PEER MISSISSIPPI
Joint Legislative Committee on Performance Evaluation and Expenditure Review

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Report Highlights
May 11, 2021

2020 Update on Financial Soundness of the Public Employees' Retirement System

CONCLUSION: "Financial soundness" should be defined not as a point-in-time comparison of assets and liabilities but as a multifaceted construct. The PERS Board, with assistance from its staff and other contractual advisers, endeavors to maintain the financial soundness of the plan. Over the past 5- and 10-year periods, the PERS actual average annual payroll increase has continued to remain below the actuarial model's projected rate of salary increase (currently assumed at 3.00%). From FY 2010 through FY 2020, the ratio of active members to retired members decreased by approximately 33%, driven by the increasing number of retirees and the decreasing number of active members. The PERS Board has implemented a policy to reduce the PERS plan's investment return assumption from its current rate of 7.75% to the actuary's recommended rate of 7.50%, using future investment gains above the plan's assumed returns.

Background:
The Public Employees' Retirement System of Mississippi (PERS) is a defined benefits retirement plan for a majority of the 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.

In addition to the PERS plan, Mississippi's public retirement system consists of five other retirement allowances and other benefits to segments of Mississippi public employees.

The 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 means of accomplishing this task is by setting contribution rates for employers participating in the plans. 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 such components 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 plan to maintain financial soundness. Underperformance in any one area can cause additional stress on other components of the plan and can lead to underperformance of the plan as a whole.

In addition to annual actuarial valuations and projection reports, the PERS Board biennially reviews the actual experience of the various plans to expected experience for reasonableness, and adjust, as necessary, the assumptions used.

This report also includes information on recent questions regarding whether or not a retiree may receive PERS benefits and simultaneously serve in the Legislature.

Actuarial Soundness

The PERS Board, in consultation with its actuaries, develops an actuarial model based on such assumptions 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 and annual actuarial updates in conjunction with annual projections and biennial experience reports. Among all continued analyses, the areas of wage inflation, active and retiree member assumptions, and investment return assumptions may require particular attention.

Wage Inflation Assumptions
Over the past 5- and 10-year periods, the PERS actual average annual payroll increase has continued to remain below the actuarial model's projected rate of wage increase (currently assumed at 3.00%). Although the PERS Board adopted changes based on its most recent experience studies (as of June 30, 2012; June 30, 2014; June 30, 2016; and, June 30, 2018), which help PERS's actuarial assumptions align more closely with actual experience, continued analysis of variation between actual and assumed wage growth is warranted.

Active and Retired Employee Assumptions
From FY 2010 through FY 2020, the ratio of active members to retired members decreased by approximately 33%, driven by the increasing number of retirees and the decreasing number of active members. As a result of the decrease, the payroll of fewer active members must fund future pension obligations.

Investment Return Assumptions
The PERS Board has implemented a policy to reduce the PERS plan's investment return assumption from its current rate of 7.75% to the actuary's recommended rate of 7.50%, using future investment gains above the plan's assumed returns. Since the implementation of this policy, the PERS investment returns have fallen short of the current assumed rate and the plan has not recognized any changes to its investment rate assumption. Because of the importance of investment gains as a source of revenue for PERS, experiencing lower than expected investment returns, either currently or in future periods, could be a source of stress on the plan.

PERS Funding Policy Metric Results as of June 30, 2020

Based on the results of the evaluation metrics in the funding policy, as of June 30, 2020, the plan has two metrics at yellow signal-light status (funded ratio and cash flow as a percentage of assets) and one metric at red signal-light status (actuarially determined contribution). According to the funding policy, a red result means that the PERS Board must consider making changes to the employer contribution rate.

In conformity with a red signal-light result in PERS's funding policy assessment, the plan's actuary has recommended the PERS Board consider amending the plan's employer contribution rate. Any change in the rate would be effective no earlier than July 1, 2022.

Metric	Result	Status
Funded Ratio (in FY 2047)	67.6%	Yellow
Cash Flow as a Percentage of Assets	-6.20%	Yellow
Actuarially Determined Contribution	112.01%	Red

Assumption	Potential New Employer Contribution Rate	Percentage Increase Over Existing Rate
Using 7.75% (PERS Current Investment Rate Assumption)	19.60%	12.64%
Using 7.50% (Most Recent Actuarially Recommended Investment Rate Assumption)	20.50%	17.82%
Using 7.25% (Potential Lowered Investment Rate Assumption)	22.25%	27.87%

Issues with Retirees' Return to Work in the Legislature

This year's report also includes information pertaining to the issues surrounding retirees returning to work in the Legislature while also receiving retirement benefit payments from PERS.

In November 2018, and January of 2019, the Attorney General issued opinions challenging PERS's regulations that prohibited retirees from concurrently serving in the Legislature and receiving benefit payments from the PERS System. Based on these opinions, the PERS Board amended its regulations, creating a path for retirees to serve while receiving benefits. These new regulations were made effective contingent on receiving approval from the IRS.

After requesting more information from PERS staff and tax counsel, Ice Miller, LLP, and the Attorney General's Office and tax counsel, the IRS declined to rule on PERS's regulation changes.

In order to protect the tax-deferred status of the plan, the PERS Board returned its regulation language to the language that was in place before the most recent change (language that considered Legislators as full-time employees and thus incapable of being part-time workers). This helps to protect the plan by reinstituting language that has been reviewed and approved by the IRS (most recently in July 2014).