PEER MISSISSIPPI
Joint Legislative Committee on Performance Evaluation and Expenditure Review

2023 Update on Financial Soundness of the Public Employees' Retirement System

Report Highlights

July 9, 2024

CONCLUSION: The PEER Committee, under the authority found in MISS. CODE ANN. § 5-3-51 (1972) et seq., carried out the statutorily required review of the financial condition of the Public Employees' Retirement System (PERS). This 2023 report includes an update on the financial soundness of PERS, a review of alternate funding streams for pension systems, and an update on changes made to the Mississippi Highway Safety Patrol Retirement System (MHSPRS) and the Supplemental Legislative Retirement Program (SLRP).

BACKGROUND

The Public Employee's Retirement System of Mississippi (PERS) is a defined benefit retirement plan for a majority of employees (and/or their beneficiaries) of state agencies, counties, cities, colleges and universities, public school districts, and other participating political subdivisions. State law requires PEER to report annually to the Legislature on the financial soundness of PERS.

The PERS system is under the administration of the 10-member PERS Board of Trustees, which has a primary responsibility of ensuring adequate funding of the plans it administers. One way the Board accomplishes this task is by setting contribution rates for employers participating in the plan. For assistance in setting these rates, the PERS Board receives actuarial reports annually and works with independent actuarial advisers to develop comprehensive models that are used to project the financial position of the various plans. These models include components such as investment return assumptions, wage inflation assumptions, retirement tables, and retiree mortality tables.

Each of these components must work in concert with the others for the PERS plan to maintain financial soundness. Underperformance in any one area can cause additional stress on other components and can lead to underperformance of the PERS plan as a whole.

Financial soundness includes an understanding of the role of actuarial soundness and all relevant environmental conditions, such as an understanding of risk and investment management. Therefore, continued analysis of PERS by those responsible for ensuring the long-term financial health of the system is warranted.

Scope Limitation: This report evaluates potential impacts of legislation passed during the 2024 Legislative Session (i.e., Senate Bill 3231 and Senate Bill 2468). Numbers and information attributed to actuarial reports in this review have not been recalculated to account for the impact of legislation passed during the 2024 Legislative Session.

KEY FINDINGS

- **As a result of Cavanaugh Macdonald Consulting's most recent experience study, the PERS Board voted to maintain the current price inflation assumption and the current wage inflation assumption and change the investment return assumption.**
  The PERS Board adopted a decrease in the plan's investment return assumption, reducing the assumption from 7.55% to 7.00%.
- **After the most recent experience study, the PERS Board adopted changes to several of its demographic assumptions.**
  Assumptions that changed include the withdrawal, disability retirement, service retirement, and merit salary increase assumptions.
- **For the past five fiscal years, the PERS average payroll increase has been above the projected annual rate of wage increase; however, over the past 10 fiscal years, it has been below the projected rate.**
  Less-than-expected payroll growth can increase the amortization period of the unfunded actuarial accrued liability (UAAL). However, the upward pressure on the UAAL may be partially or totally offset due to the decrease in the number of future liabilities resulting from a lower payroll amount than assumed in the actuarial model.
- **Based on the results of the evaluation metrics in the funding policy as of June 30, 2023, two of the plan's metrics are at yellow signal-light status and one the of the plan's metrics is at red signal-light status.**
  While one metric remains in the red-light signal status, all three funding policy metric results improved from June 30, 2022, to June 30, 2023.
- **Primarily due to the change in employer contribution rate, the PERS plan has a projected future funding ratio of 65.5% as of 2047. This is increased from the FY 2022 projection of 48.6%.**
  The increase in the future funding level is primarily due to the change in the employer contribution rate but this increase has been partially offset by the reduction in the plan's investment return assumption.

Mississippi Highway Safety Patrol Retirement System

The Mississippi Highway Safety Patrol Retirement System (MHSPRS) plan is a defined benefit retirement plan for the benefit of eligible Mississippi Highway Safety Patrol sworn officers.

As a result of the most recent experience study conducted by the independent actuarial firm Cavanaugh Macdonald Consulting, LLC, the PERS Board adopted changes to the actuarial assumptions used by the MHSPRS plan at its August 2023 meeting. The cumulative effect of these changes for the FY 2023 valuation was a one-time increase to the unfunded actuarial accrued liability of approximately $43 million.

The PERS Board also adopted amendments to the MHSPRS plan funding policy. These amendments changed the assessment metrics of the MHSPRS plan from a single-factor approach to a multi-factor signal-light approach with specific targets tailored to the MSHPRS plan. Based on the results of these metrics from the MHSPRS plan's Fiscal Year 2023 valuation and projection report, the MHSPRS plan's actuary recommended no change to the MHSPRS plan's employer contribution rate.

Supplemental Legislative Retirement Plan

The Supplemental Legislative Retirement Plan (SLRP) is a defined benefit retirement plan for the benefit of eligible Mississippi State Legislators and the President of the Senate. Members of SLRP are also members of PERS. Contributions are made by the members and their employers (i.e., Mississippi Senate and House of Representatives) to both plans.

As a result of the most recent experience study conducted by the independent actuarial firm Cavanaugh Macdonald Consulting, LLC, for the four-year period ended June 30, 2022, the PERS Board adopted changes to the actuarial assumptions used by SLRP at its August 2023 meeting. The cumulative effect of these changes for the FY 2023 valuation was a one-time increase to the unfunded actuarial accrued liability of approximately $1.6 million.

The PERS Board also adopted amendments to the SLRP funding policy. These amendments changed the assessment metrics of the SLRP plan from a single-factor approach to a multi-factor signal-light approach with specific targets tailored to the SLRP plan. Based on the results of these metrics, for the fiscal year ended June 30, 2023, the SLRP actuary recommended a continuation of the plan's employer contribution rate increase, effective July 1, 2024. This increase is projected to increase employer contribution cost by approximately $86,000.

Investment Returns

For FY 2023, the PERS Board had investment management contracts for 60 portfolios (including four that were added and two that were terminated in FY 2023) and paid management fees to investment managers on 55 of these portfolios.

Having realized a market gain of approximately 7.76% in the PERS plan's combined investment portfolio, the market value of assets increased from approximately $31.2 billion to $32 billion during FY 2023, an increase of approximately $0.8 billion. PERS's investment performance for FY 2023 was above the current actuarial model's utilized investment return rate of 7.55%.

Senate Bill 3231

During the 2024 Legislative Session, the Legislature passed Senate Bill 3231. The components of this bill, effective on May 9, 2024, shift the responsibility of setting the employer contribution rate from the PERS Board to the Legislature and institute a statutory plan for increasing the rate over time. The bill shifts the PERS Board to an advisory capacity on setting the employer contribution rate while also requiring additional information be gathered before rate increase recommendations can be made.

Senate Bill 2468

During the 2024 Legislative Session, the Legislature passed Senate Bill 2468. This bill directs the transfer of $110 million from the capital expense fund to the Employers' accumulation account of PERS. This transfer creates a one-time cash infusion into the PERS plan.

Impact of Senate Bills 3231 and 2468

Potential Change in Funding Ratio

An employer contribution rate increase strategy that targets a lower rate, even when coupled with a one-time cash infusion made by the Legislature, may not be sufficient to get the plan back to an all-green signal-light status and could necessitate an ultimate employer contribution rate in excess of the rate initially recommended by the plan's actuary.

However, while the Legislature's approach changes future funding projections for the plan, with the addition of the one-time transfer of $110 million in capital expense funds, the funds projected to be received by the PERS plan for fiscal year 2025 are on par with the funds expected under the PERS Board's plan.

While the funding for the first year is comparable, each year in the future could potentially see a greater deviation in expected employer contribution revenues for the PERS plan. This deviation does not immediately constitute a problem for the PERS plan; however, careful evaluation of the plan's future liabilities and funding needs will be necessary to ensure the sustainability of the PERS plan.

Increased Utilization of State Funds

Of the projected $37.25 million in additional expected employer contributions, approximately $9.5 million would be expected to come from general funds. When this is added to the $110 million that was transferred from the capital expense funds, it totals approximately $119.5 million that comes from wholly derived state funds.

This represents an increase in the use of state funds of approximately 214%. By lowering the increase in the employer contribution rate, and providing a one-time transfer of funds, the Legislature has shifted the funding of PERS more heavily onto the state and reduced the ability to utilize other sources of funding such as federal grant funds, county and municipality funds, and special funds dollars. This new approach deviates from the historical model of providing contributions to the plan based on the covered payroll of each employer within the system.

For more information, contact: (601) 359-1226 | P.O. Box 1204, Jackson, MS 39215-1204
Senator Charles Younger, Chair | James F. (Ted) Booth, Executive Director