

Joint Committee on Performance Evaluation and Expenditure Review (PEER)
The Mississippi Legislature



Action Brief:

The Public Employees' Retirement System: 2015 Update on Financial Soundness, Delays in Application Processing, and Legal Issues
December 15, 2015 (Report #601)

Background:

The majority of Mississippi public employees and/or their beneficiaries receive their retirement benefits from the Mississippi Public Employees' Retirement System (PERS). State law requires PEER to report to the Legislature on the financial soundness of PERS.

"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.

This report provides a concise overview of where the system currently stands financially, looks into the recent delays in processing of applications for service retirement benefits, and provides an update on recent legal actions involving states' attempts to modify retirement benefits for pension systems' members and retirees.

Report Conclusions

The PERS Board of Trustees recently made changes in the PERS plan's actuarial assumptions that became effective July 1, 2015. These changes were made in response to the most recent experience study conducted by the board's actuarial firm.

The following are brief updates on the PERS plan's actuarial soundness, sustainability, risk management, and investment management, including any effects from the recent changes in actuarial assumptions.

Actuarial Soundness--The cumulative effect of the changes for the FY 2015 valuation was a one-time increase to the unfunded actuarial accrued liability of \$1.8 billion.

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

Risk Management--The PERS funding ratio is now 60.4%, a decrease from 61.0% as of June 30, 2014. Actuarial projections show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will still be achieved.

Investment Management--For Fiscal Year 2015, the PERS plan's combined investment portfolio experienced a return of 3.5% and the market value of the system's assets was approximately \$24.8 billion. For Fiscal Year 2015, the PERS Board of Trustees continued to adhere to the asset allocation model put in place in July 2013.

The recent delays in PERS's processing of applications for service retirement benefits may be attributed to a combination of three factors: the transition to a new pension administration system, employee turnover in key positions, and the timing of the implementation in conjunction with the annual peak volume of applications for retirement service benefits.

PERS recommends that members file for benefits ninety days in advance of their anticipated retirement date and notes that under normal operating conditions the processing of applications for service retirement benefits may be completed in as short a time as thirty days. However, from March 2015 through September 2015, PERS experienced delays in the processing of applications for service retirement benefits. According to PERS estimates, approximately 2,000 applications from that period were affected, experiencing processing times that did not allow for the completion of the applications within the ninety-day period recommended by PERS.

According to PERS staff, as of September 15, 2015, all of the delayed applications for service retirement benefits had been processed. All applicants who completed the retirement process by submitting the required documents have been added to the retirement payroll (with payments retroactive to the initially stated date of retirement).

Regarding recent legal actions related to PERS, while some cases in other jurisdictions that PEER has reported on in the past few years have allowed modification of benefits for system members and employees, the trend seems to favor protecting the benefits of employees. At this point, even cost-of-living adjustments (COLAs) are likely to be protected when retirees can show that law or regulations created a reasonable expectation that a certain COLA would be payable.

Regarding recent legal actions, several states' legislative bodies have enacted laws changing their retirement systems' contribution rates, the number of years to retirement, and the value of service credit. In some instances, employees or unions have objected to the changes and sought judicial relief by asserting that the changes violated state and federal constitutional provisions. In the cases litigated and detailed in this report, the contractual rights of employees and retirees have generally been upheld. Some jurisdictions take a more restrictive view of contractual rights than do others.

Also, several litigants have challenged the calculation of COLAs. Jurisdictions have split on the issue of whether COLAs are a constitutionally protected contractual or property right.

For more information, contact:

*PEER Committee
P.O. Box 1204
Jackson, MS 39215-1204*

*(601) 359-1226
www.peer.state.ms.us*

*Representative Becky Currie, Chair
James A. Barber, Executive Director*