

PEERS

for your Benefit
PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

Contribution Rates
Remain Constant for
2017-2018 School Year

Your Annual PEERS Member
Statement Has Mailed



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PUBLIC EDUCATION EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI

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Contribution Rates Remain Constant for 2017-2018 School Year

At the October 24, 2016 Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) Board of Trustees' meeting, the Board voted to maintain the current PEERS contribution rate for the 2017-2018 school year. This action was based on the recommendation of the System's actuary, PricewaterhouseCoopers (PwC).

2017-2018 PEERS Contribution Rates

| Employee Rate | Employer Rate | Combined Rate |
|---------------|---------------|---------------|
| 6.86% | 6.86% | 13.72% |

Trustees have the important fiduciary responsibility to set contribution rates to adequately fund the System. Rates are recommended annually by the System's actuary, and by law cannot increase more than .5% per year. PEERS active members and employers each currently contribute 6.86% of salary.

PEERS is primarily funded by investment earnings, but also through the contributions made by you and your employers.

20-Year Average



Note: The member amount shown above is slightly higher than the employer amount because it includes funds paid by members to purchase and reinstate service, as well as their contributions.

While PEERS was able to keep contribution rates steady for the 2017-2018 school year, the need for future rate increases will heavily depend on investment performance. Investment earnings provide 61 cents of every dollar paid, so they are important in the funding design of the plans. Low investment returns or interest rates could result in contribution rate increases and have a negative impact on the pre-funded status in future years.

About Your PEERS Contributions

PEERS contributions are automatically deducted from your pay and are credited to your individual membership. You do not pay taxes on your contributions until you receive them back from PEERS as monthly benefits or a lump-sum payment.

Your contributions are always returned to you in the form of monthly benefits, or a lump-sum payment to you or your beneficiaries.

For specific information regarding the contributions you have made to PEERS during your membership, log in to view your membership information at PEERS Web Member Services, or refer to your annual **Member Statement**, which mailed in November.



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Actuarial Funding Policy Amended, PSRS/PEERS Funding Status Remains Healthy

The Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) Board of Trustees voted unanimously to amend the current PSRS/PEERS Actuarial Funding Policies in various areas during their June 14, 2016 meeting. The changes to the policies are, in part, a result of the recent Actuarial Experience Studies and Asset Liability Studies conducted by the Systems. These studies are conducted regularly and changes are applied as necessary to keep the Systems financially healthy.

The various assumptions within the Funding Policies that are being amended include inflation rates, payroll growth, mortality rates, investment returns, individual salaries, cost-of-living adjustments (COLAs), retirement rates and refund rates.

The objective of the Systems' Funding Policies is to achieve a funded ratio of 100% over a fixed period, not to exceed 30 years. The principles of the policies are to:


- Maintain adequate assets in order to fund all benefits expected to be paid to members and their beneficiaries
- Maintain stability of contribution rates
- Maintain accountability and transparency
- Promote intergenerational equality
- Provide a reasonable margin for adverse experience to help offset risks
- Review the investment earning assumption in conjunction with the Asset Liability Studies and in consideration of the Board's investment risk profile and tolerance
- Review demographic and economic assumptions in conjunction with actual experience

This allows PSRS/PEERS to continue progress toward reducing the Systems' unfunded liabilities, while keeping member and employer contribution rates at or near current levels.

The Big Impact on Pension Liabilities: Improved Mortality Rates; Lower Investment Returns


There are two key areas of change facing not only PSRS/PEERS, but all retirement plans: improved life expectancies (mortality rates) and lower expected investment returns. Changes in these two areas have a significant impact on the financial condition of the Systems.

- People are living longer. Mortality is improving, not just in Missouri, but also across the nation. As a result, actuaries are utilizing updated mortality tables, which reflect this trend. PSRS/PEERS conducted Actuarial Experience Studies to compare our actuarial assumptions to the actual experience of the Systems. In other words, are members living as long as we assumed they would, or are they actually living longer?



“Educators, and people in general, are living longer and we have to account for that when looking at the liabilities of the Systems. The studies show we will be paying our members longer than was previously assumed. Consequently, the revised mortality assumptions better reflect PSRS/PEERS’ actual experience, which results in an increase of over \$2.1 billion in liabilities to the Systems.”

Aaron Zalis, Board Chairman



- Interest rates and future investment returns are projected to be lower than historical returns. This is reflected in the current low interest rate environment. As a result of recently conducted Asset Liability Studies, the Systems' investment consultant and actuary recommended the PSRS/PEERS assumed rate of return for investments be lowered from 8% to 7.75%. “The 30-year return history for the Systems remains above 8%. But with the volatile market environment we have seen this year, and will likely see for the next several years, changing the assumed rate of return was a prudent decision,” stated Chief Investment Officer, Craig Husting. While the change seems modest, the impact is an increase in the Systems' liabilities in excess of \$1.2 billion.

Available Options

Due to the impact of these increases in liabilities on the financial stability of the Systems, the Board thoroughly explored the three areas in which they can positively impact the financial condition of the Systems: investment earnings, contribution rates and benefits.

Investment Earnings

The Board reviewed the current investment asset allocation looking for ways to increase PSRS/PEERS' expected investment return. Upon review, and with the recommendation of the investment consultant, the Systems made minor changes to the asset allocation to optimize the investment portfolio. These modest changes will not materially impact the long-term PSRS/PEERS expected return.

Expected investment returns and risk are highly correlated. Thus, if an investor takes on additional risk, there is an expectation for higher returns. However, the Board believes that the proposed asset allocation provides a prudent level of risk. It was determined that PSRS/PEERS should not make major changes to the asset allocation that would cause the Systems to take on significantly more risk in hopes of improving returns.

Contribution Rates

As fiduciaries, PSRS/PEERS Trustees have the important responsibility to annually set contribution rates to adequately fund PEERS. Rates are recommended annually by the System's actuary, and by law cannot increase more than .5% per year. PEERS active members currently pay 6.86% of their salaries, with employers also paying 6.86%. The overall contribution rate of 13.72% is in line with the national average of similar plans.

Benefits

PSRS/PEERS benefits are established under Missouri law. Consequently, the Board has very little flexibility within the law to alter the current benefit structure without action of the General Assembly. One area in which the Board has limited discretion is setting annual benefit increases in the form of COLAs.

The factors evaluated by the Board when setting the COLA include:

- Changes in the cost of living reflected by the Consumer Price Index for Urban Consumers (CPI-U) for the preceding fiscal year
- The recommendation of the PSRS/PEERS actuary based on the CPI-U and the PEERS Funding Policy

PEERS retirees are eligible for COLAs the fourth January following their retirement date. Since 2011, the PEERS Funding Policy stated that a 2% COLA would be granted in the years when the change in the CPI-U for the previous fiscal year was between 0% and 5%.

Because of the recent low CPI-U, this policy resulted in retirees receiving more than the actual CPI-U over the previous five years. The fiscal-year-to-date 2016 CPI-U remained considerably under the 2%, which would have continued this trend.

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The Impact of COLAs is Significant

It is important to note that COLA payments have a material effect on the overall cost of the retirement plan. The actuary has projected that the estimated cost of a one year 2% COLA is a \$450 million increase in PSRS/PEERS' liabilities.

The Board therefore amended the COLA policy to state that in years when the CPI-U for the previous fiscal year is between 0% and 2%, no COLA will be given. As a result, the Board voted to set the COLA at 0% during the September 7, 2016 Board meeting. According to the U.S. Bureau of Labor Statistics, the increase in the CPI-U from July 1, 2015 to June 30, 2016 was 1.0%.

Changing the way COLAs are granted results in the following:

- PSRS/PEERS experiences an overall savings of \$2.7 billion in liabilities, which is expected to keep current contribution rates steady.
- The pre-funded status remains above 80%, which is considered a healthy status.
- Actuarial assumptions provide that retirees will still receive an average annual COLA of 1.5% over their retired lives.
- Retirees have peace of mind that the annual benefit increase will be 2% if actual inflation is 2% or greater.
- Retirees retain upside protection if inflation is high. If the CPI-U is greater than 5%, a 5% COLA would be granted.
- Active and retired members continue to share a commitment to the future financial health of the Systems. This is because COLAs are applied to both current and future benefits.



“As Trustees, our responsibility is to keep the Systems financially healthy. Amending the current Funding Policies is necessary in keeping with that responsibility. The Board feels the COLA change will help keep contribution rates steady, while at the same time, still provide protection against inflation when needed for our retirees. However, the overall financial health of the Systems and future contribution rates will be heavily influenced by investment markets moving forward.”

Aaron Zalis, Board Chairman



The Goals Remain the Same

Implementation of all of these policy changes allows PSRS/PEERS to continue to fulfill the Funding Policy objective and principals, as well as the overall goals of the Systems that have been in place since 1946.

- To provide retirement security to Missouri's educators and education employees after a full career of service
- To help school districts attract and retain the best and brightest educators and employees for Missouri's school children
- To manage the Systems in a prudent and cost efficient manner

The challenges of increased life spans and low interest rates are being felt by pension plans all across the country. It is important to note that PSRS/PEERS remains in healthy financial condition. But making changes now only helps the Systems continue to provide strong, stable and secure retirement benefits for both current and future members.

PEERS Fiscal Year 2015-2016 Investment Return Falls Below Goal

PEERS Return: 1.84%

Negative returns in the global stock market provided a difficult environment for institutional investors in fiscal year 2016 (July 1, 2015 through June 30, 2016). However, the strength in the U.S. bond and real estate markets allowed the Public Education Employee Retirement System of Missouri (PEERS) to achieve positive returns during the year. The System's assets increased through investment earnings by over \$60 million from the previous year with a total fund performance of 1.84% (or 1.64% net of all fees and expenses). This return is well below the 8%¹ investment return goal previously set by the Board of Trustees. Nevertheless, over long periods of time, PEERS continues to produce investment returns that exceed the System's objectives. The annualized investment return for PEERS over the last 30 years is 8.3%.

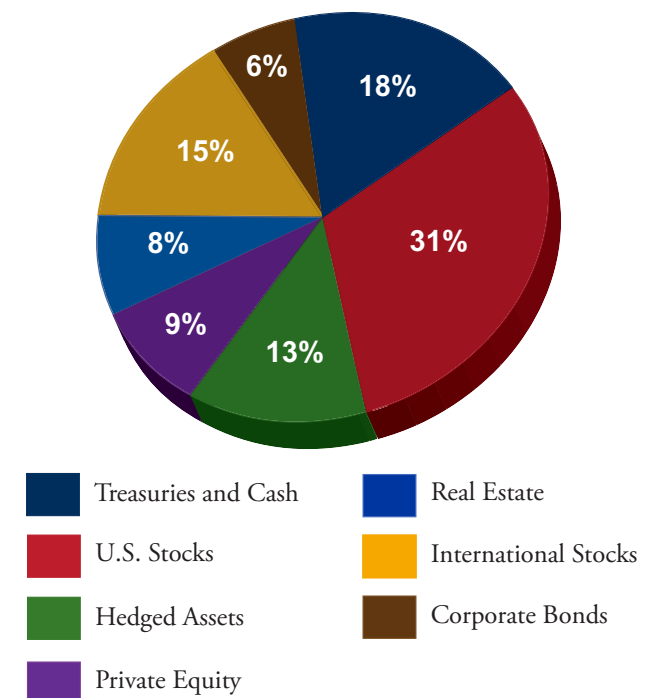
“Our long-term goal is to provide consistent and meaningful investment returns to support the retirement benefits of our members,” says Steve Yoakum, PEERS executive director. “While we did not meet our return target in the most current year, the PEERS investment return of 1.84% did exceed the returns of 75% of the pension plans in the United States with assets in excess of \$1 billion. Our internal investment staff is committed to managing the System's assets in a prudent manner, and has consistently over the last five years, produced investment returns that rank in the top 25% of similar plans in the United States while maintaining a risk level that is much lower than the national average.”

The total plan return of 7.4% over the last five years fell just short of the historical long-term investment goal (actuarially assumed return) of earning 8%, but exceeded the total plan policy benchmark² return of 6.9%.

| Five-Year Investment Results Period Ending 6/30/16 | |
|---|------|
| PEERS Investment Return..... | 7.4% |
| PEERS Return Goal..... | 8.0% |
| Benchmark Return..... | 6.9% |

As we begin fiscal year 2017, we are mindful of the fact that it will become increasingly more difficult to achieve the new return target of 7.75% in the near term, due in part to historically low interest rates. However, as a large institutional investor, we believe that we are particularly well suited to navigate upcoming markets given our ability to invest over a 30-year time horizon. The following chart indicates the PEERS asset allocation, which is highly diversified among a number of different investment classes.

PEERS Asset Allocation
as of June 30, 2016



Continued on page 8

The asset allocation is balanced with a significant distribution to return-seeking assets such as stocks and private equity, but also a healthy allocation to more defensive investments such as Treasury securities, cash and hedged assets. As the stock market continues to reach new highs, we believe it is prudent to maintain a structured portfolio that has an opportunity to participate if the markets continue to move higher, but also has substantial downside protection in the event of a market correction. In each year or market cycle, every specific asset class within the PEERS investment portfolio performs a valuable function. The following chart indicates the investment return for each major asset class in the PEERS portfolio over the last five years, for the period ended June 30, 2016.

| Five-Year PEERS Investment Returns By Asset Class | |
|---|-------|
| Treasuries and Cash | 2.6% |
| U.S. Stocks..... | 11.5% |
| Hedged Assets | 5.0% |
| Private Equity | 13.1% |
| Real Estate | 12.2% |
| International Stocks | 3.0% |
| Corporate Bonds | 4.0% |

The market value of invested assets for the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) combined were approximately \$38.7 billion on September 30, 2016, making the joint entity larger than all other public retirement plans in Missouri combined, and the 45th largest defined benefit plan in the United States. For the most recent PSRS/PEERS investment news, visit us on the web at www.psr-peers.org.

¹The assumed rate of return was 8.0% from 1980 through fiscal year 2016. The Board adopted a new assumed rate of return of 7.75% at the June 14, 2016 Board meeting. The 7.75% assumed rate of return is effective with the June 30, 2016 actuarial valuation and fiscal year 2017 investment performance.

²The plan policy benchmark is a standard to measure investment performance and indicates the return of the PEERS asset allocation if passive market rates of return were achieved.

Your Annual PEERS Member Statement Has Mailed

This month, *Member Statements* were mailed to all of our active members. We send this important document to you each year, providing you a comprehensive look at your membership.

Your statement provides you a complete summary of your membership, including a look at your salaries and contributions with PEERS, and a list of your employment and the service you have earned by school year.

Your statement also provides information on possible disability and survivor benefits for which you and your loved ones may be eligible, and current information on any service purchases you may have.

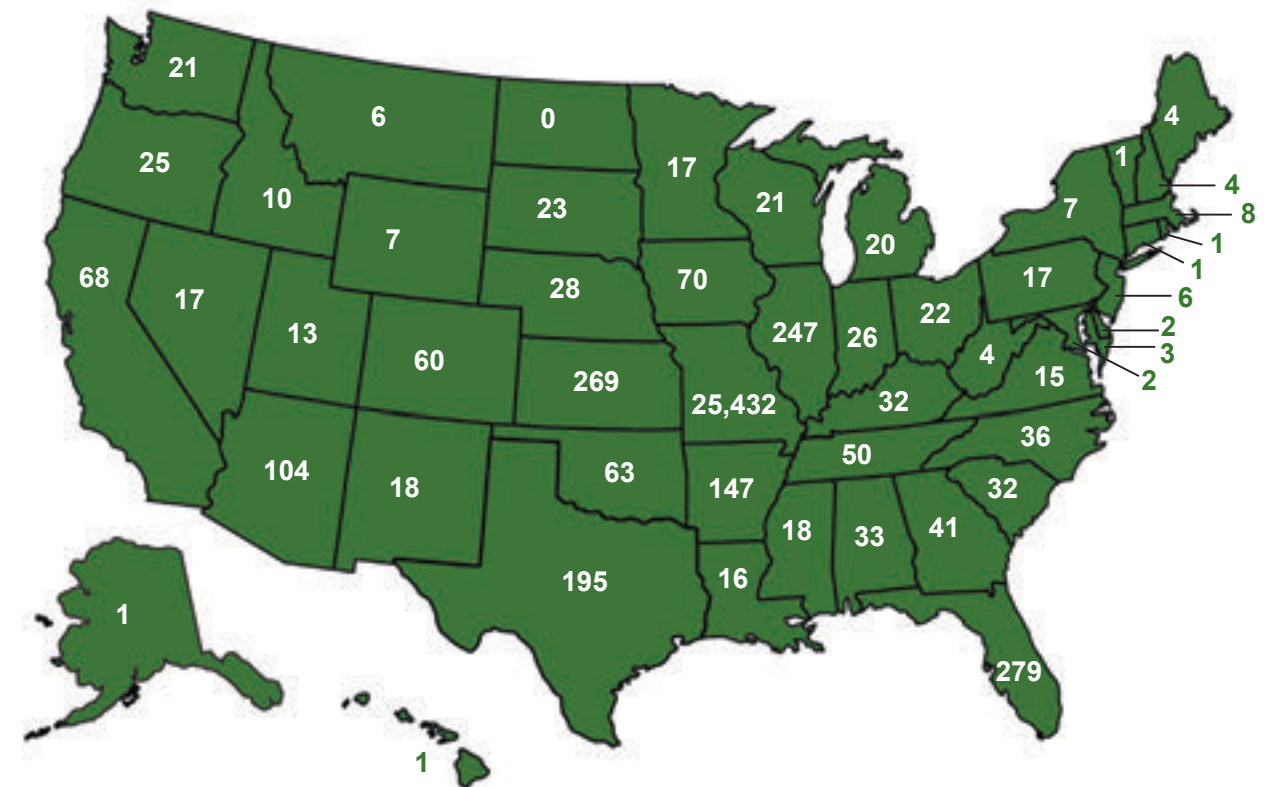
In addition, you can view your current beneficiary designation with PEERS. Remember to keep this information up to date so benefits are paid according to your wishes.

But perhaps the most exciting feature of your *Member Statement* is that it gives you estimates of your future service retirement benefits based on your current membership, including the dates you will be eligible for early and normal (full) benefits!

This information is available online by logging in to view your membership information using Web Member Services at www.psr-peers.org.

Where Do PEERS Retirees Live?

While most PEERS retirees remain in Missouri after retirement, others can be found residing all around the U.S.! Here is a look at where PEERS retirees live, as of June 30, 2016.



3 Ways to Get Retirement Ready with PEERS

No matter what stage of your life and career you are in, it is never too early to learn about your retirement system and the benefits it provides. At PEERS, we offer you a variety of ways to learn about your retirement plan, retirement eligibility, benefit options and more, and you can do so at no charge, in your community or from the privacy of home. Get the information you need to make confident, informed decisions about your retirement and know when and how to file your paperwork. Get in the know and get ready for retirement!

1 Attend a Pre-Retirement Planning Seminar in Your Area

If you are considering retirement, we recommend that you first attend a PEERS Pre-Retirement Planning Seminar. Seminars are held around the state throughout the year, providing valuable information you need to know as you prepare for retirement. A retirement counselor will deliver an overview of benefits, benefit payment plans available to you, and how to file your paperwork. You will also receive a personalized benefit estimate.

Register early – seating is limited and we cannot accept late registrations. Log in to Web Member Services at www.psr-peers.org to register or call us toll free at (800) 392-6848. You need an idea of your retirement date, and your beneficiary's name and birth date. If you are unsure of your retirement date or eligibility, call us and we will be happy to help. **See the following page for our list of upcoming seminar dates and locations.**

2 Prefer Online Learning? Participate in a Retirement Ready Webinar

To help make it even easier for you to get retirement ready, we offer webinars on different retirement-related topics. A convenient and easy way to learn about specific topics of interest to you, webinars will take place on the third Tuesday of each month starting at 4:30 p.m.

Register using the link found at www.psr-peers.org. Upcoming webinar topics include:

| Webinar Topics | |
|----------------|--|
| January 17 | When Can I Retire? The Basics of PEERS Retirement Eligibility |
| February 21 | Get More from your Membership: Reinstating and Purchasing Service with PEERS |
| March 21 | Understanding Your Benefit Estimate |
| April 18 | How and When to Apply for Service Retirement |
| May 16 | Working After Retirement: Rules and Reminders to Prevent Lost Benefits |

3 Ask Your School to Invite PEERS to Your In-Service or Professional Development Day

Our member education counselors are happy to visit your school and provide free retirement presentations for in-service or professional development days at your school.

These programs are done by request, and can be tailored to meet the needs of early career, mid-career or pre-retirement stage members.

Early/mid-career focused presentations are designed for members who are just starting out, or who are in the middle of their careers, with a general overview of PEERS, including the many advantages of being part of a Defined Benefit (DB) plan.

Registration is required for pre-retirement in-service presentations, so we can prepare personalized retirement information packets for attendees.

School officials and organizational leaders desiring to arrange retirement in-service programs can call (800) 392-6848, email psrpeers@psrpeers.org, or use the meeting request form on our website. These programs are offered free of charge.

Attend a Pre-Retirement Planning Seminar in Your Area

| Date | Location | Address | Time | Closing Date to Register |
|-------------------|---------------------------------------|--|---------|--------------------------|
| January 5, 2017 | Arnold Fox C-6 Service Center | 849 Jeffco Blvd, Arnold | 7:00 pm | December 14, 2016 |
| January 10, 2017 | Joplin East Middle School | 4594 E 20th St, Joplin | 7:00 pm | December 16, 2016 |
| January 17, 2017 | Rolla 31 School District Board Office | 500 A Forum Dr, Rolla | 7:00 pm | December 27, 2016 |
| January 19, 2017 | State Fair Community College | 3201 W 16th St, Sedalia | 5:30 pm | December 27, 2016 |
| January 24, 2017 | Cape Girardeau Career & Tech Center | 1080 S Silver Springs Rd, Cape Girardeau | 7:00 pm | January 3, 2017 |
| January 25, 2017 | Clinton Building (Parks & Rec Dept) | 501 Campanella Dr, Sikeston | 7:00 pm | January 3, 2017 |
| January 26, 2017 | Chillicothe High School | 2801 Hornet Rd, Chillicothe | 5:30 pm | January 9, 2017 |
| January 31, 2017 | Stoney Creek Inn - Columbia | 2601 S Providence Rd, Columbia | 5:30 pm | January 10, 2017 |
| February 1, 2017 | Hannibal Quality Inn | 120 Lindsey Dr, Hwy 36, Hannibal | 5:30 pm | January 13, 2017 |
| February 2, 2017 | Nevada High School | 800 W Hickory St, Nevada | 7:00 pm | January 17, 2017 |
| February 7, 2017 | Ozarks Technical Community College | 815 N Sherman Ave, Springfield | 7:00 pm | January 19, 2017 |
| February 7, 2017 | Blue Springs High School | 2000 NW Ashton Dr, Blue Springs | 7:00 pm | January 18, 2017 |
| February 15, 2017 | Liberty Early Childhood Center | 9600 NE 79th St, Kansas City | 7:00 pm | January 26, 2017 |
| February 16, 2017 | Ft. Zumwalt North High School | 1230 Tom Ginnever Ave, O'Fallon | 5:30 pm | January 27, 2017 |
| March 1, 2017 | PSRS/PEERS Office | 3210 W Truman Blvd, Jefferson City | 7:00 pm | February 9, 2017 |
| March 2, 2017 | Pattonville Senior High School | 2497 Creve Coeur Mill Rd, Maryland Heights | 5:30 pm | February 9, 2017 |
| March 7, 2017 | Camdenton Middle School | 280 Minor St, Camdenton | 7:00 pm | February 16, 2017 |
| March 9, 2017 | Winnetonka High School | 5815 NE 48th St, Kansas City | 5:30 pm | February 16, 2017 |
| March 14, 2017 | Stoney Creek Inn - St. Joseph | 1201 N Woodbine Rd, St. Joseph | 7:00 pm | February 22, 2017 |
| March 16, 2017 | Parkway West High School | 14653 Clayton Rd, Ballwin | 5:30 pm | February 23, 2017 |
| March 22, 2017 | Francis Howell Board Office | 4545 Central School Rd, St. Charles | 7:00 pm | March 6, 2017 |
| March 29, 2017 | Joplin East Middle School | 4594 E 20th St, Joplin | 7:00 pm | March 10, 2017 |
| March 30, 2017 | Ozarks Technical Community College | 815 N Sherman Ave, Springfield | 7:00 pm | March 10, 2017 |
| April 4, 2017 | Lee's Summit West High School | 2600 SW Ward Rd, Lee's Summit | 7:00 pm | March 15, 2017 |
| April 6, 2017 | Rockwood Summit Senior High School | 1780 Hawkins Rd, Fenton | 7:00 pm | March 20, 2017 |
| April 12, 2017 | Fort Osage High School | 2101 N Twyman Rd, Independence | 5:30 pm | March 22, 2017 |



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RETIREMENT SYSTEM OF MISSOURI

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Omar Davis Named PSRS/PEERS Director of Employer Services



Omar Davis, of Columbia, MO, has been named director of employer services for the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) effective September 26, 2016. He replaces Jeff Russler, who recently retired.

“Omar brings experience and a proven track record with public pension systems that we are confident will make him an invaluable member of the PSRS/PEERS team,” said Steve Yoakum, executive director. “We are pleased to welcome him to the Retirement Systems.”

Most recently, Davis served as the investment legal and compliance counsel for the Missouri State

Employees’ Retirement System (MOSERS). Prior to that, he was general counsel at the MoDOT and Patrol Employees’ Retirement System (MPERS). In addition, he served as director of revenue at the Missouri Department of Revenue from 2007 to 2009 and was director of the Missouri Department of Labor and Industrial Relations from October to December 2007.

Davis holds a Juris Doctorate degree from the University of Missouri - Columbia School of Law and a Bachelor of Science degree in psychology from Kansas State University.

Learn more about the PSRS/PEERS management team on our website, www.psrs-peers.org.