

**Report**  
**Board of Trustees**  
**Public School Retirement System of Missouri**  
**and**  
**Public Education Employees Retirement System of Missouri**

November 2, 2017

by Carol Weatherford

**Work Session of the PSRS-PEERS Board of Trustees**  
**Funding Policy Report from the Actuaries**

**Trustees present:**

Aaron Zalis, chair,  
Chuck Bryant,  
Yvonne Heath,  
Beth Knes,  
Jason Hoffman,  
Scott Hunt,  
Jason Steliga.

**Others present as active participants:**

Steve Yoakum, Executive Director;  
Dearld Snider, Associate Executive Director;  
Nicole Hamler, Board Secretary;  
Actuaries Brandon Robertson,  
Cindy Fraterrigo,  
Kelly Stolyar, representing PricewaterhouseCoopers.

**November, 2017 COLA Scenario Analysis**

Prior to the report from the actuaries, Steve Yoakum reviewed key issues that the trustees must keep in mind as they consider the decisions they are required to make.

**PSRS/PEERS Board of Trustees' Fiduciary Responsibility** -- Yoakum reviewed the primary responsibilities of collecting contributions, investing assets, providing benefits, administering the benefit program, and setting contribution

rates.

He further reminded the trustees of their "duty of loyalty" which requires operating the pension plan for the exclusive benefit of members and retirees... and must supersede the interests of other parties.

Finally, he drew attention to their "duty of impartiality" which requires them not to favor any beneficiary over another (e.g. active, inactive, retired).

Federal and state law holds the Board to the standard of a prudent expert. Among other points, it is important to note that the Board *relies on the advice from retained experts* to guide them in setting the Plans' recommended assumptions, cost-of-living adjustments (COLA) and contributions rates.

**PSRS/PEERS Continuous Goals** -- Yoakum emphasized the necessity of keeping the following continuous goals in mind as the trustees make important decisions. These goals must:

1) Provide for the security and financial stability of the Plans, which includes maintaining an 80% pre-funded ratio and allowing for a reasonable assumed rate of return, given capital market estimates

2) Maintain the contribution rate of both Plans at or below the current level

3) Provide a consistent cost-of-living adjustment (COLA) for PSRS/PEERS' retirees. The COLA should be dependable and affordable, without hurting the financial stability of the Plans, while also maintaining retirees' purchasing power.

4) Require no statutory action or change

**COLA Scenarios Analyzed** -- Seven different COLA scenarios, originally proposed by the Trustees, were individually analyzed by the actuaries:

A -- Baseline (Current Policy)

B -- Actual CPI-U between 0%-2%

C -- 2011 Funding Stabilization Policy

D -- Pre-2011 COLA Policy

E -- 1% COLA when CPI-U is between 0%-2%

F -- 2% when CPI-U reaches Cumulative 2%, beginning 7/1/2015

G -- 2% when CPI-U reaches Cumulative 2%, beginning 7/1/2016

(For more detailed information about each of these scenarios, see the PSRS/PEERS report.)

**Investment Return Assumptions** -- An analysis of assumptions, ranging from >7.0 to >8.5 were reviewed. The median currently falls at 7.5, with the expectation that it will continue to drop in the near future.

**Report of the Actuary** -- The Actuarial report included a great deal of relevant information. Among these was an overview of COLA trends among public sector plans. The report noted that 30 states have enacted COLA reductions to state-wide pension plans since 2009.

**COLA Scenarios & Funding Policy** -- To determine the effect of each of the proposed COLA options, another factor had to be taken into consideration -- the assumed rate of return. Again, the actuaries shared the results from four different percentages: the current 7.75%, as well as 7.6%, 7.5% and 7.25%

In a series of five detailed slides, the actuaries presented an analysis of the current COLA policy. Following this analysis, the actuaries explained in detail the ramifications of the alternative COLA scenarios requested by the Board. Using charts and graphs -- first for PSRS and then for PEERS -- it became apparent that only some of the proposed plans would meet Board goals.

**Summary of COLA Scenario Results** -- The final summary of all possible options for both PSRS and PEERS were distributed to everyone in attendance. These were printed in color (blue for PSRS; green for PEERS) on "place-mat" sized sheets of paper.

With 7 different COLA scenarios and 4 different assumed rates of return, 28 possibilities were charted. All options that did not meet the goals were shaded in gray, while those that did meet the goals were left in the clear. With this visual aide, it was evident that out of 28 possibilities considered, only 9 were viable options.

The work session adjourned at 5:30 p.m.

NOTE: A significantly more detailed explanation of the PricewaterhouseCooper Funding Policy Report is available from the PSRS/PEERS "Board Meeting Summary." This report was sent by email on 11/8/17 to all active, inactive and retired members of the Systems.