PEER MISSISSIPPI

Joint Legislative Committee on Performance Evaluation and Expenditure Review

2024 Update on Financial Soundness of the Public Employees' Retirement System

A Report to the Mississippi Legislature
Report #717
July 29, 2025

PEER Committee

Kevin Felsher, **Chair**
Robin Robinson, **Vice-Chair**
Chad McMahan, **Secretary**

Senators:
Kevin Blackwell
Scott DeLano
Dean Kirby
Charles Younger
Vacant

Representatives:
Tracy Arnold
Donnie Bell
Cedric Burnett
Becky Currie
Casey Eure
Kevin Ford

Executive Director:
James F. (Ted) Booth

About PEER:

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker of the House and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms, with one Senator and one Representative appointed from each of the U.S. Congressional Districts and three at-large members appointed from each house. Committee officers are elected by the membership, with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues that may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, the agency examined, and the general public.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

Joint Legislative Committee on Performance Evaluation and Expenditure Review
PEER Committee

P.O. Box 1204 | Jackson, Mississippi 39215-1204

Representatives
Kevin Felsher
Chair
Tracy Arnold
Donnie Bell
Cedric Burnett
Becky Currie
Casey Eure
Kevin Ford

Senators
Robin Robinson
Vice Chair
Chad McMahan
Secretary
Kevin Blackwell
Scott DeLano
Dean Kirby
Charles Younger
Vacant

Executive Director
James F. (Ted) Booth

July 29, 2025

Honorable Tate Reeves, Governor
Honorable Delbert Hosemann, Lieutenant Governor
Honorable Jason White, Speaker of the House
Members of the Mississippi State Legislature

On July 29, 2025, the PEER Committee authorized release of the report titled ***2024 Update on Financial Soundness of the Public Employees' Retirement System.***

Kevin W. Felsher

Representative Kevin Felsher, Chair

This report does not recommend increased funding or additional staff.

Phone: (601) 359-1226 | Fax: (601) 359-1420 | www.peer.ms.gov
Woolfolk Building | 501 North West St, Suite 301-A | Jackson, MS 39201

This page left intentionally blank.

Table of Contents

Letter of Transmittal i

List of Exhibits iv

Report Highlights v

Introduction 1

- Authority, Scope, and Purpose 1
- Scope Limitation 1
- Method 1

Background 2

- Overview of the Public Employees' Retirement System 2
- Composition and Role of the PERS Board of Trustees 3
- Components of Financial Soundness 4
- Impact of the 2025 Legislative Session 5

Actuarial Soundness of the Public Employees' Retirement System 6

- Differences between Actual and Assumed Wage Inflation 6
- Active and Retired Member Assumptions 9

Sustainability of the PERS Plan Funding Policy 12

- Review of Funding Policy Metrics 12
- Changes to the Employer Contribution Rate 13
- Recommended Actuarially Determined Contribution for the PERS Plan 14
- Anticipated Accrued Liability Payment Period 17
- Risk Management and Investment Management 17

Changes to PERS, SLRP, and ORP Enacted in the 2025 Regular Session 23

- Tier Five Provisions 23
- Changes to the Supplemental Legislative Retirement Plan (SLRP) 24
- Changes to the Optional Retirement Plan (ORP) 25
- Impact of Changes in H.B. 1 24

Appendix A: PERS Payroll Growth for FY 2019 through FY 2024 31

Appendix B: PERS Funding Policy Technical Appendix 32

Appendix C: PERS Investment Management Fees, FY 2023 and FY 2024 37

Agency Response 39

List of Exhibits

Exhibit 1: Overview of the System 3

Exhibit 2: PERS Plan Payroll Growth (by Source) for FYs 2024 and 2023 7

Exhibit 3: PERS System Active and Retiree Members for FY 2013 through FY 2023 (in Thousands) 9

Exhibit 4: PERS Plan Active Employee Change (by Employer) for FYs 2022 and 2024 10

Exhibit 5: PERS Funding Policy Metric Results as of June 30, 2023, and June 30, 2024 13

Exhibit 6: Schedule for the Implementation of PERS Plan Employer Contribution Rate increases 14

Exhibit 7: Actuarial Recommendations for PERS Plan Employer Contribution Rate increases... 15

Exhibit 8: Results of PERS Plan's FY 2024 Actuarial Valuation and Assessments 16

Exhibit 9: Comparison of PERS Investment Performance to Peer Group of Public Pension Plans with Assets of More than $10 Billion 19

Exhibit 10: PERS FY 2024 Actual Asset Allocation Compared to PERS Overall Asset Allocation Model 20

Exhibit 11: Cost Comparison between Current PERS Design and Implementation of Tier Five 27

Exhibit 12: PERS Plan Funding Projections 28

Exhibit 13: Impact of Actuary Recommendations for SLRP 29

PEER MISSISSIPPI
Joint Legislative Committee on Performance Evaluation and Expenditure Review

2024 Update on Financial Soundness of the Public Employees' Retirement System

Report Highlights

July 29, 2025

SUMMARY: 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 of Mississippi (PERS). This 2024 report includes an update on the financial soundness of PERS, sustainability of the PERS plan funding policy, and an update on changes made to PERS, the Supplemental Legislative Retirement Plan (SLRP), and the Optional Retirement Plan (ORP) during the 2025 Legislative Session.

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.

During the 2025 Regular Session, the Legislature passed House Bill 1, which created a "Fifth Tier" for new employees hired into covered positions and further made significant changes to the Supplemental Legislative Retirement Program and the Optional Retirement Plan.

Scope Limitation: This report evaluates potential impacts of legislation passed during the 2025 Legislative Session (i.e., House Bill 1). Numbers and information attributed to actuarial reports in this review have not been recalculated to account for the impact of legislation passed during the 2025 Regular Session.

KEY FINDINGS

- **In 2024 and 2025, the Legislature made significant changes to the PERS plan.**
  Currently, actuarial projections show promising potential for reducing plan liabilities over time. This promise is predicated upon the plan(s) meeting all actuarial assumptions, including investment returns, which are not under the control of PERS or state policy makers.

- **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, 2024, two of the plan's metrics are at red signal-light status and one the of the plan's metrics is at yellow signal-light status.**
  All three funding policy metric results declined from June 30, 2023, to June 30, 2024.

- **In its 2024 Regular Session, the Legislature assumed responsibility for setting the PERS plan's employer contribution rate and created a statutorily mandated plan for increasing the PERS plan's employer contribution rate to 19.90% by FY 2029.**
  The statutorily mandated funding plan will increase the PERS plan's employer contribution rate from 17.40% to 19.90% through 0.5% increases over a period of five fiscal years (FY 2025 through FY 2029). The mandated rate adjustment plan is slated to start in FY 2025.

Tier Five Provisions

Sections 15 through 23 of House Bill 1 (2025 Regular Session) create a new tier in the PERS System for employees becoming members of the System on or after March 1, 2026, which will consist of a defined benefit component and a defined contribution plan component meeting the requirements of Section 401(a) of the Internal Revenue Code.

Section 23 of House Bill 1 amends MISS. CODE ANN. Section 25-11-123 (1972) to provide that:

- For any employee who became a member of the system on or after March 1, 2026, the employee's contribution will be 9% of earned compensation, with 4% of such earned compensation amount to be deposited into the annuity savings account, and 5% of such earned compensation to be deposited into the employee's defined contribution account authorized in Section 15 of the bill.
- For each member who became a member of the System on or after March 1, 2026, except as provided in Section 15 of the bill, the employer's monthly payment will be applied to the system's accrued liability contribution fund.

Changes to the 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.

House Bill 1 closes new SLRP membership. This means that all newly elected members of the State Legislature and the President of the Senate (i.e., the Lieutenant Governor) elected after March 1, 2026, will no longer be eligible for membership in SLRP and will only be members of the new Tier Five of the PERS plan.

Changes to the Optional Retirement Plan

The Optional Retirement Plan (ORP) was established by the Legislature in 1990 to attract qualified and talented institutions of higher learning faculty. This defined contribution plan is designed to be portable and transferable to accommodate university faculty who move from one state to another throughout their careers.

House Bill 1 creates a new payment structure for existing ORP members and a new benefit tier for new members of ORP.

Impact of House Bill 1

Impact of the Addition of Tier Five

Actuarial analysis shows that the adoption of Tier Five will generate cost savings from the reduction of future liabilities. However, it is worth noting that under the new Tier Five, employees are required to shoulder more of the burden for the cost of their retirement benefits (i.e., approximately 75% under Tier Five as compared to 73% under the current PERS structure).

Closing SLRP

The closing of SLRP to new members which have the effect of reducing future liabilities to the plan but will increase costs for the plan in the short-term.

Changes to the ORP

Actuary projections assume that future employment levels in ORP will remain at current levels (approximately 5,000) and are based on current payroll of $510 million.

Investment Returns

For FY 2024, the PERS Board had investment management contracts for 63 portfolios and paid management fees to investment managers on 60 of these portfolios.

Having realized a market gain of approximately 10.78% in the PERS plan's combined investment portfolio, the market value of assets increased from approximately $32 billion to $33.7 billion during FY 2024, an increase of approximately $1.7 billion.

Summary and Conclusions

While actuarial projections show promising potential for reducing plan liabilities over time, a cautionary note relates to the impact the Tier Five changes could have on PERS. An article published in April 2025, by the Jackson Clarion-Ledger notes that some entities in the public sector are concerned that changes in benefits could impact an employee's decision to commence a career in public service or remain in public service. Further, there could be an issue to funding for the plan in the future. Employees choosing or not choosing to begin work, or remain working, in state government positions could impact both wage growth and the active member to retiree ratio.

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

2024 Update on Financial Soundness of the Public Employees' Retirement System

Introduction

Authority, Scope, and Purpose

MISS. CODE ANN. Section 25-11-101 (1972) directs the PEER Committee to:

> *…have performed random actuarial evaluations, as necessary, of the funds and expenses of the Public Employees' Retirement System and to make annual reports to the Legislature on the financial soundness of the system.*

The PEER Committee, under the authority found in MISS. CODE ANN. Section 5-3-51 (1972) et seq., carried out the statutorily required review of the financial condition of the Public Employees' Retirement System (PERS). Actuarial reviews authorized by MISS. CODE ANN. Section 25-11-101 (1972) are discretionary.

This 2024 report includes an update on the financial soundness of PERS, and a review of significant changes to the plan that were adopted in the 2025 Regular Session.

Financial soundness includes an understanding of the role of actuarial soundness, sustainability 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 2025 Regular Session (i.e., House Bill 1). Numbers and information attributed to actuarial reports in this review have not been recalculated to account for the impact of legislation passed during the 2025 Regular Session.

Method

To conduct this analysis, PEER:

- reviewed PERS's financial reports;
- reviewed actuarial reports, projections, and experience studies prepared for PERS, the Supplemental Legislative Retirement Plan (SLRP), and the Optional Retirement Plan (ORP);
- reviewed investment assessments prepared for PERS; and;
- interviewed personnel of PERS.

Background

Mississippi provides a retirement system for public employees overseen by an agency of state government that is responsible for the investment and administration of the benefit payment process.

This chapter will present:

- an overview of PERS;
- the composition and role of the Board of Trustees of the Public Employees' Retirement System (PERS Board);
- the components of financial soundness; and,
- a description of legislation from the 2025 Regular Session.

Overview of the Public Employees' Retirement System

Under MISS. CODE ANN. Section 25-11-101 (1972), the Legislature created a retirement system to provide retirement allowances and other benefits for officers and employees in the state's service and their beneficiaries. The PERS Board is responsible for the administration of PERS and for all other state retirement systems.

Under MISS. CODE ANN. Section 25-11-101 (1972), the Legislature created a retirement system to provide retirement allowances and other benefits for officers and employees in the state's service and their beneficiaries. The PERS Board is responsible for the administration of PERS and for all other state retirement systems. For purposes of this report, the collection of these systems will be referred to as the "System." Exhibit 1 on page 3 lists the plans under the System.

Exhibit 1: Overview of the System

SOURCE: Public Employees' Retirement System of Mississippi.

Composition and Role of the PERS Board of Trustees

Established in MISS. CODE ANN. Section 25-11-15 (1972), the 10-member PERS Board of Trustees is responsible for the administration of the state's retirement system.

Composition of the PERS Board of Trustees

The current membership of the PERS Board includes:

- the State Treasurer;
- a gubernatorial appointee;
- two state employees;
- one municipal employee;
- one county employee;
- one Institutions of Higher Learning employee;
- one public school/junior college employee; and,
- two retiree members of PERS.

Except for the State Treasurer and the Governor's appointee, all trustees are elected by the employee groups they represent.

Except for the State Treasurer and the Governor's appointee, all trustees are elected by the various constituency employee groups they represent (i.e., state, municipal, county, Institutions of Higher Learning, public schools, junior colleges, and retirees).

In addition to those members, state law provides for four legislative advisers to assist the PERS Board (two each from the Mississippi Senate and House of Representatives).

Role of the PERS Board of Trustees

A primary responsibility of the PERS Board is to ensure adequate funding, and to recommend legislative action when funding is not adequate to support the plans it administers. In its April 2023 meeting, the PERS Board continued its contractual relationship with CavMac (formerly Cavanaugh Macdonald Consulting, LLC, a nationwide actuarial and healthcare consulting firm). The contract extension with CavMac procures actuarial services through the end of FY 2028. CavMac is contracted to create comprehensive models that are used to project the financial position of the various plans. These models include factors such as investment return assumptions, wage inflation assumptions, retirement tables, and retiree mortality tables.

In addition to annual actuarial valuation and projection reports, the PERS Board biennially compares the actual experiences of the various plans to expected experience for reasonableness and adjusts, as necessary, the assumptions used. Information from the most recent study was presented to the PERS Board at its April 2025 meeting, but information from this study was not reviewed in the compilation of this report.

The PERS Board also contracts with an investment consultant to conduct asset/liability studies, provide quarterly performance reports and economic updates, and assist the PERS Board and staff in establishing an asset allocation policy and selecting investment management firms. The PERS Board currently contracts with Callan LLC (Callan), one of the nation's largest independently owned investment consulting firms.

In response to 2024 legislation, the PERS Board hired two additional actuarial firms, Cheiron, Inc., and Gabriel, Roeder, Smith and Company, to conduct independent actuarial assessments of the PERS plan during FY 2024 as required to issue a request for increases in the PERS plan's employer contribution rate. Each independent actuarial assessment cost the PERS plan $75,000.

PERS Board members have a fiduciary duty to manage and invest the funds of the various plans for the exclusive benefit of the members and beneficiaries in the manner provided by law. MISS. CODE ANN. Section 25-11-121 (1972) provides guidelines and limitations on the types of assets the PERS Board may use as investments for the PERS plan.

Components of Financial Soundness

"Financial soundness" should be defined not as a point-in-time comparison of assets and liabilities, but as a multi-faceted construct involving an understanding of the role of actuarial soundness in judging financial health, a broadly defined view of affordability that encompasses sustainability in light of all relevant environmental conditions, and an understanding of the role of risk and investment management in the long-term financial health of the System.

Actuarial Soundness

The PERS Board, in consultation with its actuaries, develops an actuarial model based on assumptions such as projected investment returns, payroll increases, inflation, retirement ages, mortality rates, marriage rates, and accrued leave to project the plan's future assets and liabilities. Although the PERS Board sets plan assumptions based on biennial experience studies, the plan's

actual experience (e.g., investment returns or mortality rates) is a product of environmental and demographic factors.

Variances in the actual experience of the plan compared to the model's assumptions have an impact on the plan's financial condition. Therefore, the PERS Board, with assistance from its staff and other contractual advisers, endeavors to maintain the actuarial soundness of the plan by monitoring all components used in the PERS actuarial model through quarterly updates on the performance of the plan's assets, annual actuarial updates, annual projections, and biennial experience reports.

This report discusses the actuarial soundness of the following two areas of the PERS plan:

- differences between actual and assumed wage inflation; and,
- active and retired member assumptions.

Sustainability

Sustainability refers to the PERS System's ability to meet its long-term financial obligations to retirees and beneficiaries. This includes ensuring that the System is adequately funded with sufficient assets to cover the present and future liabilities and setting employer and employee contribution rates at levels that are sufficient to fund the benefits owed to its members.

This report discusses the following topics related to sustainability:

- a review of funding policy metrics;
- changes to employer contribution rate;
- recommended actuarially determined contribution for the PERS plan; and,
- the anticipated accrued liability payment period.

Risk Management and Investment Management

Risk management and investment management represent the other major components of financial soundness. These concepts are utilized to provide a framework for the structure that will manage the PERS plan's long-term risk environment in ways that allow it a reasonable opportunity to collect or earn sufficient assets to meet its benefit obligations.

Impact of the 2025 Legislative Session

During the 2025 Legislative Session, the Legislature adopted House Bill 1, which created a "Fifth Tier" for new employees hired into covered positions and further made significant changes to the Supplemental Legislative Retirement Program and the Optional Retirement Plan.

During the 2025 Legislative Session, the Legislature passed House Bill 1. This legislation created a new tier within the PERS plan for employees hired on or after March 1, 2026, and will close the Supplemental Legislative Retirement Program to any state legislator or President of the Senate not elected prior to March 1, 2026. The Legislation also adjusted the employer contribution formula for members of the Optional Retirement Plan.

Actuarial Soundness of the Public Employees' Retirement System

This chapter discusses the actuarial soundness of the following two areas of the PERS plan:

- differences between actual and assumed wage inflation; and,
- active and retired member assumptions.

Differences between Actual and Assumed Wage Inflation

PERS has experienced positive payroll growth in four of the last five fiscal years, but only FY 2022 and FY 2023 exceeded the rate of wage growth assumed by the PERS Board for the corresponding period. Although the PERS Board has made changes to actuarial assumptions in the past, and recent salary increases have raised the five-year average salary growth above the targeted growth rate, the plan's 10-year average continues to be below the plan's targeted growth rate.

The wage inflation assumption is the estimate of the amount that PERS members' wages will increase annually in future years. This rate affects the amount of funds that are projected to be contributed annually for investment by PERS to meet future plan liabilities.

PERS receives employee and employer contributions[1] from seven sources:

- state agencies;
- state universities;
- public school districts;
- community and junior colleges;
- counties;
- municipalities; and,
- other political subdivisions (e.g., water or sewer utility districts).

For FY 2025 each employee was required to contribute 9% of his or her salary to PERS, and his or her employer was required to contribute 17.90% of the employee's total salary to PERS.

The wage inflation assumption is composed of the impact of inflation and the real rate of wage inflation, which work together to account for the overall increases in the value of labor over time. Currently, these components are 2.40% and 0.25%, respectively.[2] Wage inflation figures can be affected both by changes in payments to an individual (e.g., wage increases resulting from pay or merit raises) and the payments to the total number of individuals (e.g., growing or shrinking workforces).

[1] Each employee must contribute 9% of his or her salary to PERS, and for fiscal year 2025, his or her employer must contribute 17.90% of the employee's total salary to PERS. For FY 2026, the contribution rate is 18.40%.

[2] Over the past 10-year period, the PERS Board's actuarial assumptions included an assumed growth rate of 3.75% for FY 2015 and FY 2016, 3.25% for FY 2017 and FY 2018, 3.00% for FY 2019 and FY 2020, and 2.65% for FY 2021 to FY 2024.

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.

For the past five fiscal years (FY 2020 through FY 2024), the PERS average annual payroll[3] increase has been above the projected 2.65% annual rate of wage increase. For the past five fiscal years, the average annual payroll increase was 3.40%.

For the past 10 fiscal years (FY 2014 through FY 2023), the PERS average annual payroll increase has been below the projected 2.65% annual rate of wage increase. For the past 10 fiscal years the average annual payroll increase was 2.23%.

Exhibit 2 on page 7 presents the total payroll reported to PERS for fiscal years 2023 and 2024. As this exhibit indicates, for FY 2024 alone, PERS experienced an increase in payroll of 2.55%, attributable to increase in total payroll in all seven employer groups. Also illustrated in Exhibit 2, wages of employees of state agencies, which represented approximately 17% of the PERS plan's total covered payroll, experienced an increase of 2.82% for FY 2024. For context, for FY 2023 alone, PERS experienced a total payroll increase of approximately 9.46% with state agencies experiencing an increase of approximately 11.33%.

Exhibit 2: PERS Plan Payroll Growth (by Source) for FYs 2024 and 2023

Payroll Source	Total Payroll		Increase (Decrease)	Percentage Change
	FY 2024	FY 2023		
State Agencies	$ 1,257,104,118	$ 1,222,667,756	$ 34,426,362	2.82%
State Universities	1,151,309,947	1,124,528,218	26,781,729	2.38%
Public Schools	2,826,796,488	2,770,307,893	56,488,595	2.04%
Community & Junior Colleges	322,834,135	312,666,211	10,167,924	3.25%
Counties	661,563,420	638,591,490	42,917,930	3.60%
Municipalities	704,159,526	680,269,298	23,890,228	3.51%
Other Political Subdivisions	322,056,332	316,388,338	3,667,994	1.79%
Total	**$7,245,823,966**	**$7,065,419,204**	**$180,404,762**	**2.55%**

SOURCE: PEER analysis of the *Report on the Valuation of the Public Employees' Retirement System of Mississippi* as of June 30, 2023, and June 30, 2024.

[3] Annual payroll is a statistical figure reported in the PERS plan's annual valuation that represents the total combined wages paid to PERS members by PERS plan employers.

While PERS has experienced positive payroll growth in four of the last five fiscal years, as shown in Appendix A on page 31, only two of these periods' results (FY 2022 and FY 2023) exceeded the rate of wage growth assumed by the PERS Board for the corresponding period.

As reported in *An Update on the Financial Soundness of the Mississippi Public Employees' Retirement System and Related Legal Issues: 2014* (PEER Report #591), PERS's actuaries stated that less-than-expected payroll growth can increase the amortization period of the unfunded actuarial accrued liability (UAAL), which 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. 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 models.

Definition: amortization period
The amount of time it takes a borrower to pay back full loan principal plus interest.

In addition, the November 2024 edition of the *Public Fund Survey* from the National Association of State Retirement Administrators (NASRA) states that when a plan's payroll grows at a rate less than expected, the base amount of funds used to amortize the plan's unfunded liability is smaller, meaning that the cost, as a percentage of payroll, of amortizing the unfunded liability is larger. This is due to the fact that only part of the amount contributed to the PERS plan each year goes to the accrual of employee benefits. This component is called the normal cost.[4] The remainder of the contributions, which are not designated for the accrual of specific member future benefits, are held in the trust and utilized by the PERS plan to begin paying off the plan's UAAL.

For example, for FY 2024, total contributions used in calculating the valuations were 26.90% of covered payroll (9% employee contribution and 17.90% employer contribution). The normal cost for FY 2024 was 11.57% (9% employee and 2.57% employer). The remainder of the employer contribution is added to the assets of the plan for use in paying down the plan's UAAL. For FY 2024, for every dollar of covered payroll, the PERS plan received approximately 15.33 cents to be invested to help pay down the plan's UAAL. When the plan experiences less payroll growth than anticipated, the 15.33 cents per dollar of the difference between anticipated and actual covered payroll is not deposited into the PERS trust assets and is not able to grow at the utilized assumed rate of 7.00% annually.

The PERS Board should continue to analyze variation between actual and assumed wage growth.

Although the PERS Board has made changes to actuarial assumptions in the past, and recent salary increases have raised the five-year average salary growth above the targeted growth rate, the plan's 10-year average continues to be below the plan's targeted growth rate. Continued analysis of the difference between actual and assumed wage inflation is warranted. This is made more evident when PERS's experience from the previous fiscal year is compared to the average experience of plans in NASRA's *Public Fund Survey*. The survey's November 2024 report indicates that the median experience for plans in the survey for FY 2023 was a positive change in annual payroll of approximately 6.57%, as compared to the PERS FY 2023 increase of 9.46%. For FY 2023, the PERS

[4] Normal cost is the annual cost of providing retirement benefits for services performed by current members. This is a shared responsibility between the member and employer.

plan's payroll percentage increase was above the median increase for pension plans included in the *Public Fund Survey*. However, the survey indicates that the median annual payroll change has been above 3% for four of the past five fiscal years, FY 2019 through FY 2023, while PERS's payroll growth for the same time period has been below its targeted 2.65% in three of the five fiscal years. Prior to the publication of this report, the PERS Board heard the results of the PERS plan's most recent experience study (in its April 2025 meeting). However, the results of this study were not considered in the FY 2024 valuation, and as such, will not be discussed until PEER's 2025 review.

Active and Retired Member Assumptions

The ratio of active to retiree members in the PERS plan decreased from 1.60/1 in FY 2015 to 1.21/1 in FY 2024, or approximately 24.38%. PERS active membership has continued to decline, whereas the national average plan's membership has grown in eight of the last ten fiscal years.

The PERS plan, and all other plans administered by the PERS Board, have three types of members: active, inactive, and retired (also referred to as a retiree).

Active Member
Current employees who are contributing to the plan through monthly withholding from pay.

Inactive Member
Members of PERS who are no longer working in a PERS-covered position and have not retired/received a refund of contributions.

Retired Member
Individuals who are no longer working in a PERS-covered position and have begun receiving payments based on their retirement calculations.

Each type of member is considered within the actuarial model of the plans; however, because liabilities associated with inactive members account for only 0.90% of the overall PERS plan's present value of future benefits, the ratio of active to retiree members is of primary importance. As shown in Exhibit 3 on page 9, the ratio of active to retiree members in the PERS plan decreased from 1.60/1 in FY 2015 to 1.21/1 in FY 2024, or approximately 24.38%. The declining ratio is attributable to a decrease in the number of active members and an increase in the number of retiree members.

Exhibit 3: PERS System Active and Retiree Members for FY 2015 through FY 2024 (in Thousands)*

Member Type	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Active	158	155	153	151	151	151	146	145	147	147
Retiree	99	102	105	108	110	112	115	117	118	121
Ratio	1.60/1	1.52/1	1.46/1	1.40/1	1.37/1	1.35/1	1.27/1	1.24/1	1.25/1	1.21/1

*Calculations are based on ratios rounded to the nearest hundredth.

SOURCE: PERS *Facts and Figures*, FY 2024.

Exhibit 4 on page 10 provides more detailed information about the decline in active employee membership specific to the PERS plan. While not every employer group has seen a decline in active membership, the overall effect is a slightly lower number of active employees from FY 2023 to FY 2024.

As a result of the decrease, the payroll of fewer active members must fund future pension obligations, a factor made more important because contributions from active members and their employers comprise approximately 45% of PERS revenues (as of FY 2024).

According to the November 2024 *Public Fund Survey*, the most recent nationwide information available, when examining the membership of the pension plans tracked by the database, the overall active to retiree ratio was 1.25/1 as of the end of FY 2023. While the PERS active to retiree member ratio has declined since FY 2015, the ratio of 1.21/1 at the end of FY 2024 was less than the average ratio for other pension plans across the nation.

> At the end of FY 2024, the active to retiree member ratio was 1.21/1, which is less than the average U.S. pension plan.

In addition, the *Public Fund Survey* observed that a lower ratio of active members to retiree members results in funding future obligations over a smaller payroll base, although a declining active member to retiree member ratio does not automatically pose an actuarial or financial problem. However, when combined with an unfunded liability, a low or declining ratio of active members to retirees can cause financial distress for a pension system provider.

Exhibit 4: PERS Plan Active Employee Change (by Employer) for FYs 2023 and 2024

Employers	Active Employees		Increase (Decrease)	Percentage Change
	FY 2023	FY 2024		
State Agencies	24,922	25,333	411	1.65%
State Universities	17,220	17,318	98	0.57%
Public Schools	61,095	60,549	(546)	(0.89%)
Community & Junior Colleges	5,835	5,836	1	0.02%
Counties	14,671	14,795	124	0.85%
Municipalities	15,526	15,410	(116)	(0.75%)
Other Political Subdivisions	6,716	6,595	(121)	(1.80%)
Total	**145,985**	**145,836**	**(149)**	**(0.10%)**

SOURCE: PEER analysis of the *Report on the Annual Valuation of the Public Employees' Retirement System of Mississippi* as of June 30, 2023, and June 30, 2024.

With a maturing plan,[5] increasing retirements are expected, and the model attempts to account for these changes through the use of demographic assumptions. PERS's experience does differ from the average plan of the *Public Fund Survey*. PERS active membership has continued to decline, whereas the national average plan's membership has grown in eight of the last ten fiscal years (FY 2014 through FY 2023). As such, continued analysis of the assumptions for active and retiree members is warranted.

[5] According to Zacks Investment Research, a maturing pension plan is a plan where the number of employees and retirees is approaching equality.

Sustainability of the PERS Plan Funding Policy

This chapter will discuss:

- a review of funding policy metrics;
- changes to employer contribution rate;
- recommended actuarially determined contribution for the PERS plan;
- the anticipated accrued liability payment period; and,
- risk management and investment management.

Review of Funding Policy Metrics

The PERS funding policy contains three metrics that track the plan's sustainability (e.g., progress achieving funding goals). The metrics are evaluated using a "signal-light approach." Based on the results of the evaluation metrics in the funding policy as of June 30, 2024, two of the plan's metrics are at the red signal-light status and one the of the plan's metrics is at yellow signal-light status.

Definition: pension plan funding policy
According to NASRA, a pension plan funding policy is a set of guidelines that determines how much should be contributed each year by the employers and active participants to provide for the secure and systematic funding of benefits.

The PERS funding policy utilizes three metrics to track the plan's sustainability (e.g., progress in achieving the funding goals and objectives set by the PERS Board). The plan's funding policy defines several goals and objectives, including contribution rate stability and the maintenance of an increasing trend in the plan's funded ratio (over the projection period) with the target of a 100% funding level. For more information on PERS's funding policy metrics, see Appendix B on page 32.

The policy also includes a course of action should any of the metrics fall below certain thresholds. The metrics are evaluated through the use of a "signal light" approach (i.e., green indicating goals and objectives are achieved, yellow representing a warning that future negative actions may lead to a failure to reach the goals and objectives, and red suggesting that the Board must consider making changes to the employer contribution rate).

Exhibit 5 on page 13 illustrates the status of these three metrics as assessed through the annual valuation and projection report as of June 30, 2023, and June 30, 2024.

Exhibit 5: PERS Funding Policy Metric Results as of June 30, 2023, and June 30, 2024*

Metric	2023	2023 Status	2024	2024 Status
Funded Ratio (in FY 2047)	65.5%	Yellow	53.7%	Red
Cash Flow as a Percentage of Percentage of Assets	-5.4%	Yellow	-6.3%	Yellow
ADC/FCR**	112.4%	Red	130.3%	Red

*These results are based on the full implementation of the statutory increases in the employer contribution rate to 19.90%.

** The plan's actuarially determined contribution (ADC) is the potential payment to the plan as determined by the actuary using a contribution allocation procedure that, if contributed consistently and combined with investment earnings, would be sufficient to pay promised benefits in full over the long term. The plan's fixed contribution rate (FCR) is the employer contribution rate set by the Board.

SOURCE: *Report on the Annual Valuation of the Public Employees' Retirement System of Mississippi*, prepared as of June 30, 2024.

As highlighted above, all three funding policy metric results declined from June 30, 2023, to June 30, 2024. For the fiscal year ending on June 30, 2024, the plan's projected funding level was 53.7%, a decrease from 65.5% for the year ending on June 30, 2023. The cash flow as a percentage of assets decreased from -5.4% to -6.3%. The ADC/FCR ratio changed from 112.4% to 130.3%.

These numbers represent the funding metrics as they existed at the time of completion of the FY 2024 valuation by CavMac, and do not consider any impact of legislative action during the 2025 Legislative Session.

Changes to the Employer Contribution Rate

In the 2024 Regular Session, the Legislature assumed responsibility for setting the PERS plan's employer contribution rate and created a statutorily mandated plan for increasing the PERS plan's employer contribution rate to 19.90% by FY 2029.

During the 2024 Regular Session, the Legislature passed Senate Bill 3231 which imbued the responsibility for setting the employer contribution rate for the PERS plan in the Legislature and created, under MISS. CODE ANN. Section 25-11-123 (1972), a statutorily mandated funding plan that will increase the PERS plan's employer contribution rate from 17.40% to 19.90% through 0.5% increases over a five fiscal year period (fiscal years 2025 through 2029).

Exhibit 6 on page 14 shows the schedule for the employer contribution rate increases.

Exhibit 6: Schedule for the Implementation of PERS Plan Employer Contribution Rate Increases

Fiscal Year	Annual Employer Contribution Rate	Percentage Change
2025	17.90%	0.50%
2026	18.40%	0.50%
2027	18.90%	0.50%
2028	19.40%	0.50%
2029	19.90%	0.50%

SOURCE: MISS. CODE ANN. Section 25-11-123 (1972).

Because the mandated rate adjustment plan was slated to start in Fiscal Year 2025, for Fiscal Year 2024, PERS plan covered employers were required to contribute 17.40% of covered employees' wages.

Recommended Actuarially Determined Contribution for the PERS Plan

The PERS plan's actuary, along with two additional independent actuaries, concluded that the PERS plan required additional funding to reach its funding policy goals. The recommendation consisted of either a single increase in the PERS plan's ADC to 25.92%, or a staggered implementation plan over the next five years totaling at an ADC of 27.90%. These results do not take into account any impacts of legislation passed during the 2025 Legislative Session.

Following the 2024 Legislative Session, CavMac produced its Annual Valuation Report for the PERS plan dated June 30, 2024. As noted above, a component of this report is the PERS plan's funding policy metrics which received two red signal-light status results (i.e., Funded Ratio in FY 2047 and ADC/FCR Ratio).

The actuary's recommendation to the PERS Board and Legislature is to either change to an ADC contribution approach or to continue the use of a phased-in approach for the next five consecutive fiscal years until the FCR reaches one of the scenarios listed below.

Per the PERS Funding Policy in place at the time of this valuation,[6] the actuary noted that it should recommend an increase in the FCR. Its recommendation to the PERS Board and Legislature is to either change to an ADC contribution approach and contribute 25.92% beginning July 1, 2026, or to

[6] Considering the changes made by the passage of Senate Bill 3231, the PERS Board adopted changes to the PERS plans' funding policy in its December 2024 and February 2025 meetings.

continue the use of a phased-in approach for the next five consecutive fiscal years, with increase in the employer contribution rate of 2.00% each fiscal year, until the FCR reaches one of the scenarios listed below. Although the ADC for the 2024 valuation is 25.92%, the use of a phase-in of contribution plan, could result in contribution losses over the next few valuations. In light of this possibility, the PERS plan's actuary has recommended the PERS plan target an employer contribution rate higher than the FY 2024 ADC recommendation. For a detailed illustration of the actuary's recommendation to implement a phased-in approach please see Exhibit 7 on page 15.

The PERS actuary projects that the recommendations set out below will be sufficient to increase the result of all PERS plan metrics to a green signal-light status, assuming all other plan assumptions are met.

Exhibit 7: Actuarial Recommendations for PERS Plan Employer Contribution Rate Increase

Fiscal Year (beginning July 1)	Current Legislative Phased-in Contribution Rate	Scenario One: Actuarially Recommended Phased-in Contribution Rate	Scenario Two: Actuarially Recommended Phased-in Contribution Rate with Additional Annual Funding of $110 Million
2024	17.90%	17.90%	17.90%
2025	18.40%	19.90%	19.70%
2026	18.90%	21.90%	21.50%
2027	19.40%	23.90%	23.30%
2028	19.90%	25.90%	25.10%
2029	19.90%	27.90%	26.90%

SOURCE: *Report on the Annual Valuation of the Public Employees' Retirement System of Mississippi*, prepared as of June 30, 2024.

In addition to a recommended phased-in ADC calculation, the actuary also provided a comparative ADC implementation schedule that demonstrates the prospective impact of a supplemental funding plan by the Legislature.

As seen in Exhibit 7, the provision of supplemental funding has the potential to reduce the recommended employer contribution rate increases necessary for the PERS plan to reach its funding goals. However, as seen by the fact that the recommended employer contribution rate, with supplemental funding, increases to within one point of the recommended employer contribution rate, without supplemental funding, increases in the employer contribution are the most significant component of the PERS plan's increased funding needs.

As required under Senate Bill 3231, when making a recommendation to adjust the employer contribution rate to the Legislature, PERS hired two additional independent actuarial firms, Cheiron, Inc., and Gabriel, Roeder, Smith and Company. Each of these firms was given access to PERS plan data, and each firm submitted an actuarial assessment of the status of the PERS plan and calculated the current funding needs of the PERS plan. Exhibit 8 on page 16 details a summary of the results of these independent assessments and provides a comparison of these results to the conclusions reached by the PERS plan's actuary CavMac.

Exhibit 8: Results of PERS Plan's FY 2024 Actuarial Valuation and Assessments

Actuarial Element	CavMac Results	GRS Results	Cheiron Results
Actuarial Funded Ratio (at 6/30/24)	55.90%	55.70%	56.20%
UAAL at 6/30/24 (in billions)	$26.5	$26.7	$26.1
Actuarially Determined Contribution (as a Percentage of Payroll)	**25.92%**	**25.94%**	**25.88%**
Anticipated Accrued Liability Payment Period	44.9 years	45 years	48.3 years
Projected Funded Ratio at 2047 (based on 19.90% Fixed Contribution Rate)	53.70%	52.60%	61.17%

SOURCE: PERS *Summary Sheet of Key Results*, Independent Actuarial Assessments.

As seen in Exhibit 8, the ADC calculated by CavMac and the two independent actuarial firms have a total variance of 0.06%, with CavMac's ADC representing the median result. Results from three actuarial firms, conducting actuarial assessments independently from one another, coming to nearly the same results highlights the fact that these figures represent a realistic estimate of the additional funding currently needed by the PERS plan to meet its funding goals.

However, the results of the PERS plan annual valuation, and the results of its two additional independent actuarial assessments do not take into account any potential impacts of any legislation passed during the 2025 Regular Session. It is possible that the impact of the passage of House Bill 1 (2025 Regular Session) could result in future reductions of liabilities for the PERS plan, which may reduce the need for funding increases in the future.

Anticipated Accrued Liability Payment Period

The anticipated accrued liability payment period is the estimated length of time under current actuarial assumptions that is required to pay the UAAL. As of June 30, 2024, PERS's anticipated accrued liability payment period was 44.9 years, an increase from 32.2 years as of June 30, 2023. The PERS plan's actuary attributes this increase to a reduction in the future contribution expectations from the statutorily mandated employer contribution rate schedule instituted during FY 2024.

The anticipated accrued liability payment period is the estimated length of time under current actuarial assumptions that is required to pay the UAAL. As of June 30, 2024, PERS's anticipated accrued liability payment period was 44.9 years, an increase from the 32.2 years as of June 30, 2023.[7] The PERS Board's actuary attributes the increase primarily to reduction in the future contribution expectations from the statutorily mandated employer contribution rate schedule instituted during FY 2024.

Conversely, current-year realization of investment losses from three of the past five fiscal years contributed to a decrease in the anticipated accrued liability payment period. By using the accepted practice of "smoothing," PERS recognizes actuarial investment gains and losses over a five-year period. This allows the calculation of the anticipated accrued liability payment period and the accrued liability funding percentage to be based on a five-year period rather than on a one-year period, reducing the chance of large fluctuations in these figures. In FY 2024, actuarially smoothed investment returns were approximately $157 million higher than the actuarially projected returns for FY 2020 through FY 2024.

It is possible that the PERS Board's decision to lower the plan's investment rate assumption may have had future impacts on the plan's anticipated accrued liability payment period.

For example, during fiscal year 2024, the PERS plan had an actuarial return[8] on invested assets of 7.3%. This rate of return is used to compare to the plan's investment return assumption to determine the actuarial impact of investment gains or losses on the plan for the year. Because the PERS Board lowered the PERS plan's investment return assumption to 7.00%, the experienced actuarial return for FY 2024 was higher than the assumed return, meaning that the PERS plan experienced an actuarial gain. If the plan had been operating under the old investment return assumption of 7.55%, the plan would have experienced an actuarial investment loss, which may have contributed to an increase in the PERS plan's anticipated accrued liability payment period.

Risk Management and Investment Management

Risk management and investment management should provide a long-term framework for the structure 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.

[7] PERS's anticipated liability payment period, as of June 30, 2021, was 50.9 years.

[8] Actuarial return is the investment return experienced by the plan during the current year when realizing the impact of actuarially smoothed gains and losses from the current and four most recent years.

Risk management and investment management represent the other major components of financial soundness. These concepts are utilized to provide a framework for the structure that will manage the plan's long-term risk environment in ways that allow it a reasonable opportunity to collect or earn sufficient assets to meet its benefit obligations.

Risk Management

To determine the funding ratio, or funding level, of a plan, the current value of all projected future obligations of the plan (such as future pension payments) is calculated. In other words, the cost of all of the plan's future obligations is calculated in today's dollars. The total of the current value of future obligations is compared to the plan's assets on hand today and a funding ratio is derived.

The calculation of a plan's funding ratio is an accounting measure that quantifies the plan's ability to meet its projected future obligations based on service already performed with assets currently available. However, this measure, like most accounting measures, assesses the plan in an appropriate manner and does not take into account items such as future investment gains and losses and/or loss of contributions from employees and participating employers. This measure also does not reflect the ability of the plan to meet its current obligations.

For FY 2024, the actuarial value of assets in PERS remained virtually unchanged in relation to the actuarial value of its liabilities—55.9%, which was 0.2% below the valuation for FY 2023 of 56.1%.[9] The relationship between these two valuations remained unchanged due to actuarial gains from higher-than-expected investment returns being offset by actuarial losses from less than expected withdrawals, and more than expected service retirements.

Primarily due to changes in the employer contribution rate, the PERS plan projected a future funding ratio of 53.7% as of 2047.

According to projections prepared by PERS's consulting actuary as of June 30, 2024, the plan's funding ratio was projected to be 53.7% by 2047, as compared to 65.5% reported in the FY 2023 projection reports.[10] The decrease in the future funding level is primarily due to changes in the employer contribution rates which were lower than the actuary had recommended.

Although an 80% funding ratio is frequently cited as a measure of an adequately funded pension system, there is no industry statement or requirement for a pension plan's funding level to be at 80% to be defined as "healthy." Neither the Governmental Accounting Standards Board[11] nor the American Academy of Actuaries uses an 80% funded ratio to define a plan as financially healthy.

For any projected funding level information to be accurate, all actuarial assumptions must be met exactly for all fiscal years forecasted. As past performance indicates, results can exceed or fall short of this mark, creating variability from the model.

[9] For the fiscal year ended on June 30, 2022, the PERS plan had a funding level of 61.3%.

[10] For the period ended on June 30, 2022, the PERS plan's projected funding level in 2047 was 48.6%.

[11] The Governmental Accounting Standards Board is an independent organization that establishes standards of accounting and financial reporting for state and local governments in the United States.

Investment Management

Having realized a market gain of approximately 10.78% in the PERS plan's combined investment portfolio, the market value of assets increased from approximately $32 billion to $33.7 billion during FY 2024, an increase of approximately $1.7 billion.

As presented in Exhibit 9 on page 19, according to investment consultant Callan, PERS's investment performance for FY 2024 was above the current actuarial model's utilized investment return rate of 7.00%, placing it above the median return for its peer group[12] of 10.23%. Additionally, PERS's investment performance has exceeded its peer group median for each of the past 3-, 5-, and 10-year periods.

Exhibit 9: Comparison of PERS Investment Performance to Peer Group of Public Pension Plans with Assets of More than $10 Billion

Category	FY 2024	3-Year Return	5-Year Return	10-Year Return
PERS Return	10.78%	2.97%	8.41%	7.73%
Peer Group Median (midpoint)	10.23%	3.95%	8.12%	7.23%
PERS Percentile Rank	27*	78	38	21
25th Percentile*	10.83%	5.05%	8.78%	7.67%
10th Percentile	12.15%	6.15%	9.49%	8.06%

* In this example, 27th percentile means PERS outperformed 73% of peer group funds; 25th percentile means these returns were greater than 75% of peer group funds.

SOURCE: Callan LLC, *Investment Performance Review*, as of June 30, 2024.

According to the *Public Fund Survey*, the median public pension annualized investment 10-year return for the period ending December 31, 2023, was 6.9% and the 30-year return was 7.8%.[13] Over the past 10 years, PERS's investment return on assets averaged 7.73%. Investment returns ranged from 1.16% during FY 2016 to 32.71% during FY 2021. The volatility of the recent years' returns reinforces the principle of viewing investment returns over a long period and comparing long-term returns to investment return goals rather than focusing on a single year's returns or returns over a short period.

Historically, PERS's investment gross returns have averaged 9.82% over the past 15 years, 7.64% over the past 20 years, 6.53% over the past 25 years, and 8.12% over the past 30 years. PERS's investment returns have exceeded the median for other public pension plans for the past 10-year period.

[12] The PERS peer group is composed of other nationally based large pension plans (plans having greater than $10 billion in assets).

[13] At the time of publication of this report, the *Public Fund Survey* for the period ending June 30, 2024, had not been released.

Because investment returns are the largest piece of a pension's funding source, when actual returns fall below projections, over time the plan must rely on other sources (i.e., contributions) to provide for the difference, which could lead to decreases in the plan's assets.

The PERS Board and its consulting actuary plan to continue to monitor the investment return assumption in future years to ensure that the investment return assumption accurately reflects market conditions and the System's investment allocation model.

Asset Allocation Model

The PERS independent investment consultant periodically performs an asset/liability allocation study that considers projected future liabilities of the System, expected risk, returns of various asset classes, and statutory investment restrictions. For FY 2024, the PERS Board continued to adhere to the overall asset allocation model adopted in June 2022. The asset allocation model determines the mix of asset classes in which PERS will invest and the overall weight of each asset class within the whole portfolio.

The PERS Board and PERS staff use this model to mitigate investment risk through diversification and to establish risk and rate of return expectations for the adopted target asset allocation mix. On a quarterly basis, the PERS Board and its staff, in consultation with its investment advisers, review the performance of each investment manager relative to the asset class's target performance level.

Exhibit 10 on page 20 presents the actual FY 2024 investment allocation compared to PERS's overall asset allocation model.

Exhibit 10: PERS FY 2024 Actual Asset Allocation Compared to PERS Overall Asset Allocation Model

Model	U.S. Equity	Non-U.S. Equity	Debt Investments	Real Estate	Private Equity	Private Credit	Private Infrastructure	Global Equity	Cash
Model	25%	20%	18%	10%	10%	2%	2%	12%	1%
FY 2024	25%	20%	21%	9%	12%	0%*	0%	12%	1%

*As of June 30, 2024, PERS had approximately $43.2 million invested within the Private Credit Asset Class but due to rounding this figure is represented as 0% in the total asset allocation.

SOURCE: Callan LLC, *Investment Performance Review, as of June 30, 2024, and PERS Investment Policy Statement.*

PERS's assets are being invested in accordance with the asset allocation model. Instances in which current investment levels do not agree with the model do not automatically constitute a cause for alarm or present the need for an immediate change in investment levels.

The investment model represents targeted investment levels designed to prevent the investment portfolio from becoming too heavily weighted in a certain investment type. Market conditions may, at times, cause a prudent manager to call for slight departures from target goals. For these reasons, the PERS Board monitors investment performance, strategies, and weights throughout

the year and manages the investment portfolio based on input from professional money managers, advisers, and its professional staff.

Investment Managers

In addition to PERS's efforts to mitigate investment risk for plan assets through asset diversification, the PERS Board's decision to utilize numerous investment managers also minimizes investment risk, as it prevents a large portion of plan assets from being under the management of any one investment manager. For FY 2024, the PERS Board had investment management contracts for 63 portfolios and paid management fees to investment managers on 60 of these portfolios.

> In FY 2024, the PERS Board had investment management contracts for 63 portfolios with 60 managers.

According to the PERS plan's *Investment Policy Statement,* external investment managers are retained because of their skill and expertise within a specialized part of the PERS portfolio. Investment managers are charged with managing the assets and the allocation of the assets within his/her control in compliance with the policies, guidelines, and objectives included in their Investment Management Agreement with PERS.

Investment managers are required to act as fiduciaries to PERS and construct and manage investment portfolios that are consistent with the investment philosophy and disciplines (asset classes) for which they were hired.

> Callan LLC, the PERS Board's investment consultant, assists the Board in selecting investment managers.

Selection of investment managers is ultimately the responsibility of the PERS Board. The process for selection of an investment manager begins with the PERS staff vetting potential options with the assistance of the plan's investment consultant, Callan LLC, in creating a list of candidates that meet the search criteria.

These criteria include a wide range of qualitative and quantitative factors such as:

- asset class;
- investment style;
- assets under management relative to the size of PERS's prospective investment;
- manager's staff size;
- management structure and experience; and,
- manager's historical performance and risk tolerance.

The list of candidates is discussed by a manager search committee that selects a group of finalists to be interviewed by the PERS Board or investment staff. After conducting interviews with the finalist(s), the Board will select the best option as an investment manager for the PERS plan.

Once a manager is selected and engaged, the PERS Board, with the assistance of Callan LLC and the PERS staff, monitors the performance of investment managers within the plan. This monitoring is also based on both qualitative and quantitative factors, as outlined in the plan's *Investment Policy Statement*.

The Statement lists qualitative assessment factors such as a manager's adherence to his or her stated investment objectives, organizational structure and stability, and changes in investment policy. Quantitative factors include performance over a full market cycle, material changes to the risk profile, and portfolio characteristics that are inconsistent with expectations.

Based on the assessment of these factors, the Board can vote to place managers deemed to be underperforming on the PERS Watchlist. The Watchlist assists in monitoring performing funds relative to benchmarks and peers. Any fund that fails to outperform its benchmark or peer group median for the specified time period may be placed on the Watchlist for further review. Improvement relative to long-term objectives will allow for a fund's removal from the Watchlist while continued underperformance could prompt the Board to terminate the fund. The Board has the authority at any time to terminate or replace an investment manager.

For FY 2024, PERS paid $105.7 million to investment managers on PERS plan assets of $33.7 billion, a combined investment management expense rate of 0.31% (the expense rate for the fiscal year ending June 30, 2023, was 0.32%).

In FY 2024, PERS paid $105.7 million to investment managers on PERS plan assets of $33.7 billon, a 0.31% investment management expense rate.

For more information on investment management fees, see Appendix C on page 37.

Changes to PERS, SLRP, and ORP Enacted in the 2025 Regular Session

House Bill 1, 2025 Regular Session, contained several sections that impact the PERS system. Most noteworthy of these is the "Tier Five" provision that creates a new tier in the system.

This chapter discusses the retirement-related provisions in H.B. 1.

Tier Five Provisions

Sections 15 through 23 of H.B. 1 create a new tier in the PERS System for employees becoming members of the System on or after March 1, 2026, which will consist of a defined benefit component and a defined contribution plan component meeting the requirements of Section 401(a) of the Internal Revenue Code.

Sections 15 through 23 of H.B. 1 create a new tier in the PERS System for employees becoming members of the System on or after March 1, 2026, which will consist of a defined benefit component and a defined contribution plan component (i.e., meeting the requirements of Section 401(a) of the Internal Revenue Code). A portion of the employer's contribution will go toward funding the defined benefit portion of the retirement benefit. Additionally, a portion of the employee's contributions will be deposited into the employee's defined contribution account, as provided in MISS. CODE ANN. Section 25-11-123 (1972). Further, the employer may elect to contribute an amount up to the maximum pretax amount allowable under federal law for plans under Section 401(a) of the Internal Revenue Code. Members will be vested immediately in contributions to the defined contribution plan.

Highlights of the Tier Five Structure

Highlights of the Tier Five structure include:

- Employee contribution is 9% of compensation:
    - 4% into the defined benefit plan (subject to vesting requirements); and,
    - 5% into the defined contribution plan (employee is immediately vested in these contributions).
- Defined benefit plan multiplier formula is 1% for all years of service.
- Final average salary is the eight highest consecutive years.
- Vesting is eight years of service and unreduced retirement eligibility is:
    - 35 years of service; or,
    - age 62 and 30 years of service; or,
    - age 65 and eight years of service.
- Military service will be included for determination of benefit service and retirement eligibility; however, unused leave will not be included.

- No guaranteed Cost-of-Living Adjustment (COLA) would be provided to retirees; however, ad hoc COLAs could be approved by the Legislature.
- No Partial Lump Sum Option (PLSO) would be provided.
- No employer match would be provided for the defined contribution plan; however, employers may elect to contribute an additional amount, and vesting would be immediate for the defined contribution portion.

Section 23

Regarding the future health of the PERS plan, Section 23 is significant. This section amends MISS. CODE ANN. Section 25-11-123 to provide that:

- For any employee who became a member of the system on or after March 1, 2026, the employee's contribution will be 9% of earned compensation, with 4% of such earned compensation amount to be deposited into the annuity savings account, and 5% of such earned compensation to be deposited into the employee's defined contribution account authorized in Section 15 of the bill.
- For each member who became a member of the System on or after March 1, 2026, except as provided in Section 15 of the bill, the employer's monthly payment will be applied to the System's accrued liability contribution fund.

Changes to the Supplemental Legislative Retirement Plan (SLRP)

H.B. 1 closes new SLRP membership. This means that all newly elected members of the State Legislature and the President of the Senate (i.e., the Lieutenant Governor) elected after March 1, 2026, will no longer be eligible for membership in SLRP and will only be members of the new Tier Five of the PERS plan.

Established in 1989, SLRP has provided supplemental benefits, in addition to PERS plan benefits, to all members of the Mississippi Legislature and the President of the Senate (i.e., the Lieutenant Governor). As a defined benefit retirement plan, the SLRP plan involves a trust fund supported by payroll-based contributions from employers and employees as well as investment returns.

For any given eligible employee, benefits are based on average compensation, years of creditable service, and selected benefit payment method. While members of SLRP also contribute to PERS, the assets of the SLRP plan are separate from the assets of the PERS plan (or other plans overseen and administered by the PERS Board) and held in trust for the exclusive use of its members and their beneficiaries.

H.B. 1 closes SLRP to new membership. This means that no new members may enter this plan after March 1, 2026. Membership is limited to persons who were members before March 1, 2026, who have not removed their contributions from the SLRP. Regarding future administration of the plan:

- The actuary recommends that the SLRP funding policy be amended to target a more conservative (lower) return on its investments within the next 10 years. This move would

put it on a similar footing to the Municipal Retirement System (MRS) plan being administratively managed by PERS. The suggested rate is 5.50%, instead of the current 7.00%. This will increase the unfunded liability of the plan because the investments of the plan will be assumed to have smaller growth meaning that more future expenses of the plan will have to be paid for using alternate funding (in this case probably contributions from the state).

- Because the plan will not get new members as of March 1, 2026, it is unlikely that the total payroll for the SLRP plan will continue to grow. As such, the current structure for allocating costs for the plan, percentage of covered payroll, will not have the same impact as it does currently. The actuary recommends switching to the level dollar amortization method. This method will shift payments more towards the future than the current method that plans to contribute more to the future as payrolls increase. This will likely lead to current cost increases.
- The current funding policy targets a fixed contribution rate (FCR). With a static, or potentially decreasing payroll, this method could lead to contributions that will not keep up with the plan's needs. The actuary recommends that the plan shift to a funding policy that targets SLRP's ADC calculation.
- The closing of SLRP to new members will have the effect of reducing future liabilities to the plan but will increase costs for the plan in the short-term.

Changes to the Optional Retirement Plan (ORP)

H.B. 1 creates a new payment structure for existing ORP members and a new benefit tier for new members of the ORP. It also repeals MISS. CODE ANN. Section 25-11-415 (1972), which provides that the PERS System may deduct not more than 2% of all employers' contributions and transfer such deductions to the expense fund of the system to defray the cost of administering the optional retirement program for employees of the state institutions of higher learning.

The Optional Retirement Plan (ORP) was established by the Mississippi Legislature in 1990 to help attract qualified and talented institutions of higher learning faculty. This defined contribution plan is designed to be portable and transferable to accommodate university faculty who move from one state to another throughout their careers.

Administered by the Public Employees' Retirement System of Mississippi (PERS), ORP has nine participating employers:

- Alcorn State University;
- Delta State University;
- Jackson State University;
- Mississippi State University;
- Mississippi University for Women;

- Mississippi Valley State University;
- The University of Mississippi;
- The University of Mississippi Medical Center; and,
- The University of Southern Mississippi.

Unlike the PERS plan, the ORP is a defined contribution plan.

Section 27 of H.B. 1 made changes in the ORP by:

- Creating a new payment structure for existing ORP members and new benefit tier for ORP;
    - Existing Employees in ORP (Employed prior to July 1, 2025);
        - Employee Contribution - 9%;
        - Employer Contribution to Employee's Account - 14.9%;
        - Employer Contribution to PERS Administration Fee – up to 0.2%;
        - Employer Contribution to Pay-off UAAL – remainder of employer contribution rate (at the time of payment (as of June 30, 2025, using 17.9%) – 2.8%;
    - Employees in ORP (Starting on or after July 1, 2025);
        - Employee Contribution - 9%;
        - Employer Contribution to Employee's Account – up to 9%;
        - Employer Contribution to PERS Administration Fee – up to 0.2%;
        - Employer Contribution to Pay-off UAAL – remainder of employer contribution rate, at the time of payment (as of June 30, 2025, using 18.4%), - 9.2%;
    - Old benefit structure of Existing ORP members (for work done and payments made prior to July 1, 2025);
        - Employee Contribution - 9%;
        - Employer Contribution to employees account – 15.24%;
        - Employer Contribution to Pay-off UAAL – 2.475%; and,
        - Administrative fee – up to 0.179%.

Section 28 also made changes by repealing MISS. CODE ANN. Section 25-11-415 (1972), which provides that the PERS System may deduct not more than 2% of all employers' contributions and transfer such deductions to the expense fund of the system to defray the cost of administering the optional retirement program for the employees of Mississippi's Institutions of Higher Learning.

Impact of the Changes in H.B. 1

Actuarial analysis shows that the adoption of Tier Five will generate cost savings from the reduction of future liabilities. The closing of SLRP to new members will have the effect of reducing future liabilities to the plan but will increase costs for the plan in the short run. Actuarial projections assume that future employment levels in ORP will remain at current levels.

Impact of the Addition of Tier Five

Actuarial analysis shows that the adoption of Tier Five will generate cost savings from the reduction of future liabilities.

Exhibit 11 on page 27 shows the cost of funding benefits through the use of specific PERS plan designs. The first figure is the cost structure of the current PERS plan. This figure represents the cost of funding active PERS employees from all four tiers. The figure for the implementation of Tier Five would include the phase in of employees under the new tier as these employees replace existing employees under earlier tiers.

Exhibit 11: Cost Comparison between Current PERS Design and Implementation of Tier Five

Tier Design	Total Normal Cost (NC) Rate	Employee Contribution Rate	Employer Normal Cost Rate	Amount of contribution to Pay Down the UAAL
Current PERS Design (Tier I – Tier IV)	12.26%	9.00%	3.26%	16.64%
Implementation of Tier V	5.37%	4.00%	1.37%	18.53%

SOURCE: PEER analysis of CavMac Memo: *Actuarial Impact of House Bill 1 for Tier 5*, April 14, 2025.

The cost savings are shown in the reduction of the employer normal cost rate, which directs more funding to the reduction of the UAAL. However, according to the plan actuary, it must be noted:

> *It will take time for PERS' employer normal cost rate to get to a level of 1.37% of compensation, as we calculate a blended rate between all active members from all the various tiers. As a result, the projection of the funded ratio and UAAL under HB 1 does not begin to improve until after 2047, however, it is expected to pay down the UAAL fourteen years prior to the current PERS plan.*

Exhibit 12 on page 28 illustrates the projections calculated based on the implementation of Tier Five.

Exhibit 12: PERS Plan Funding Projections

Tier Design	Funded Ratio in 2047	Funded Ratio in 2054	Funded Ratio in 2064	Year UAAL Reaches $0
Current PERS Design (Tier I – Tier IV)	53.7%	55.8%	65.5%	2080
Implementation of Tier V	53.8%	58.2%	90.5%	2066

SOURCE: PEER analysis of CavMac Memo: *Actuarial Impact of House Bill 1 for Tier 5*, April 14, 2025.

While the future implementation of Tier Five is projected to help pay off the UAAL 14 years sooner than the current structure of the PERS plan, the projected time frame is still at a total of approximately 41 years. This timeframe, 41 years, extends beyond the timeframe PERS plan actuaries typically use for creating estimates for the PERS plan. For example, the PERS funding policy amortizes currently generated yearly actuarial gains and losses over a 25-year period.

The extension of the period is most likely due to the continued use of the legislatively mandated phased-in 19.90% employer contribution rate instead of the actuarially determined contribution rate of 25.92% (or 27.90% if the rate is phased-in over a five-year period). Future calculations provided in the 2025 valuation will have the ability to start implementing cost estimates related to the implementation of Tier Five, including replacement of active members who are currently working from older tiers.

It is also worth noting that under the new Tier Five, employees are required to shoulder more of the burden for the cost of their retirement benefits (i.e., approximately 75% under Tier Five as compared to 73% under the current PERS structure).

Closing SLRP

The closing of SLRP to new members will have the effect of reducing future liabilities to the plan but will increase costs for the plan in the short-term.

Exhibit 13 on page 29 shows the projected employer contribution rates for SLRP using the recommendations of the plan's actuary. Calculations for cost increases are based on FY 2024 payroll figures and will need to be adjusted for future periods.

Exhibit 13: Impact of Actuary Recommendations for SLRP

Payroll Source	Employer Contribution Rate	Projected Annual Costs (based on FY 2024 Covered Payroll (in thousands)
Current Fixed Contribution Rate (as of June 30, 2024)	8.40%	$ 764
Current Calculated ADC (as of June 30, 2024)	8.53%	$ 775
Level Percentage of Payroll at 7.00% Investment Assumption	9.94%	$ 904
Level Percentage of Payroll at 5.50% Investment Assumption	15.25%	$ 1,386

SOURCE: PEER analysis of CavMac Memo: *Actuarial Impact of House Bill 1 for Closure of the Supplemental Legislative Retirement Plan*, April 14, 2025.

Changes to the ORP

Actuary projections assume that future employment levels in ORP will remain at current levels (approximately 5,000) and are based on current payroll of $510 million. As a result:

- It is projected that approximately $19 million of total funding will be contributed toward paying down the UAAL in 2026. It is projected that this amount will increase by approximately $3 to $5 million per year.
- The PERS actuaries project that by FY 2056, approximately $105 million will be contributed to paying down the PERS system UAAL. This coupled with interest earned by these annual transfers will have a considerable impact on PERS's financial soundness.

Summary and Conclusions

Changes made to the PERS plan in the 2024 and 2025 sessions as well as changes made to SLRP and ORP in the 2025 Regular Session are significant. Currently, actuarial projections show promising potential for reducing plan liabilities over time. Reports PEER will produce over the next two years will provide a clearer picture of the impact these changes are having. This promise is predicated upon the plan(s) meeting all actuarial assumptions, including investment returns, which are not under the control of PERS or state policy makers.

A cautionary note relates to the impact the Tier Five changes could have on PERS. A recent article in Jackson's *Clarion-Ledger*[14] notes that some entities in the public sector are concerned that

[14] April 20, 2025, page 1.

changes in benefits could impact an employee's decision to commence a career in public service or remain in public service.

Further, there could be an issue to funding for the plan in the future. Employees choosing or not choosing to begin work, or remain working, in state government positions could impact both wage growth and the active member to retiree ratio. Both issues have been previously discussed in this report. The article also discussed another potential issue related to PERS.

As previously mentioned, the actuary's recommended ADC was 25.92% for FY 2024 while the Legislature's mandated employer contribution rate was 17.40% for FY 2024. It is possible that the PERS plan will require additional funding in future periods if the actuary opines that a higher ADC is required. Other employer groups in the PERS System (e.g., counties, municipalities, school districts) have made comments related to the prospective impacts that increases to the employer contribution rate will have on their entities. If funding increases become necessary in the future, decisions will have to be made on what employers will bear these costs increases. As the article highlights, many employers believe it will need to be the state that bears the burden.

The Legislature could consider future appropriations to PERS to potentially reduce the need for increases in the employer's share paid per covered position. The impact of providing a set sum could be reviewed annually by the PERS actuary to determine the amount needed to influence growth in the employer's contribution rate.

Appendix A: PERS Payroll Growth for FY 2019 through FY 2024

	Payroll for the Fiscal Year Ending June 30 (in thousands) †						Percentage Change
Employer Group	2019	2020	2021	2022	2023	2024	2019-2024
State Agencies	$1,063,711	$1,114,860	$1,076,040	$1,098,269	$1,222,668	$1,257,104	18.18%
State Universities	$1,006,586	$1,020,097	$996,451	$1,020,005	$1,124,528	$1,151,310	14.38%
Public Schools	$2,315,173	$2,387,606	$2,403,327	$2,522,339	$2,770,308	$2,826,796	22.10%
Community/Junior Colleges	$302,705	$299,391	$300,435	$298,907	$312,666	$322,834	6.65%
Counties	$506,733	$520,773	$572,144	$587,889	$638,592	$661,563	30.55%
Municipalities	$595,249	$600,156	$595,147	$626,517	$680,269	$704,160	18.30%
Other Political Subdivisions	$354,758	$344,559	$302,533	$300,834	$316,388	$322,056	-9.22%
Total Payroll Reported to PERS	$6,144,915	$6,287,442	$6,246,077	$6,454,760	$7,065,419	$7,245,823	17.92%
Actuarial Assumed Rate of PERS Plan Salary Growth	*	3.00%	2.65%	2.65%	2.65%	2.65%	
Actual Rate of PERS Plan Salary Growth	*	2.32%	-0.66%	3.34%	9.46%	2.55%	

† Payroll totals reported here have been rounded and may be different from the payroll figures reported on page 8.
* 2019 payroll data is for baseline comparisons only.

SOURCE: PERS annual valuations for years ending June 30, 2019, through June 30, 2024.

Appendix B: PERS Funding Policy Technical Appendix

Progress of the PERS plan's funding policy is tracked through the use of three metrics:

- the funded ratio;
- cash flow as a percentage of assets; and,
- the actuarially determined contribution.

These metrics are tracked through a tiered method called the "signal light" approach, in which each level of the predefined metric tranches is assigned a color and a definition (Exhibit B1).

Exhibit B1: PERS Funding Policy "Signal Light" Levels and Definitions

Status	Definition
Green	Plan passes metric and PERS funding goals and objectives are achieved.
Yellow	Plan passes metric but a warning is issued that negative experience may lead to failing status.
Red	Plan fails metric and PERS must consider contribution increases.

SOURCE: PERS Board of Trustees policy.

The new funding policy, like its most recent predecessor, also includes a provision that serves as a safety net for the plan. If any one of the metrics is in red signal-light status in conjunction with the annual valuation report and the projection report, the actuary will determine and recommend to the Board for its consideration an employer contribution rate increase that is sufficient to get all three metrics back into green signal-light status.[15]

Funded Ratio

The calculation of a plan's funding level is an accounting measure that quantifies the plan's ability to meet its projected future obligations, based on service already performed, with assets currently available.

This metric uses information from the 30-year projection reports developed by the plan's actuaries to assess the plan's funding level at a defined point in the future (for now, FY 2047).

Exhibit B2 presents the funding policy's defined channels for the funded ratio signal lights.

[15] Any resulting contribution rate increase would be effective for July 1, 18 months following the completion of the associated projection report. The delay allows the state, counties, municipalities, and political subdivisions ample time to incorporate the increase into their operating budgets.

Exhibit B2: Signal Light Definitions for Funded Ratio

Funded ratio above 80% in 2047.
Funded ratio between 65% and 80% in 2047.
Funded ratio below 65% in 2047.

SOURCE: PERS Board of Trustees policy.

For the year ended on June 30, 2024, the projected funding ratio in FY 2047 is 53.7% placing the PERS System in the red signal-light status.

As noted previously, one of the policy's goals is to maintain an increasing trend in the funded ratio over the projection period with an ultimate goal of being 100% funded. However, the use of a 100% funded ratio can be seen differently when used as a target of financial health versus a goal of a pension's funding policy.

Even with the assignment of being 80% funded as the threshold for green status, there is no industry statement or requirement for a pension plan's funding level to be at 80% to be defined as "healthy." Neither the Governmental Accounting Standards Board nor the American Academy of Actuaries uses an 80% funded ratio to define a plan as financially healthy.

Cash Flow as a Percentage of Assets

The PERS funding policy defines "cash flow as a percentage of assets" as the difference between total contributions coming into the trust and the benefit payments made to retirees and beneficiaries withdrawn from the trust as a percentage of beginning year market value of assets. The formula for cash flow as a percentage of assets also can be defined as follows:

$$\frac{Total\ Annual\ Contributions - Benefit\ Payments^{16}}{Beginning\ of\ Year\ Market\ Value\ of\ Assets}$$

For example, computing the cash flow as a percentage of assets for FY 2024 (in thousands) is calculated as follows:

$$\frac{(2{,}138{,}748 - 3{,}512{,}515)}{31{,}621{,}983} \text{ x } 100 = -4.34\%$$

PERS testing of cash flow as a percentage of assets is not only a point-in-time comparison for the current fiscal year, but it also will be evaluated over the entirety of the period reviewed during the actuary's 30-year projection report, with the lowest current or projected cash flow as a percentage of assets used as the metric result.

Exhibit B3 defines signal-light statuses for cash flow as a percentage of assets.

[16] For purposes of this calculation, PEER included any refunds made to inactive members as benefit payments.

Exhibit B3: Signal Light Definitions for Cash Flow as a Percentage of Assets

Net Cash Flow Percentage above –5.25% during the projection period.
Net Cash Flow Percentage between –5.25% and –7.00% during the projection period.
Net Cash Flow Percentage below –7.00% during the projection period.

NOTE: The targets utilized in this metric were adjusted during the April 2024 Board meeting to correspond with the approved changes in the plan's utilized investment return rate.

SOURCE: PERS Board of Trustees policy.

For the projection period, the lowest cash flow rate is –6.32% in FY 2038, which places the PERS plan in the yellow signal-light status for this metric.

The *Public Fund Survey* also provides data on cash flow as a percentage of assets. According to the November 2024 report, nearly all systems in the survey had a negative cash flow, and the median cash flow as a percentage of assets for plans in its survey, as of FY 2023, was –2.1%.[17] While this can be compared to the PERS result of –5.4% for FY 2023, it must also be noted that this is not a direct comparison. As discussed previously, PERS cash flow as a percentage of assets metric is not a point-in-time comparison (like the *Public Fund Survey*) but a measure over its full projection period, and the *Public Fund Survey* metric accounts for administrative expenses, while the PERS metric excludes administrative expenses from the calculation.

ADC/FCR Ratio

The ADC/FCR ratio is a comparison of the plan's actuarially determined contribution (ADC) and the plan's fixed contribution rate (FCR).

The plan's funding policy defines the ADC as the potential payment to the plan as determined by the actuary based on the following principal elements disclosed in the funding policy:

- actuarial cost method;
- asset valuation method; and,
- amortization method.

The purpose of the ADC is to provide a measure of the potential contribution rate necessary to allow the PERS plan to reach its funding goals within a 30-year period under the prescribed methods outlined in the Board's funding policy.

The plan's funding policy defines the FCR as the employer contribution rate set by the Board. [18]

The ADC/FCR ratio is determined by dividing the ADC calculated during the actuarial valuation for the fiscal year (typically released during the Board's December meeting) by the FCR set by the Board for the

[17] The *Public Fund Survey* cash flow as a percentage of assets figure also includes administrative expenses within plan outflows in its methodology.

[18] To help potentially limit annual fluctuations to members' and employers' contribution expenditures, the Board adopted funding policies that "fix" the employer contribution rate as a percentage of covered payroll.

same period. The results of this calculation will be compared to the signal-light levels described in Exhibit B4.

Exhibit B4: Signal Light Definitions for Actuarially Determined Contribution/Fixed Contribution Rate

For FY2024/FCR ratio at or below 100% of fixed contribution rate at valuation date.
ADC/FCR ratio between 100% and 110% of fixed contribution rate at valuation date.
ADC/FCR ratio above 110% of fixed contribution rate at valuation date.

SOURCE: PERS Board of Trustees policy.

For the fiscal year ended on June 30, 2024, the plan's ADC/FCR ratio was 130.3%, placing it in red signal-light status.[19] This indicates that the statutory rate set by the Legislature is smaller than the ADC, and the difference between these two figures, in the opinion of the plan's actuary, is outside the range established. It must also be noted that this result is calculated using the Legislatively mandated maximum rate that will not be reached until FY 2029. According to the plan actuary, CavMac, because the valuation and projection report is calculated using the Legislature's phased-in approach to raising the employer contribution rate from 17.40% to the targeted 19.90%, the full 19.90% contribution rate must be used in the calculation of the ADC/FCR ratio. The use of this rate could cause the ratio results to reflect a lower ADC/FCR ratio than what the PERS plan is currently experiencing.

According to the PERS funding policy, if any one metric is in the red signal-light status in conjunction with the annual valuation report and the projection report, the actuary will determine and recommend to the Board an employer contribution rate increase to consider that is sufficient enough to get all three funding policy metrics back into the green-light status.

Amortization Method Assumptions for the Actuarially Determined Contribution

A plan's amortization period is the length of time necessary for a plan's unfunded liabilities to be paid if all actuarial assumptions are met over that period. Under the Board's prior funding policy, the amortization period fluctuated, which was not an uncommon practice among plans. To help align the plan with actuarial standards of practice, the PERS Board, as advised by its actuarial consultants, adopted a layered amortization[20] for use in calculating the actuarially determined contribution.

Under a layered amortization approach, the Board has elected to amortize the plan's existing unfunded actuarial accrued liability balance (as of June 30, 2018) over a closed[21] 30-year amortization period and any future changes to the unfunded balance (i.e., actuarial gains/losses, assumption changes, and plan changes) over a closed 25-year amortization period. These amortization assumption methods pertain to the calculation for the ADC only.

[19] For the year ended on June 30, 2024, the plan's ADC was 25.92% and the plan's FCR was 19.90%.

[20] Layered amortization is the amortization of components of the UAAL over a separate fixed period as they emerge.

[21] A closed amortization period is a type of amortization period utilized by pension plans that results in the full amortization of specific items within a finite (or predefined) period (i.e., a traditional 30-year mortgage on a home).

Actuaries must have a component of the funding model that can be adjusted to account for asset changes. The PERS Board, in attempting to maintain its legislatively mandated rated of 19.90%, has elected to continue using the plan's amortization period as this variable. As discussed previously, the PERS plan's projected UAAL payment period, as of June 30, 2024, is 44.9 years.

Because the new amortization assumptions apply to the calculation of the ADC only, it is possible for the projected payment period of the plan to extend past the 30-year target included in the ADC calculation. To help ensure that the plan's projected payment period does not deviate too far from these assumptions, the Board's funding policy includes a metric that requires the comparison of the plan's fixed contribution rate to the ADC annually.

SOURCE: PEER analysis.

Appendix C: PERS Investment Management Fees, FY 2023 and FY 2024

Type	Manager	FY 2023 ($ in thousands)	FY 2024 ($ in Thousands)
Domestic Equity	Artisan	$1,806	$2,196
	Dimensional SC	$950	$955
	Eagle	$5,032	$5,860
	Northern Trust S & P	$248	$281
	Northern Trust (Russel)	$6	$0
	Northridge Domestic Equity	$2,085	$2,312
	Victory Middle Capital Markets	$1,953	$2,578
	Wellington NC	$91	$2,141
	Wellington SC	$2,093	$0
Debt Instruments	Alliance B Global	$1,768	$1,764
	Loomis Sayles	$1,921	$1,969
	Manulife asset Mngt	$955	$962
	Northern Trust BB	$89	$27
	PMCO Pacific	$950	$982
	PMCO Global	$1,775	$1,798
	Prudential	$1,481	$1,535
	Wellington	$2,829	$3,137
	Sit Short Duration	$0	$570
Global Equity	Acadian	$3,477	$3,863
	Epoch	$3,969	$4,343
	Harding Loevner	$3,369	$3,860
	LSV Global	$2,696	$3,500
	NT Global Equity	$16	$0
Non-US Equity	Arrowstreet	$3,700	$3,602
	Ballie Gifford	$2,523	$2,665
	Fisher Investments	$3,468	$3,835
	Lizard EM	$2,184	$2,274
	Marathon International	$4,557	$4,865
	Mondrian International SC	$2,079	$1,813
	Northern Trust Intl. SC	$0	$13
	Northern Trust MSCI World	$200	$229
	Principal Global SC Intl	$1,188	$1,336
Real Estate	Center Square	$666	$633
	Cohen and Steirs REIT	$650	$459
	AEW IX	$516	$321

	AEW VII	$25	$0
	AEW VIII	$128	$113
	AG Core Plus III	$16	$7
	AG Core Plus IV	$451	$397
	AG Core Value X	$737	$723
	AG Realty Value XI	$1,206	$1,002
	Hancock Timber	$607	$594
	Heltman III	$0	$0
	Heltman IV	$268	$218
	Heltman V	$283	$397
	Invesco RE IV	$50	$79
	Invesco RE V	$814	$815
	Invesco VA Fund VI	$243	$1,116
	Invesco US Income	$1,114	$3,183
	J.P. Morgen SPF	$3,871	$3,183
	Principal CF	$7,366	$6,513
	TA Realty X	$0	$0
	TA Realty XI	$416	$108
	TA Realty XII	$1,630	$1,354
	TA Realty XIII	$0	$1,165
	UBS TPF	$1,194	$1,878
	UBS TPG	$2,606	$2,194
	Westbrook Fund X	$234	$278
	Westbrook Fund XI	$768	$1,194
Private Equity	GCM Grosvenor 20	$1,154	$0
	GCM Grosvenor 20	$2,109	$0
	GCM Grosvenor 20	$2,049	$0
	GCM Grosvenor 09	$0	$1,051
	GCM Grosvenor 14	$0	$2,021
	GCM Grosvenor 18	$0	$2,100
	Pathway 2008	$1,532	$1,077
	Pathway 2013	$2,713	$2,363
	Pathway 2016	$3,705	$3,705
	Pathway 2021	$1,357	$2,005
	GCM Grosvenor PC 23	$0	$94

SOURCE: PERS staff and PERS FY 2023 and FY 2024 *Annual Comprehensive Financial Report.*

PERS
of MISSISSIPPI

Providing Benefits for Life

July 7, 2025

Mr. Ted Booth
Executive Director
Joint Committee on Performance Evaluation and Expenditure Review
Woolfolk Building, Suite 301-A
501 North West St.
Jackson, MS 39201

Dear Mr. Booth:

Thank you for the opportunity to review and meet with you on the draft of the PEER report titled *2024 Update on Financial Soundness of the Public Employees' Retirement System*. We provided minor feedback, but overall, we feel this is an accurate report that generally reconciles with our information.

However, in addition to Tier 5 and other reforms, PERS still needs additional funding more in line with actuarial recommendations. As noted in the report, the actuarially determined contribution (ADC) was last calculated at 25.92% of payroll, which the PERS Board recommended to the legislature. Likewise, the Board has incorporated the ADC as policy for the future. We also appreciate the possibility of various funding streams or proposals for PERS and are hopeful about the next session.

Again, we appreciate the review and your continued support of PERS. Please contact me at 601-359-2241 if you need further information. Thank you.

Sincerely,

H. Ray Higgins, Jr.
Executive Director

H. Ray Higgins, Jr. *Executive Director*

Board of Trustees:

Bill Benson *County Employees, Chair*
George Dale *Retirees, Vice Chair*
Kelly Breland *State Employees*
Kimberly Hanna *Municipal Employees*
Chris Graham *Gubernatorial Appointee*
Randy D. McCoy *Retirees*
David McRae *State Treasurer*
Brian Rutledge *Institutions of Higher Learning Employees*
Jay Smith *Public Schools Community/Jr. Colleges*
Terrance Yarbrough *State Employees*

Public Employees' Retirement System of Mississippi
429 Mississippi Street, Jackson, MS 39201-1005 601.359.3589 800.444.PERS www.pers.ms.gov

James F. (Ted) Booth, Executive Director

Reapportionment
Ben Collins

Administration
Kirby Arinder
Stephanie Harris
Gale Taylor

Quality Assurance and Reporting
Tracy Bobo
Bryan "Jay" Giles

Performance Evaluation
Lonnie Edgar, Deputy Director
Jennifer Sebren, Deputy Director
Taylor Burns
Emily Cloys
Kim Cummins
Kelsi Ford
Rucell Harris
Matthew Holmes
Chelsey Little
Debra Monroe
Ryan Morgan
Meri Clare Ringer
Sarah Williamson
Julie Winkeljohn