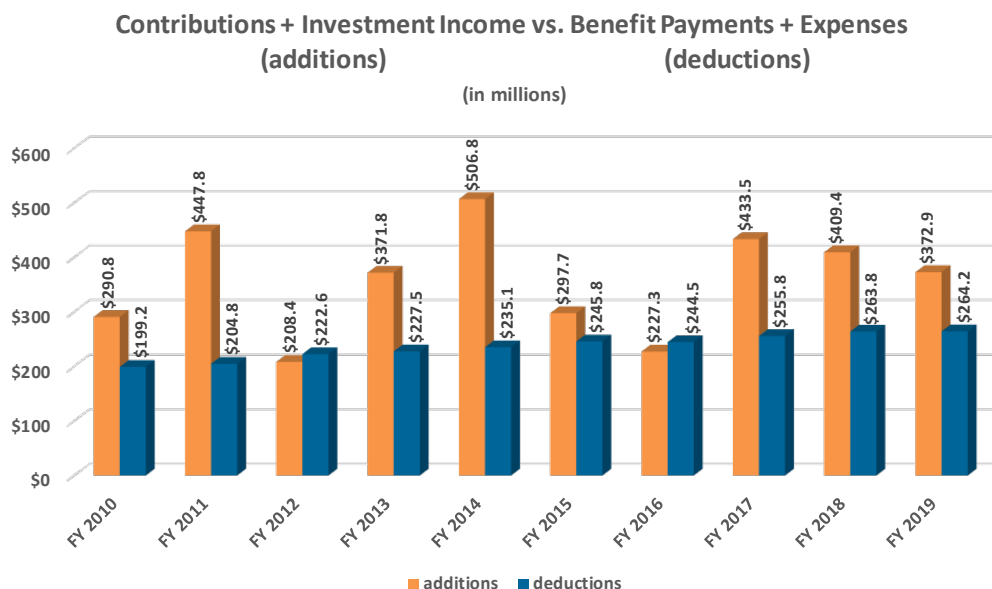
$$\begin{array}{rcccl} \$2,415,343,431 & & \$4,037,369,708 & & 59.8\% \\ \text{current value of assets} & \div & \text{needed to fund future benefits} & = & \text{funded} \end{array}$$

Funded Status History



Understanding How a Pension Plan is Funded

MPERS' funding objective is to meet current and future benefit obligations of retirees and beneficiaries through contributions and investment earnings. Each year, an actuary calculates the liability associated with the benefits, determines the funded status, and recommends the contribution rate needed to fund the system in accordance with the funding policies put in place by the Board. The contribution rate is based on a number of factors, including the current level of benefits, the number of participants, current and future pay levels, members' age and average life expectancy, expected earnings on investments and the plan's unfunded liability. The investment portfolio is constructed to generate income that, when added to employer contributions, is sufficient to meet benefit obligations and expenses.



Reserve Fund - In September 2014, the Board adopted the use of a contribution rate stabilization reserve fund that is intended to keep the employer contribution relatively level over time and may be used if the market experiences a downturn. In February 2015, the Board further adopted that the employer contribution rate would not fall below 58% unless the fund became fully funded or the contribution stabilization reserve fund reached \$250 million.

Permanent and Temporary Funding Policies

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

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

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

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

Permanent and Temporary Funding Policies Remaining as of July 1, 2019

Permanent Policy	17 years
Temporary Policy (retirees)	6 years
Temporary Policy (other)	21 years

Retirement Plans

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

Closed Plan (non-contributory)

The Closed Plan was the original retirement plan for benefit-eligible employees hired prior to July 1, 2000. At retirement, these members may elect to stay in the Closed Plan or retire under the Year 2000 Plan.

Year 2000 Plan (non-contributory)

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

2011 Tier (contributory)

A contributory tier was added to the Year 2000 Plan for benefit-eligible employees hired for the first time on or after January 1, 2011. Both employee and the employer make monthly contributions to fund the retirement of 2011 Tier members.



Benefits are calculated by a formula set by law:

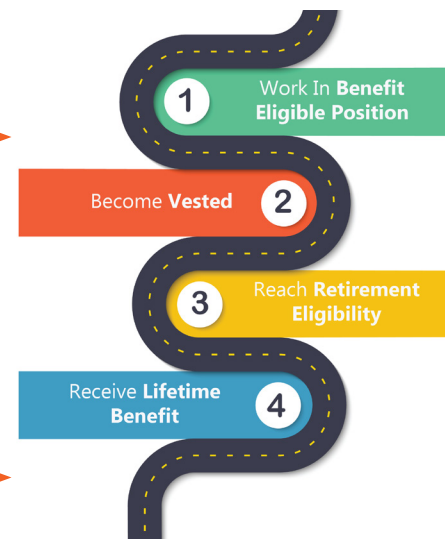
$$\begin{array}{c} \text{Final Average Pay} \\ \text{(FAP)} \\ \text{The average of a member's} \\ \text{highest 36 consecutive} \\ \text{months of pay} \end{array} \times \begin{array}{c} \text{Credited Service} \\ \text{The member's years} \\ \text{and full months of} \\ \text{service} \end{array} \times \begin{array}{c} \text{Multiplier} \\ \text{A percentage set} \\ \text{by law} \end{array} = \begin{array}{c} \text{Monthly Base} \\ \text{Benefit} \\ \text{Paid for the lifetime of} \\ \text{the member} \end{array}$$

Averages for a New MPERS' FY 2019 Retiree

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

	Non-Uniformed		Uniformed Patrol	Grand Total
	Civilian Patrol	MoDOT and MPERS		
Active Members				
Closed Plan	265	1,460	493	2,218
Year 2000 Plan	402	1,577	368	2,347
Year 2000 Plan - 2011 Tier	446	2,060	350	2,856
Total Active Members	1,113	5,097	1,211	7,421
Retirees and Beneficiaries				
Closed Plan	488	3,374	971	4,833
Year 2000 Plan	583	3,465	8	4,056
Year 2000 Plan - 2011 Tier	3	2	0	5
Total Regular Pensioners	1,074	6,841	979	8,894
Disability Pensioners	14	117	10	141
Terminated Vested Members	240	1,626	176	2,042
Total	2,441	13,681	2,376	18,498

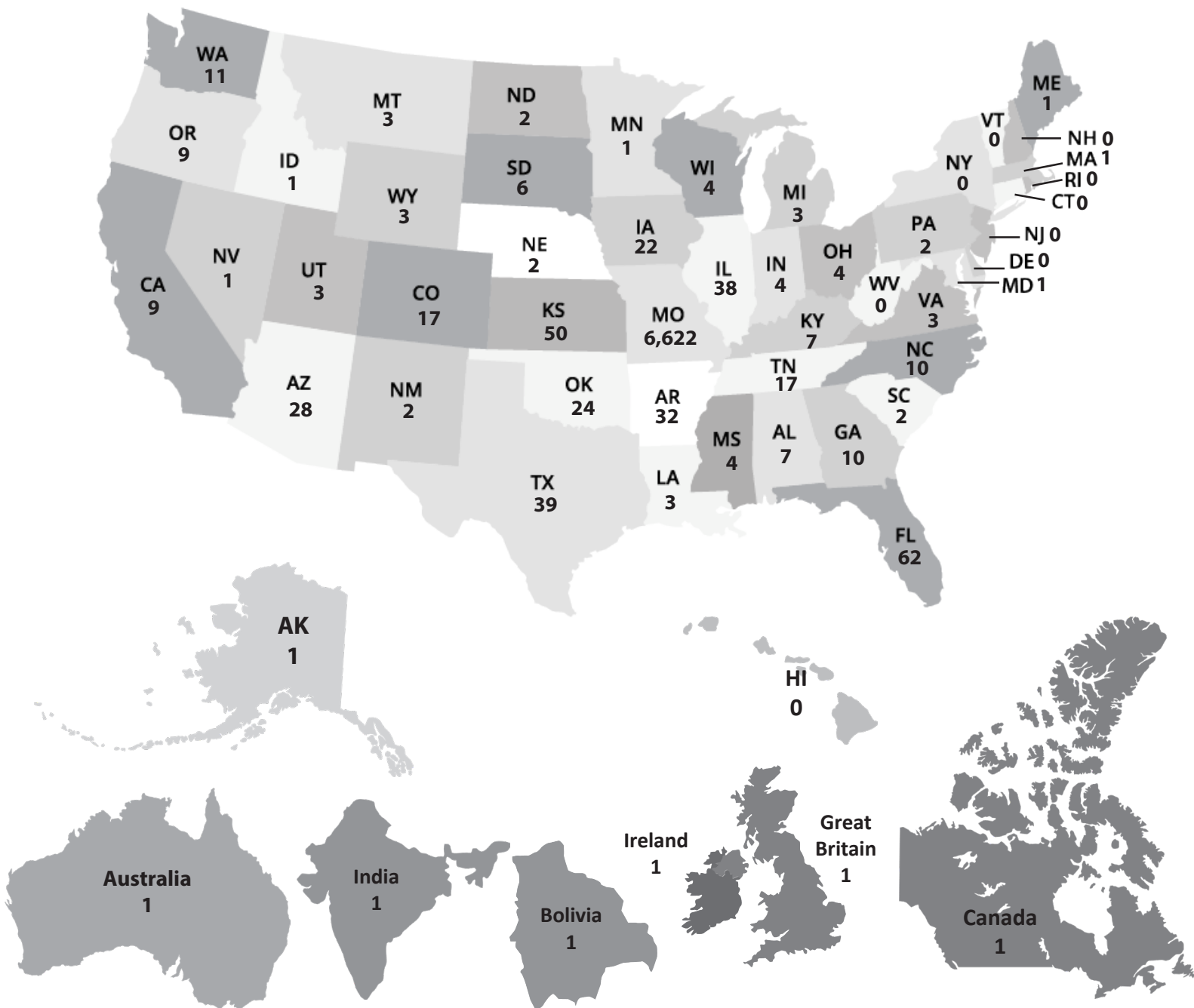
Steps of a Defined Benefit Retirement Plan



Retiree Location



While the majority of MPERS' retirees reside in the state of Missouri, we have retirees that live in 41 states and 6 countries.



MoDOT & Patrol Employees' Retirement System

Mailing Address: PO Box 1930 • Jefferson City, MO 65102-1930
Office Location: 1913 William St. • Jefferson City, MO 65109

Toll Free: (800) 270-1271 • **Fax:** (573) 522-6111
Email: mpers@mpers.org • **Website:** www.mpers.org