Report to the Mississippi Legislature

# 2016 Update on Financial Soundness of the Public Employees' Retirement System and Status of the Mississippi Highway Safety Patrol Retirement System Plan

#607
January 23, 2017

PEER
MISSISSIPPI
Joint Legislative Committee on Performance
Evaluation and Expenditure Review

## PEER: The Mississippi Legislature's Oversight Agency

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 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, special investigations, briefings to individual legislators, testimony, 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, and the agency examined.

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.

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The Mississippi Legislature

# Joint Committee on Performance Evaluation and Expenditure Review

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Honorable Philip Gunn, Speaker of the House
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On January 23, 2017, the PEER Committee authorized release of the report titled *2016 Update on Financial Soundness of the Public Employees' Retirement System and Status of the Mississippi Highway Safety Patrol Retirement System Plan.*

Richard Bennett

Representative Richard Bennett, Chair

**This report does not recommend increased funding or additional staff.**

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# 2016 Update on Financial Soundness of the Public Employees' Retirement System and Status of the Mississippi Highway Safety Patrol Retirement System Plan

## Executive Summary

### Introduction

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

The 2016 report includes an update on the financial performance of the system and projected funding levels.

The report also includes certain information concerning the Mississippi Highway Safety Patrol Retirement System.

### Background

#### Overview of the Public Employees' Retirement System

Mississippi's retirement system currently consists of six plans, or programs:

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

All assets, proceeds, and income of the system as defined here are held in trust for the exclusive purpose of providing benefit payments and refunds and providing for the system's administrative expenses. Assets of the various plans, excluding the MDC and ORP are invested collectively at the direction of the PERS Board of Trustees and their advisors. Assets of each member of the MDC and ORP are invested at the direction of the member.

## Overview of the Public Employees' Retirement System

All of the plans described in the preceding section are under the administration of the 10-member PERS Board of Trustees created in MISS. CODE ANN. § 25-11-15 (1972). Board members administer the laws governing the various benefit plans, adopt rules and regulations necessary to implement policies enacted by the Legislature, address federal issues, and work with both state and federal bodies.

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

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. § 25-11-121 provides guidelines and limitations on the types of assets the PERS Board may use as investments for the PERS plan.

# Update on Financial Soundness of PERS

## Actuarial Soundness and Sustainability

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

### *Update: PERS Actuarial Soundness*

Over the past five- and 10-year periods, the PERS actual average annual payroll increase has fallen below the actuarial model's projected 3.75% rate of salary increase. Although the PERS Board adopted changes based on its most recent experience studies (as of June 30, 2012, and June 30, 2014), which help PERS actuarial assumptions align more closely with actual experience, continued analysis of variation between actual and assumed is warranted.

From FY 2006 through FY 2016, the ratio of active members to retired members has decreased by approximately one-third, driven by the increasing number of retirees and the decreasing number of active members. A lower number of active members to retired members results in funding future pension obligations over the payroll of fewer active members.

### *Update: PERS Sustainability*

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

## Risk Management and Investment Management

Risk management and investment management should provide a long-term framework for the system that will 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.

### *Update: PERS Risk Management*

As of June 30, 2016, the PERS funding ratio was 60%, a decrease from 60.4% as of June 30, 2015. This reduction in the funding ratio is due to the variation of actual experience from model assumptions in investment returns, service retirements, and separations. Actuarial projections provided by Cavanaugh Macdonald show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will not be achieved.

### *Update: PERS Investment Management*

For fiscal year 2016 the PERS plan's combined investment portfolio experienced a return of 1.16%, and the market value of the system's assets was approximately $24.5 billion.

For fiscal year 2016 the PERS Board of Trustees adopted changes to the asset allocation model, reducing the target for U.S. investment by 3% and increasing the target for global investment by 3%. These changes bring the PERS model more in line with the portfolio benchmark, the All Country World Index.

## Funding Level of the Mississippi Highway Safety Patrol Retirement System Plan

The Mississippi Highway Safety Patrol Retirement System is a defined benefit retirement plan created for the benefit of Highway Safety Patrol sworn officers. The MHSPRS Administrative Board makes rules and regulations necessary for the efficient, orderly, and successful operation of the plan, with the approval of the Attorney General. The PERS Board acts as custodian for the MHSPRS assets and the PERS staff provides administrative support for the plan.

As of June 30, 2016, the MHSPRS plan's funding ratio was 65.8%, a slight decrease from 66.2% as of June 30, 2015. According to projections as of June 30, 2016, the MHSPRS plan's funding level was projected to be 51.6% in 2042, putting it below the 60% threshold set in the current funding policy.

In light of the current funding status of the plan, there are many options available that can be considered to address the future of the plan. Regardless of which options the MHSPRS Board and the Legislature consider for addressing the current funding status of the plan, it is clear that the funding status of the plan will need to be addressed in the near future.

**For more information or clarification, contact:**

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# 2016 Update on Financial Soundness of the Public Employees' Retirement System and Status of the Mississippi Highway Safety Patrol Retirement System Plan

## Introduction

### Authority, Scope, and Purpose

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

The 2016 report includes an update on the financial performance of the system and projected funding levels.

The report also includes certain information concerning the Mississippi Highway Safety Patrol Retirement System (MHSPRS).

### Method

To conduct this assessment, PEER

- reviewed financial reports of the Public Employees' Retirement System;
- reviewed actuarial reports and projections prepared for PERS;
- reviewed investment assessments prepared for PERS; and
- interviewed personnel of the Public Employees' Retirement System.

# Background

Like all other states in the country, Mississippi provides a retirement system for public employees of the state; and, as in most states, this plan is 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 the Public Employees' Retirement System, and
- the composition and responsibilities of the PERS Board of Trustees.

## Overview of the Public Employees' Retirement System

Under MISS. CODE ANN. § 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.

Mississippi's retirement system currently consists of six plans, or programs:

- The Public Employees' Retirement System of Mississippi (PERS) is a defined benefits[1] retirement plan for state agencies, counties, cities, school districts, and other participating political subdivisions.
- The Mississippi Highway Safety Patrol Retirement System (MHSPRS) is a defined benefits retirement plan designed exclusively for Highway Safety Patrol sworn officers.
- The Mississippi Government Employees' Deferred Compensation Plan and Trust (MDC) is an IRS Section 457(b)[2] voluntary government employees' deferred compensation plan.[3]
- Municipal Retirement Systems (MRS) are retirement plans created by certain municipalities that transferred their administration to the PERS Board and closed[4] membership to new employees.
- The Supplemental Legislative Retirement Plan (SLRP) is designed to supplement the benefits provided to members of

[1]Defined benefit plans, the most prevalent type of plan used by public employers, pay retired employees, or their beneficiaries, a defined amount through a calculation based on the plan's benefits and the employee's salary and years of service.
[2]Plans eligible under IRS Section 457(b) allow employees of sponsoring organizations (state and local governments and some nongovernmental entities) to defer income taxation on up to $18,000 (for FY 2016) of retirement contributions.
[3]MDC is sponsored by the State of Mississippi and administered by PERS. PERS contracts with Empower Retirement (the nation's second-largest retirement services company) as a third-party administrator to perform recordkeeping and administrative functions.
[4]As of 1987, all new hires of municipality plans in positions formerly covered by MRS have become members of PERS.

the Legislature by PERS. It is funded by separate employee and employer contributions in addition to contributions to the PERS plan.

- The Optional Retirement Plan (ORP) is a 401(a) defined contribution plan[5] that certain teaching and administrative faculty at the state's universities can elect to join in lieu of becoming members of PERS.

All assets, proceeds, and income of the system as defined here are held in trust (as provided for in Mississippi Constitution Section 272A) for the exclusive purpose of providing benefit payments and refunds and providing for the system's administrative expenses. Assets of the various plans, excluding the MDC and ORP are invested collectively at the direction of the PERS Board of Trustees and their advisors. Assets of each member of the MDC and ORP are invested at the direction of the member.

## Composition and Role of the PERS Board of Trustees

All of the plans described in the preceding section are under the administration of the 10-member PERS Board of Trustees created in MISS. CODE ANN. § 25-11-15 (1972). In addition to administrative support provided by the PERS Board and staff, the MHSPRS is governed by its own administrative board (see pages 16–19 for further information).

### Composition of the PERS Board of Trustees

The current membership of the PERS Board includes

- the State Treasurer,
- a gubernatorial representative,
- two state employees,
- one municipal employee,
- one county employee,
- one IHL employee,
- one public school/junior college employee, and
- two retiree members of the PERS system.

With the exception of the State Treasurer and the Governor's appointee, all trustees are elected by the various constituency employee groups (i.e., state municipal, county, institutions of higher learning, public schools and junior colleges, and retirees).

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

[5]The ORP is a defined contribution plan that has fixed employee and employer contributions. These contributions are the sole financial requirement of the employer.

PERS Board members administer the laws governing the various benefit plans, adopt rules and regulations necessary to implement policies enacted by the Legislature, address federal issues, and work with both state and federal bodies.

## Role of the PERS Board of Trustees

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

For FY 2016 the PERS Board continued its contractual relationship with Cavanaugh Macdonald Consulting, LLC, a nationwide actuarial and health-care consulting firm that works with state and municipal retirement systems in 23 states.

In addition to annual valuation and projection reports, the PERS Board reviews the experience of the various plans to the assumed courses and adjusts, as necessary, the various assumptions for ensuring adequate funding.

The PERS Board also contracts with an investment consultant to provide asset-liability studies, investment performance measurements, and economic updates. The PERS Board currently contracts with Callan Associates, Inc., one of the nation's largest independently owned investment consulting firms.

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. § 25-11-121 provides guidelines and limitations on the types of assets the PERS Board may use as investments for the PERS plan. For more detail on this Code section, please see Appendix on page 20.

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

"Financial soundness" should be defined not as a point-in-time comparison of assets and liabilities, but as a multifaceted 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.

The Public Employees' Retirement System Board has adopted and implemented policies and procedures that allow it to address the major areas that contribute to the plan's financial well-being and to carry out its fiduciary responsibilities to its active members and retirees. These policies and procedures fall into the following areas:

- actuarial soundness and sustainability; and
- risk and investment management.

This chapter will discuss each of these areas, highlight relevant activity and changes to PERS for the past fiscal year, and discuss future projections.

## Actuarial Soundness and Sustainability

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

### Actuarial Soundness

*Over the past five- and 10-year periods, the PERS actual average annual payroll increase has fallen below the actuarial model's projected 3.75% rate of salary increase. Additionally, from FY 2006 through FY 2016, the ratio of active members to retired members has decreased by approximately one-third, driven by the increasing number of retirees and the decreasing number of active members.*

The PERS Board, in consultation with its actuaries, creates an actuarial model based on such assumptions as projected investment returns, payroll increases, inflation, retirement ages, mortality rates, marriage rate, and accrued leave to project the system'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 advisors, 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 system's assets and annual actuarial updates in conjunction with annual projections and biennial experience reports.

## Wage Inflation Assumption

*Over the past five- and 10-year periods, the PERS actual average annual payroll increase has fallen below the actuarial model's projected 3.75% rate of salary increase. Although the PERS Board adopted changes based on its most recent experience studies (as of June 30, 2012, and June 30, 2014), which help PERS actuarial assumptions align more closely with actual experience, continued analysis of variation between actual and assumed is warranted.*

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 contributed annually for investment to meet future plan liabilities and the calculation of the amount of future plan liabilities.

The PERS system receives employee and employer contributions[6] 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).

The wage inflation assumption is composed of the impact of inflation and the real rate of wage inflation, which seeks to account for the overall increases in the value of labor over time. Currently, the PERS plan assumes a wage inflation rate of 3.75% annually.

For the periods FY 2012 through FY 2016 and FY 2007 through FY 2016, the PERS average annual payroll increase has fallen below the projected 3.75% annual rate of salary increase. For the past 10 fiscal years, the average annual payroll increase was 1.97%, and during the past five fiscal years the average annual payroll increase was 1.17%.

For FY 2016 alone, PERS experienced salary growth of 1.99%, primarily the result of the approximately 3.96% increase in salaries to employees of state universities and the approximately

[6]The current rate each employee and his or her employer must contribute to PERS is 9% and 15.75% of the total employee's salary, respectively.

2% increase in salaries to public school district employees. Salaries of employees of state agencies, which represented approximately 18% of PERS-covered salaries, experienced an increase of 0.87% for FY 2016.

Employee and employer contributions represent an important component of the PERS plan funding structure. According to the 2016 Pensionomics report on Mississippi from the National Institute on Retirement Security,[7] for the 10-year period ended June 30, 2014, approximately 45% of PERS revenue came from contributions.

*An Update on the Financial Soundness of the Mississippi Public Employees' Retirement System and Related Legal Issues: 2014* (PEER Report #591, January 5, 2015) noted that PERS actuaries stated that payroll growth (either through increases in existing salaries or through the creation of new positions) that is less than expected can cause upward pressure on the amortization period attributed to the unfunded accrued liability. However, the upward pressure on the unfunded accrued liability may be partially or totally offset due to the decrease in the amount of future liabilities resulting from a lower payroll amount than assumed in the actuarial model.

The PERS Board adopted changes based on its most recent experience studies (as of June 30, 2012, and June 30, 2014), which help PERS actuarial assumptions align more closely with actual experience. For example, as a recommendation of the June 30, 2014 experience study, the PERS Board adopted changes to the wage inflation assumption, reducing the assumption from 4.25% to 3.75%.[8] In addition, the PERS Board adopted changes to all eight sections of service experience for male and female members.

Although the PERS Board has made changes to the actuarial assumptions in the past, continued analysis between actual and assumed is warranted.

The actuary will perform an experience study as of June 30, 2016, and present the study's results and any recommended plan modifications to the PERS Board at its April 2017 meeting. These recommendations will be based on both state and national information, including historical information, future-looking national projections, and actual state experience.

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[7]The National Institute on Retirement Security is a nonprofit research and education organization established to contribute to informed policymaking by fostering an understanding of the value of retirement security to employees, employers, and the economy.
[8]The price inflation assumption was reduced from 3.5% to 3%, and the real rate of wage growth remained at 0.75%, resulting in a total wage inflation assumption of 3.75%.

## Active and Retired Employee Assumptions

*From FY 2006 through FY 2016, the ratio of active members to retired members has decreased by approximately one-third, driven by the increasing number of retirees and the decreasing number of active members. A lower number of active members to retired members results in funding future pension obligations over the payroll of fewer active members.*

The PERS plan, and all other plans administered by the PERS Board, have three types of members: active, inactive, and retired. Each type of member is considered within the actuarial model of the plans; however, because liabilities associated with inactive members account for only 0.93% of the overall PERS plan's present value of future benefits, active and retired members and the ratio between them are of primary importance. As shown in Exhibit 1 on page 9, the ratio of active members to retired members in the PERS plan fell from 2.27:1 in FY 2006 to 1.52:1 in FY 2016, or approximately one-third. The declining ratio is attributable to a decrease in the number of active members and an increase in the number of retired members. This results in funding future pension obligations over the payroll of fewer active members, a factor made more important because contributions from active members and their employers make up approximately 48% of PERS revenues (as of FY 2016).

Active PERS members are current employees who are contributing to the plan through monthly withholding from pay. As noted previously, employee contributions represent an important revenue stream to the plan. As they continue to work, active members accrue service credits that will be used in calculating their annual payment when they become eligible to receive retirement benefits. The plan accounts for the cost of these accruals (the normal costs[9]) and funds them on a yearly basis through both employee and employer contributions.

Retired PERS members are individuals who are no longer working in a PERS-covered position and have begun receiving payments based on their retirement calculations. Inactive members no longer work in a PERS-covered position and have not retired or received a refund of their contributions. Inactive members retain their right to future benefits either as a refund with interest of their contributions or if vested, a deferred retirement benefit.

[9]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. Since 2013, PERS has included an estimated budgeted administrative expense of 0.23% of payroll in the normal cost calculation.

## Exhibit 1: PERS Active and Retiree Members for FY 2006 through FY 2016 (in thousands)

| Member Type | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Active | 159 | 164 | 167 | 168 | 166 | 162 | 163 | 162 | 162 | 158 | 155 |
| Retiree | 70 | 74 | 76 | 79 | 82 | 86 | 90 | 93 | 96 | 99 | 102 |
| Ratio | 2.27 | 2.22 | 2.20 | 2.13 | 2.02 | 1.88 | 1.81 | 1.74 | 1.69 | 1.60 | 1.52 |

SOURCE: PERS FY 2016 Facts and Figures.

Although the PERS ratio of active members to retired members has declined over the past 10 fiscal years, the PERS active member to retired member ratio of 1.60:1 at the end of FY 2015 was above the average ratio for other pension plans across the nation. According to the December 2016 report of the Public Fund Survey,[10] when looking at the membership of the pension plans tracked by the database, the overall active to retiree ratio is 1.44:1 as of the end of FY 2015, the most recent nationwide information available. This indicates that PERS has a higher ratio of members paying into the plan compared to retirees than the average pension plan in the United States.

Additionally, the Public Fund Survey stated that a lower ratio of active members to retired members results in funding future obligations over a smaller payroll base, and although a declining active members to retired members ratio does not automatically pose an actuarial or financial problem, such a decline may increase financial pressures on a pension system provider.

As with all of the actuarial model's assumptions, the assumptions for active and retired members are evaluated every two years during the PERS board's experience study. The PERS Board adopted changes based on its most recent experience studies (as of June 30, 2012, and June 30, 2014), which help PERS actuarial assumptions align more closely with actual experience. For example, based on the recommendations included in the experience study as of June 30, 2014, the PERS Board adopted changes to demographic assumptions for male and female members in the areas of rates of disability retirement and rates of service retirements for members with fewer than 25 years of service and more than 25 years of service.[11]

Continued analysis of the assumptions for active and retired members is warranted as well. Results from an experience study

[10]The Public Funds Survey is an online compendium of key characteristics of 126 of the nation's largest public retirement systems. The survey is sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement.
[11]The demographic assumption rate changes for service retirements also apply to Tier IV members, except the 25 years of service breakpoint is set at 30 years.

as of June 30, 2016, will be presented along with any recommended actuarial modifications to the PERS Board at its April 2017 meeting.

## Sustainability

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

To help address the past volatility of the employer contribution rate, the PERS Board of Trustees adopted a funding policy in October 2012, modified in December 2013, that changed the employer contribution rate percentage from an annually calculated actuarial valuation to a fixed rate of 15.75% of annual compensation. For the five fiscal years prior to the implementation of that change in FY 2014 (FY 2009 through FY 2013), the employer contribution rate changed in four of the five years and rose from 11.85% to 14.26%.

The revised funding policy also targets an 80% funding level by 2042 while still reducing the plan's unfunded actuarial accrued liability. In addition to reducing the unfunded accrued liability, PEER notes that this funding policy change should result in more long-term sustainability within the system.

As of June 30, 2016, the PERS anticipated accrued liability payment period[12] was 36.6 years, an increase from 33.9 years as of June 30, 2015. The PERS independent actuarial advisor attributes the increase primarily to more members retiring than the model projected, lower than projected investment returns, and lower than projected withdrawals resulting from separation of service. Also, the increase in the accrued liability payment period was also partially due to the recognition of losses in three of the past five fiscal years in the actuarial valuation of assets. By using the accepted practice of actuarial value of assets, PERS recognizes actuarial investment gains and losses[13] 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 2016, actuarially smoothed investment returns were $263 million below the actuarial projected returns for FY 2012 through FY 2016.

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[12]The *accrued liability payment period* is the estimated length of time under current actuarial assumptions that is required to pay the unfunded accrued liability. An *unfunded accrued liability* occurs when the total of present value of future benefits associated with prior years' service and the present value of future administrative costs is greater than the actuarial present value of the system's current assets.
[13]The actuarial value of PERS investments is calculated on a five-year smoothing average in which gains and losses are recognized over five years.

The PERS independent actuarial advisors also note that the accrued liability payment period increase was slightly offset by the recognition of a change in the model's assumption for the interest rate applied to balances in employee contribution accounts.

MISS. CODE ANN. § 25-11-121(7) (1972) charges the PERS Board with setting the interest rate used to credit regular interest to the accumulated contributions of each member's annuity account. The balance in this account represents the sum of each member's contributions to PERS (amounts deducted from their compensation, currently set at 9%) and any interest previously earned on the balance of this account.

Beginning July 1, 2016 (FY 2017), and following in subsequent years, the interest rate credited on the accumulated contributions of a member's account shall be calculated based on the money market rate as published by *The Wall Street Journal* on December 31 of each preceding year with a minimum rate of 1% and a maximum rate of 5%.

For fiscal year 2017 the "regular interest" rate is set at 1% per annum and will be evaluated again prior to the beginning of fiscal year 2018. Prior to this change, from fiscal years 1997 through 2016, the interest rate was 3.5% per annum. The new interest rate setting policy indexes the interest rate and brings it more in line with current market rates.

## Risk Management and Investment Management

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

Risk management and investment management are the other major contributing factors of financial soundness. Risk management and investment management seek to provide a long-term framework for the system 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

*As of June 30, 2016, the PERS funding ratio was 60%, a decrease from 60.4% as of June 30, 2015. This reduction in the funding ratio is due to the variation of actual experience from model assumptions in investment returns, service retirements, and separations. Actuarial projections provided by Cavanaugh Macdonald show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will not be achieved.*

To calculate 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 determined. 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 (the funding level) is derived.

The calculation of a plan's funding level is an accounting measure that quantifies the plan's ability to meet its projected future obligations with assets currently available. However, this measure, like most accounting measures, assesses the plan in a conservative manner and does not take into account such items as future investment growth or contributions from employees and the state. Additionally, this measure also does not reflect the ability of the plan to meet its current obligations.

For FY 2016 the actuarial value of assets in PERS decreased in relation to the actuarial value of its liabilities—from 60.4% in FY 2015 to 60% in FY 2016. The relationship between these two valuations weakened because actual experience varied from model assumptions regarding investment returns, service retirements, and separations. The actuarial gain on investments for FY 2016 was 7.19%, which represents the actuarial smoothing of gains and losses for the period of FY 2012 through FY 2016.

According to projections as of June 30, 2016, the plan's funding ratio was projected to be 63.9% by 2042, as compared to 80.6% as reported for FY 2015. This difference is also primarily due to the variation of actual experience from model assumptions in lower investment returns, earlier service retirements, and fewer separations. Projections as of June 30, 2016, show that the PERS Board's originally adopted model's funding goals of an 80% minimum funding ratio in 2042 will not be achieved.

Current PERS policy states that if the plan's funding ratio is projected to be less than 60% in 2042 or if the funding ratio is projected to be less than 75% following two consecutive annual actuarial valuations, a contribution rate increase will be determined that is sufficient to generate a funding ratio of 85% in 2042. Based on the FY 2016 projections, the funding level is projected to remain above 60% in 2042. However, these projections also estimate that the projected funding level will be below 75% in 2042. Because FY 2016 was the first year in which projected funding levels in 2042 were anticipated to be below 75%, the PERS Board plans to monitor future annual funding projections to determine if a change in the funding structure is warranted.

For the projected information to be accurate, all actuarial assumptions used in the projection must be met exactly for all fiscal years forecasted. As past performance shows, this mark can be missed on both the high and low sides, creating variability from the model.

## Investment Management

*For fiscal year 2016 the PERS plan's combined investment portfolio experienced a return of 1.16%, and the market value of the system's assets was approximately $24.5 billion.*

Despite realizing a return of approximately 1.16% in the PERS plan's combined investment portfolio, the market value of assets was down approximately $0.7 billion from FY 2015.

According to investment consultants Callan Associates Inc., PERS investment performance for FY 2016 placed it above the median return for its peer group[14] of 0.78%. Although PERS outperformed similar plans, its returns were below current actuarial model's targeted investment return of 7.75% annually. During the past 10 years, the PERS investment return on assets averaged 5.93%. Investment returns ranged from a negative 19.4% during FY 2009 to 25.4% during FY 2011. Historically, PERS investment returns have averaged 6.95% during the past 20 years, 7.91% over the past 25 years, and 8.19% over the past 30 years.

According to the December 2016 report of the Public Funds Survey, the median public pension annualized investment 10-year return for the period ending December 31, 2015, was 5.8% and the 25-year return was 8.3%.[15] PERS investment returns have exceeded the median for other public pension plans over the past 10 years and are below the investment return experience of public pension funds over the past 25 years. 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.

The PERS projected investment rate of return of 7.75% is comparable to other state and local pensions' projected investment rate of return.[16] Additional information from the Public Funds Survey's December 2016 report, shows overall projected investment rates of return have trended downward over approximately the past 15 years, with the median projected investment rate of return now at 7.50%.

Because investment returns are the largest piece of a pension's projected assets, when actual returns fall below projections, over time the plan must lean on other sources (contributions) to cover the difference, which could lead to decreases in the plan's assets. The PERS Board and its independent actuarial advisor plan to continue to monitor the investment return assumption in future years in an effort to ensure that the investment return assumption accurately reflects market conditions and the system's investment allocation model.

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

[15]At the time of publication of this report, the Public Funds Survey had not released information for the period ending June 30, 2016.

[16]In conjunction with the June 2014 experience study, the PERS Board reduced the investment return assumption from 8.00% to 7.75%. This adjustment reflects a decrease in the price inflation assumption from 3.50% to 3.00% and an increase from 4.50% to 4.75% for the real rate of return.

*For fiscal year 2016 the PERS Board of Trustees adopted changes to the asset allocation model, reducing the target for U.S. investment by 3% and increasing the target for global investment by 3%. These changes bring the PERS model more in line with the portfolio benchmark, the All Country World Index.*

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 fiscal year 2016 the PERS Board of Trustees adopted changes to the asset allocation model put in place in July 2013, reducing the target of U.S. Equity investment 3% (from 30% to 27%) and increasing the target for Global Equity investment 3% (from 9% to 12%).

These changes to the asset allocation model's structure move the PERS overall portfolio exposure to 54% U.S. Equity and 46% non-U.S. Equity, closer to the portfolio benchmark. As of June 2016, the plan's global equity benchmark, the All Country World Index, showed a capitalization weighting of 53% in U.S. Equity and 47% in non-U.S. Equity investments.

It must be noted that although the changes to the asset allocation model reduce targeted investment in the United States, the increase in global investment will place the assets with managers whose mandate allows them to invest in any global market (including the United States).

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 portfolio as a whole.

The PERS Board of Trustees 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 performance of each investment manager relative to their asset class's target performance level is reviewed.

Exhibit 2 shows the actual 2016 investment allocation compared to the model.

### Exhibit 2: PERS Actual Asset Allocation Compared to Allocation Model, as of June 30, 2016

| Year | U. S. Equity | Non-U.S. Equity | Debt Investments | Real Estate | Private Equity | Global Equity | Cash |
|---|---|---|---|---|---|---|---|
| Model | 27% | 22% | 20% | 10% | 8% | 12% | 1% |
| 2016 | 33% | 20% | 20% | 11% | 7% | 8% | 1% |

SOURCE: Callan Associates Inc.

Instances in which current investment levels are not in agreement with the model do not automatically constitute a cause for alarm or create 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, advisors, and its professional staff.

# Mississippi Highway Safety Patrol Retirement System Plan

As previously stated, PEER is required to review the PERS plan as a component of the overall Public Employees' Retirement System. While reviewing information relating to the PERS plan, the PEER Committee noted certain information concerning the Mississippi Highway Safety Patrol Retirement System that it believed to be relevant and worthy of inclusion in this report.

This chapter looks at

- an administrative overview of the Mississippi Highway Safety Patrol Retirement System plan;
- the funding level of the Mississippi Highway Safety Patrol Retirement System plan.

## Administrative Overview of the Mississippi Highway Safety Patrol Retirement System Plan

**The Mississippi Highway Safety Patrol Retirement System is a defined benefit retirement plan created for the benefit of Highway Safety Patrol sworn officers. The MHSPRS Administrative Board makes rules and regulations necessary for the efficient, orderly, and successful operation of the plan, with the approval of the Attorney General. The PERS Board acts as custodian for MHSPRS assets and the PERS staff provide administrative support for the plan.**

The Mississippi Highway Safety Patrol Retirement System (MHSPRS) is a defined benefit retirement plan created in 1958 by the Legislature under MISS. CODE ANN. § 25-13-1 et seq. (1972). Employees of the Mississippi Highway Safety Patrol are state employees, and, as such, would be covered under PERS. However, the Legislature created this separate retirement plan as a substitute plan to provide more liberal benefits for Highway Safety Patrol sworn officers because of the dangerous nature of their employment.

The MHSPRS is a separate retirement plan, meaning it has its own assets, investments held in trust for the exclusive use of its members and their beneficiaries, and its own liabilities.

As a separate plan, the MHSPRS has its own administrative board that was created under MISS. CODE ANN. §25-13-25 as follows:

> *There is established an administrative board for the Mississippi Highway Safety Patrol Retirement System, which shall be composed of the Commissioner of Public Safety, four active members of the retirement system elected by the active members of the system, and one retired member of the retirement system elected by the retired members of the system.*

The MHSPRS has added further structure to the four active membership positions of the administrative board, with the overall composition of the PERS Board now, including the following:

- the Commissioner of Public Safety;
- an MHSPRS retiree representative;
- a representative from highway patrol headquarters; and
- one representative from each highway patrol region (North, Central, and South).

In accordance with MISS. CODE ANN. § 25-13-25, the MHSPRS Administrative Board makes rules and regulations necessary for the efficient, orderly, and successful operation of the plan with the approval of the Attorney General.

Whereas the MHSPRS is a separate plan, as has been described, MISS. CODE ANN. § 25-13-7 directs the PERS Board to be the custodian of the plan assets. These assets are invested collectively with assets from all plans under PERS Board administration. The Code further directs the PERS Board to provide administrative support for the operation of the plan.[17]

## Funding Level of the Mississippi Highway Safety Patrol Retirement System Plan

**As of June 30, 2016, the Mississippi Highway Safety Patrol Retirement System plan's funding ratio was 65.8%, a slight decrease from 66.2% as of June 30, 2015. According to projections as of June 30, 2016, the MHSPRS plan's funding level was projected to be 51.6% in 2042, putting it below the 60% threshold set in the current funding policy.**

As of June 30, 2016, the MHSPRS had assets with a market value of approximately $312 million, a funding ratio of 65.8%, and an anticipated accrued liability payment period of 42.9 years.

Similar to the PERS Board for the PERS plan, the MHSPRS Board has adopted a funding policy for the MHSPRS plan. This policy, though not legally binding, has been adopted with a direction toward ensuring that there is adequate growth in both investment earnings and contributions so that the plan will reach an 80% funding status by 2042. The MHSPRS funding policy includes contingency steps for prospective action if the projected funding level of the plan is projected to be less than 60% in 2042 or if the funding ratio is projected to be less than 70% following three consecutive annual actuarial valuations. Under the MHSPRS 2012 funding policy, if one of these conditions exist, a contribution rate increase will be determined that is sufficient to generate a funding ratio of 90% in 2042.

However, in December 2016, the MHSPRS Administrative Board approved a change to its funding policy that will require the plan to set a contribution rate increase sufficient to generate a funded ratio of 85% in 2042 in place of the 2012 requirement of 90%.

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[17]Administrative support for the MHSPRS plan is provided by PERS staff and includes such activities as processing of retirement applications and calculating retirement benefits, processing and distributing retirement benefit payments, and completion of regulatory filing requirements.

According to Cavanaugh Macdonald's "Report on Thirty Year Projections of the Mississippi Retirement Systems," as of June 30, 2016, the MHSPRS plan's funding level was projected to be 51.6% in 2042, putting it below the 60% threshold set in the current funding policy.

The MHSPRS Administrative Board or the Legislature could consider the following actions regarding the MHSPRS plan:

- 

  In theory, a good year in the market could help the plan grow out of any funding deficiency experienced in prior years. Nonetheless, the policy is intended to set out the minimum requirements of prudent management that a fiduciary, such as the MHSPRS Administrative Board, should follow.

- **Making adjustments to the plan**: Making changes to the MHSPRS existing plan structure is also an option. In its 2012 report *The Public Employees' Retirement System of Mississippi: A Review of Selected Issues Related to Financial Soundness* (Report #564, December 11, 2012), the PEER Committee reminded PERS and the Legislature that in Mississippi, pension benefits are viewed as a contractual right. Persons who become employees have an expectation that their benefits will not be diminished while they are employees. This expectation is called the California Rule of public pension management (see 2012 Report on pages 25–43). Consequently, reductions in benefits might be problematic. It is possible that some adjustments could be made in compensation policy, including the amount of overtime that can be factored into a retiree's income. This is a matter that could require legislation, and might not be made administratively.

- **Changing the plan for new members**: The MHSPRS Administrative Board could advocate for legislative action that would make changes to the MHSPRS plan for new members. These changes could include such actions as expanding the MHSPRS plan to include new members (e.g., all state agency sworn officers) or make new members' benefits lower than those of current members. The approach of lowering benefits for new members has been taken with respect to PERS as employees who joined the system after July 2011 have to work longer to receive full retirement benefits than those who joined before July 2011. The impact of these types of changes are difficult to quantify because they depend on the parameters adopted by the Legislature for the new plan tier and can only be measured by a comprehensive actuarial feasibility study. These types of changes could help to lower the costs of the MHSPRS plan over the long term but will do little to resolve the current funding problems of the MHSPRS plan, as existing members with contractual rights will need to have adequate pension funding for their benefits.

- **Moving new Highway Safety Patrol sworn officers to PERS and closing the MHSPRS plan**: Similarly, the MHSPRS Administrative Board could advocate for legislative action to close the MHSPRS plan and move new Highway Safety Patrol sworn officer members to the PERS plan. This would provide some cost avoidance for the Department of Public Safety as soon as new sworn officers are added to the PERS plan because the employer contribution rate associated with these covered positions would be 15.75% versus the current employer rate of 37% for the MHSPRS. The result of this change would also create more equitable retirement for other covered positions in PERS who work in law enforcement activities as challenging as the Mississippi Highway Safety Patrol but do not receive the same benefits. PEER notes that there would remain a contractual obligation to continue funding the MHSPRS plan for all current members. This would necessitate committing more funds to this program over the foreseeable future. This commitment would most likely offset any savings from the lower payment being made for new hires into the MHSP sworn officer ranks.

For the projected information to be accurate, all actuarial assumptions must be met exactly for all fiscal years forecasted. As past performance shows, this mark can be missed on both the high and low sides, creating variability from the model.

Regardless of the direction chosen by the MHSPRS Administrative Board or the Legislature, it is clear that the funding status of the plan will need to be addressed in the near future.

# Appendix: Public Employees Retirement System of Mississippi Board of Trustees Investment Options

The Board members have a fiduciary duty to manage and invest these funds of the various plans in the manner provided by law, per MISS. CODE ANN. § 25-11-121 (1972):

(1) The board shall, from time to time, determine the current requirements for benefit payments and administrative expense which shall be maintained as a cash working balance, except that such cash working balance shall not exceed at any time an amount necessary to meet the current obligations of the system for a period of ninety (90) days. Any amounts in excess of such cash working balance shall be invested, as follows:

(a) Funds may be deposited in any institution insured by the Federal Deposit Insurance Corporation that maintains a facility that takes deposits in the State of Mississippi or a custodial bank;

(b) Corporate bonds and taxable municipal bonds; or corporate short-term obligations of corporations or of wholly owned subsidiaries of corporations, whose short-term obligations are rated A-2 or better by Standard and Poor's, rated P-2 or better by Moody's Investment Service, F-2 or better by Fitch Ratings, Ltd., or the equivalent of these ratings if assigned by another United States Securities and Exchange Commission designated Nationally Recognized Statistical Rating Organization;

(c) Agency and nonagency residential and commercial mortgage-backed securities and collateralized mortgage obligations;

(d) Asset-backed securities;

(e) Bank loans;

(f) Convertible bonds;

(g) Bonds of the Tennessee Valley Authority;

(h) Bonds, notes, certificates and other valid obligations of the United States, and other valid obligations of any federal instrumentality that issues securities under authority of an act of Congress and are exempt from registration with the Securities and Exchange Commission;

(i) Bonds, notes, debentures and other securities issued by any federal instrumentality and fully guaranteed by the United States;

(j) Interest-bearing revenue bonds or notes or bonds or notes which are general obligations of any state in the United States or of any city or county therein;

(k) Bonds of established non-United States companies and foreign government securities. The board may take requisite action to effectuate or hedge transactions or invest in currency through foreign or domestic banks, including the purchase and sale, transfer, exchange, or otherwise disposal of, and generally deal in foreign exchange through the use of foreign currency, interbank forward contracts, futures contracts, options contracts, swaps and other related derivative instruments, notwithstanding any other provisions of this article to the contrary;

(l) Shares of stocks, common and/or preferred, of corporations created by or existing under the laws of the United States or any state, district or territory thereof and shares of stocks, common and/or preferred, and convertible securities of non-United States companies; provided:

(i) The maximum investments in stocks shall not exceed eighty percent (80%) of the total book value of the total investment fund of the system;

(ii) The stock of such corporation shall:

1. Be listed on a national stock exchange; or

2. Be traded in the over-the-counter market;

(iii) The outstanding shares of such corporation shall have a total market value of not less than Fifty Million Dollars ($50,000,000.00);

(iv) The amount of investment in any one (1) corporation shall not exceed three percent (3%) of the book value of the assets of the system;

(v) The shares of any one (1) corporation owned by the system shall not exceed five percent (5%) of that corporation's outstanding stock.

The board may take requisite action utilizing foreign currency as an investment vehicle, or to effectuate or hedge transactions for shares of stocks and convertible securities of non-United States companies through foreign or domestic banks, including the purchase and sale, transfer, exchange, or otherwise disposal of, and generally deal in foreign exchange through the use of foreign currency, interbank forward contracts, futures contracts, options contracts, swaps and other related derivative instruments, notwithstanding any other provisions of this article to the contrary;

(m) Covered call and put options on securities or indices traded on one or more of the regulated exchanges;

(n) Pooled or commingled funds managed by a corporate trustee or by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the board of trustees, and shares of investment companies and unit investment trusts registered under the Investment Company Act of 1940, where such pooled or commingled funds or shares are comprised of common or preferred stocks, bonds, money market instruments or other investments authorized under this section. Such investment in commingled funds or shares shall be held in trust; provided that the total book value of investments under this paragraph shall at no time exceed five percent (5%) of the total book value of all investments of the system. Any investment manager approved by the board of trustees shall invest such commingled funds or shares as a fiduciary;

(o) Pooled or commingled real estate funds or real estate securities managed by a corporate trustee or by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the board of trustees. Such investment in commingled funds or shares shall be held in trust; provided that the total book value of investments under this paragraph shall at no time exceed ten percent (10%) of the total book value of all investments of the system. Any investment manager approved by the board of trustees shall invest such commingled funds or shares as a fiduciary. The ten percent (10%) limitation in this paragraph shall not be subject to the five percent (5%) limitation in paragraph (n) of this subsection;

(p) Types of investments not specifically authorized by this subsection if the investments are in the form of a separate account managed by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the board; or a limited partnership or commingled fund approved by the board; provided that the total book value of investments under this paragraph shall at no time exceed ten percent (10%) of the total book value of all investments of the system. Any person or entity who exercises any discretionary authority or discretionary control respecting management of the separate account, limited partnership or commingled fund, or who exercises any authority or control respecting management or disposition of the assets of the separate account, limited partnership or commingled fund, shall exercise such authority or control as a fiduciary.

(2) All investments shall be acquired at prices not exceeding the prevailing market values for such investments.

(3) Any limitations herein set forth shall be applicable only at the time of purchase and shall not require the liquidation of any investment at any time. All investments shall be clearly marked to indicate ownership by the system and to the extent possible shall be registered in the name of the system.

(4) Subject to the above terms, conditions, limitations and restrictions, the board shall have power to sell, assign, transfer and dispose of any of the securities and investments of the system, provided that said sale, assignment or transfer has the majority approval of the entire board. The board may employ or contract with investment managers, evaluation services or other such services as determined by the board to be necessary for the effective and efficient operation of the system.

(5) Except as otherwise provided herein, no trustee and no employee of the board shall have any direct or indirect interest in the income, gains or profits of any investment made by the board, nor shall any

such person receive any pay or emolument for his services in connection with any investment made by the board. No trustee or employee of the board shall become an endorser or surety, or in any manner an obligor for money loaned by or borrowed from the system.

(6) All interest derived from investments and any gains from the sale or exchange of investments shall be credited by the board to the account of the system.

(7) The board of trustees shall credit regular interest to the annuity savings account monthly. Regular interest shall mean such per centum rate to be compounded annually as set by the board of trustees through regulation.

(8) The board of trustees shall be the custodian of the funds of the system. All retirement allowance payrolls shall be certified by the executive director who shall furnish the board a surety bond in a company authorized to do business in Mississippi in such an amount as shall be required by the board, the premium to be paid by the board from the expense account.

(9) For the purpose of meeting disbursements for retirement allowances, annuities and other payments, cash may be kept available, not exceeding the requirements of the system for a period of ninety (90) days, on deposit in one or more banks or trust companies organized under the laws of the State of Mississippi or the laws of the United States, provided that the sum on deposit in any one (1) bank or trust company shall not exceed thirty-five percent (35%) of the paid-up capital and regular surplus of such bank or trust company.

(10) The board, the executive director and employees shall discharge their duties with respect to the investments of the system solely for the interest of the system with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, including diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

(11) Documentary material or data made or received by the system which consists of trade secrets or commercial or financial information that relates to the investments of the system shall be exempt from the Mississippi Public Records Act of 1983 if the disclosure of the material or data is likely to impair the system's ability to obtain such information in the future, or is likely to cause substantial harm to the competitive position of the person or entity from whom the information was obtained.

SOURCE: MISS. CODE ANN. §25-11-121 (1972).

PERS of MISSISSIPPI

Providing Benefits for Life

January 13, 2017

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

Dear Mr. Barber:

Thank you for the opportunity to review the draft of the PEER Report titled *2016 Update on Financial Soundness of the Public Employees' Retirement System and Status of the Mississippi Highway Safety Patrol Retirement System Plan.* As acknowledged in the Report, the PERS Board of Trustees (Board) has adopted and implemented policies and procedures that allow it to address the major areas that contribute to the plan's financial well-being and to carry out its fiduciary responsibilities to its active members and retirees. PERS strives to be above reproach in handling the funds entrusted to us because we understand how significantly our work affects families across the state of Mississippi.

PERS acknowledges the potential challenges a declining active member population can have on the overall funding of a plan, particularly when viewed in relation to the long term investment outlook. While the active member population has declined since 2006 and market conditions have been challenging for the past two years, PERS remains dedicated to the long-term sustainability of the plan by focusing on competent, prudent management practices, including the funding policy adopted in 2006. The financial status of PERS is not a "point-in-time" measure; it is more of a financial construct that is evaluated over the passage of time, and the Board and staff are continually monitoring and evaluating that status.

The MHSPRS Advisory Board is providing its own response to this report, however, it should be understood that, while the responsibilities of the PERS Board to the MHSPRS are not the same as for PERS, as custodian the same due diligence is applied in our oversight responsibilities related to the MHSPRS and all plans administered by PERS.

We acknowledge and appreciate the diligence and effort you and your staff expended in compiling this report, and we respect the professional manner in which the review was conducted. Please contact me at 601-359-2241 if you need further information. Thank you.

Sincerely,

Pat Robertson
*Executive Director*

**Mississippi Highway Safety Patrol Retirement System**
**Administrative Board**

**Members**
Commissioner Albert Santa Cruz
Lt. Colonel Randy C. Ginn (Chairman)
Captain Steve Shows
Lieutenant Russell Cummings
Sergeant First Class Joseph Johnson
Commissioner David R. Huggins (Retired)

**P.O. Box 958**
**Jackson, MS 39205**

Mr. James A. Barber, Executive Director
Performance Evaluation of Expenditure Review
Joint Committee
P.O. Box 1204
Jackson, MS 38215-1205

Dear Mr. Barber:

The Mississippi Highway Safety Patrol Retirement Administrative Board (MHSPRS) suggests that several factors have caused the MHSPRS funded rate to fall below acceptable levels. This has required the consideration of increased funding. The two primary factors are low return on investments and a low number of active Troopers contributing to the system. In FY15 and FY16 returns were well below the expected rate of 7.75%. Furthermore, active members contributing to the system have decreased, from 626 in 2008 to 489 today while the number of beneficiaries has increased from 651 to 726 during that same time period. Either of these factors would be, and are, a cause of concern for the Board, however, the combination of low investment returns and decline in the number of active Troopers has been detrimental to the system's funding ratio. According to Cavanaugh/Macdonald for long term system stability more Trooper Schools is key. As an example, when asked, Cavanaugh/Macdonald replied that if the census of the active MHSPRS were at six-hundred (600) troopers the funding triggers would not have been necessary this year despite two (2) consecutive years of low performing investments.

The Board also feels that reducing or changing the benefits or to close the MHSPRS would have an adverse impact on recruiting and retention of new Troopers. In a very competitive employment market the features of the MHSPRS give an added benefit to applicants who must be willing to accept assignment to any location in the state, endure rigorous training, and be prepared to respond to areas of civil unrest, natural disaster or any other duties as directed.

Moving forward, any action taken concerning the Mississippi Highway Safety Patrol Retirement System should be preceded by an actuarial study into any proposed changes to insure the financial stability of the system.

Sincerely,

Lieutenant Colonel Randy C. Ginn
Chairman

# PEER Committee Staff

**James A. Barber, Executive Director**

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Ben Collins
Barton Norfleet

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