2017 Update on Financial Soundness of the Public Employees' Retirement System

Executive Summary

Introduction

The PEER Committee, under its authority found in MISS. CODE ANN. § 5-3-51 et seq. (1972), carried out the statutorily required review of the financial condition of the Public Employees' Retirement System (PERS). Actuarial reviews authorized by this section are discretionary.

Background

Mississippi's Retirement System currently consists of seven plans, or programs:

- The Public Employees' Retirement System of Mississippi (PERS);
- The Mississippi Highway Safety Patrol Retirement System (MHSPRS);
- The Mississippi Government Employees' Deferred Compensation Plan and Trust (MDC);
- Municipal Retirement Systems (MRS);
- The Supplemental Legislative Retirement Plan (SLRP); and
- The Optional Retirement Plan (ORP).

All of these plans are under the administration of a 10-member PERS Board of Trustees created in MISS. CODE ANN. § 25-11-15 (1972). Board members administer the laws governing the various benefit plans, adopt rules and regulations necessary to implement policies enacted by the Legislature, address federal issues, and work with both state and federal bodies. All assets, proceeds, and income of the system as defined herein are held in trust for the exclusive purpose of providing benefit payments and refunds and providing for the system's administrative expenses. Assets of the various plans, excluding the MDC and ORP, are invested collectively at the direction of the PERS Board of Trustees and their advisers. Assets of each member of the MDC and ORP are invested at the direction of the member.

A primary responsibility of the PERS Board is to ensure adequate funding of the plans it administers. One means of accomplishing this is by setting contribution rates for employers participating in the plans. For assistance setting these rates, the PERS Board receives actuarial reports annually and works with its actuarial consultants to create comprehensive models that are used to project the financial position of the various plans. These models include such factors as investment return assumptions, wage inflation assumptions, retirement tables, and retiree mortality tables.

Update on Financial Soundness of PERS

Actuarial Soundness and Sustainability

"Actuarial soundness" and "sustainability" are two of the major components of financial soundness. The focus of these concepts should be to create a system and actuarial assumption models that can be upheld and defended in view of all relevant environmental conditions, including contractual obligations involved and the potential economic consequences of abrogating those obligations.

Update: PERS Actuarial Soundness

As a result of the most recent experience study, as of June 30, 2016, the PERS Board adopted a decrease of 0.50% to the wage inflation assumption for the PERS plan, reducing it from 3.75% to 3.25%. Even with the adoption of this change, over the past five- and 10-year periods the PERS actual average annual payroll increase has fallen below the actuarial model's projected rate of salary increase. Continued analysis of variation between actual and assumed is warranted.

From FY 2007 through FY 2017, the ratio of active members to retired members has decreased by approximately one-third, driven by the increasing number of retirees and the decreasing number of active members. A lower number of active members to retired members results in funding future pension obligations over the payroll of fewer active members.

Although the PERS ratio of active members to retired members has declined over the past 10 fiscal years, the PERS active/retiree ratio remained above the national average ratio for other pension plans across the nation. However, in deviation from the national average plan, which has seen active member growth, PERS active membership continues to decline.

Update: PERS Sustainability

The current PERS funding policy is designed to address the past volatility of employer contribution rates within the system by setting the employer contribution rate percentage to a fixed rate of 15.75% of annual compensation. The policy also targets an 80% funding level by 2042 while still reducing the plan's unfunded actuarial accrued liability. In addition to reducing the unfunded actuarial accrued liability, the funding policy should result in more long-term sustainability within the system.

Risk Management and Investment Management

Risk management and investment management should provide a long-term framework for the system that will control the plan's long-term risk environment and allow it a reasonable opportunity to collect or earn sufficient assets to meet its benefit obligations.

Update: PERS Risk Management

As of June 30, 2017, the PERS funding ratio was 61.1%, an increase from 60% as of June 30, 2016. Even with the increase in funding ratio, actuarial projections show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will not be achieved. Furthermore, the plan has been below its 75% funding threshold for two consecutive periods. There are several options the PERS Board and/or the Legislature could consider to address this issue (see pages 19–20).

Update: PERS Investment Management

For fiscal year 2017 the PERS Board of Trustees continued to adhere to the asset allocation model put in place in June 2015. This model continues to set investment level targets for the PERS investment portfolio.

For fiscal year 2017 the PERS plan's combined investment portfolio experienced a return of 14.96%, and the market value of the system's assets was approximately $26.9 billion.

PERS paid $95.6 million to investment managers during fiscal year 2017, which represents a combined investment expense rate of 0.36% of the PERS plan's total assets (the expense rate for fiscal year 2016 was 0.36%).

Study of the Causes of the PERS Plan's Unfunded Liability

As of June 30, 2016, the Public Employees' Retirement System of Mississippi pension plan had an unfunded actuarial accrued liability[1] of approximately $16.8 billion. According to the study conducted by PERS actuaries, the unfunded actuarial accrued liability, as of June 30, 2016, results from several factors as detailed in the following table:

Source	Approximate Liability	Percentage of Total
Present Value of Initial UAAL	$2.2 billion	13%
Plan Benefit Changes	3.7 billion	22%
Changes to Plan Assumptions	1.4 billion	9%
Asset Gains/Losses	6.3 billion	37%
Liability Experience	3.2 billion	19%
Total	**$16.8 billion**	**100%**

SOURCE: *Analysis of the Funded Status Changes to the Public Employees' Retirement System of Mississippi from June 30, 1998, to June 30, 2016*, Cavanaugh Macdonald Consulting, LLC.

[1]An unfunded actuarial accrued liability (UAAL) occurs when a pension system's current actuarial value of assets is less than the present value of benefits earned by retirees, inactive members, and current employees as of the valuation date. UAAL takes into consideration the expected investment return of present assets but does not consider future employee or employer contributions.

For more information or clarification, contact:

PEER Committee
P.O. Box 1204
Jackson, MS 39215-1204
(601) 359-1226
peer.ms.gov

Senator Videt Carmichael, Chair
Meridian, MS

Representative Becky Currie, Vice Chair
Brookhaven, MS

Representative Timmy Ladner, Secretary
Poplarville, MS