

Report
Board of Trustees
Public School Retirement System of Missouri
And
Public Education Employees Retirement System of Missouri
August 28, 2017
by Carol Weatherford

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;
Craig Husting, Chief Investment Officer;
Jim Neill and Michael Patafsky of Willis Towers Watson;
Frank Aten and Jessica Wilbers, John Tuck and Chad Myhre, PSRS/PEERS investment staff members;
Alan Thompson, General Counsel;
Omar Davis, Member Services Director

SYSTEM OPERATIONS

Minutes from the June 13, 2017 meeting were approved and the Order of Business was established. Chairman Zalis welcomed Beth Knes, the newest trustee who was recently appointed by Gov. Greitens.

INVESTMENTS

FY 2017 Performance and Attribution -- Craig Hustings of PRSR/PEERS, along with Willis Towers Watson consultants Jim Neill and Michael Patafsky reviewed the 2017 investment performance. The summary of this report states that FY17 investment returns (net of all fees) for PSRS and PEERS are 12.28%. Furthermore, "The PSRS/PEERS investment returns for the last 3 years, 5 years and 7 years are above median relative to large public plans with a lower risk portfolio than 2/3rds of peer group. The long-term (25-

30 year) returns for PSRS/PEERS are over 7.75%. However, 7.75% is a difficult hurdle to achieve in any short-term time frame."

Safe Assets -- Jessica Wilbers and Frank Aten, members of the PSRS/PEERS Investment staff, reported that the 5-year annualized estimated return for the Safe Assets composite for the period ending on June 30, 2017 was 0.8%.

Hedged Assets -- John Tuck, PSRS/PEERS investment staff member, reported that the 5-year estimated annualized return for the Hedged Assets composite for the period ending June 30, 2017 was 7.0%

MANAGEMENT REPORT

Appointment of NCTR Delegates -- The National Council on Teacher Retirement Conference will be held in October. Yvonne Heath, Chuck Bryant and Steve Yoakum were selected by unanimous vote to serve as delegates to this conference. Dearld Snider will serve as alternate.

Amendments to Regulations -- Due to bills passed by the General Assembly and signed into law by Gov. Greitens, it is necessary to amend current PSRS/PEERS regulations. Legal Counsel Alan Thompson reviewed the necessary amendments in the areas of Divorce Pop-Up and Working After Retirement. (All members of PSRS/PEERS have been sent a letter explaining these changes.) Without discussion, the Trustees unanimously approved the amendments.

Update PSRS/PEERS Sunshine Law Resolution -- Per the recommendation of Legal Counsel Thompson, the Trustees unanimously approved necessary editorial updates to this resolution.

Member Services Update -- Omar Davis, Member Services Director, shared current information about the number of retirees who are currently in the System as well as statistics regarding active members' use of the Systems' services.

Dearld Snider gave background information regarding the fraud incident that occurred this past July. He complimented the staff for recognizing the "out of the ordinary" activity, thus resulting in no financial impact on members. Security enhancements, including Personal Identification Numbers (PINs), have been added.

[For further details regarding this situation, read the meeting summary provided on line by PSRS/PEERS.]

CPI Update/COLA Review -- Steve Yoakum reviewed the CPI-U calculation for FY 16-17. Through June 30, 2017, the CPI-U was 1.6%. However, for the month of July it was -0.069%, making it difficult to forecast this for the upcoming year.

By October 30, 2017, the Actuarial Valuation draft results will be available from PricewaterhouseCoopers. With this information, the Board of Trustees will be able to make a decision regarding the 2018 Cost of Living Adjustment.

Seven different COLA Scenarios were presented for consideration:

- A. Baseline -- Current Policy
- B. Actual CPI-U between 0%-2%

- C. 2011 Funding Stabilization Policy
- D. Pre-2011 COLA Policy
- E. 1% COLA between 0%-2%
- F. 2% when CPI-U reaches Cumulative 2% (cumulative period would include FY 2016 and 2017).
- G. 2% when CPI-U (cumulative period would start with FY 2017)

[For further details regarding the process the Trustees will follow to determine the 2019 COLA, read the meeting summary provided on line by PSRS/PEERS.]

Change October 30 Meeting Date -- The Trustees voted to meet on Thursday afternoon, November 2, to review the actuarial report presented by PricewaterhouseCoopers (PwC).

The cost of living scenario calculations will be based on the following criteria: FY 2017 investment returns, 2017 census data, funding goals, discussion and action.

On Friday, November 3, the Board of Trustees will meet to determine both the 2018 COLA and the 2018-19 contribution rate.

Public Comment -- None

The meeting adjourned at 12:45.

Annual Legislative Planning Session Report

Following the Board of Trustees meeting, PSRS/PEERS held their annual Legislative Planning Session. Prior to this meeting, education organizations, including MNEA and MNEA Retired, are allowed to submit written information regarding their legislative platform. At the planning session, organizations in attendance and PSRS/PEERS discuss upcoming legislation and policy changes that could impact members of the system.

One of the topics at the planning session relates to the "No COLA in 2017" decision. As advocated for by MNEA, the COLA will be up for reconsideration this fall. The PSRS/PEERS recommendation for the 2018 COLA will be determined at a special meeting in early November. It will be based on the current year's actuarial report, Fiscal Year 2017 return on investments, 2017 census data, and PSRS funding goals.

Seven different COLA scenarios will be considered, none of which lock in a 0% COLA for an indefinite period of time. Those seven scenarios are covered above in the board report. The PSRS/PEERS Board of Trustees will *annually* determine each year's Cost of Living Adjustment.

During the discussion session, MNEA Legislative Director, Otto Fajen, drew attention to the "Goals for COLA discussion" that were listed in the PSRS/PEERS handout. He pointed out that these goals are consistent with the MNEA Legislative Platform. They are:

*To provide for the security and financial stability of the Systems

*To maintain the contribution rates of both Systems at or below current levels

*To maintain retiree purchasing power by providing a consistent cost-of-living adjustment for PSRS/PEERS retirees. (Cost of living increase should be dependable and affordable without harming the financial stability of the Systems)

*To require no statutory, legislative action or change

MNEA and MNEA-R will provide updates and information regarding the 2018 COLA as they occur.