

**REGULAR MEETING**  
**BOARD OF TRUSTEES**  
**OF**  
**THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI**  
**AND**  
**THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI**

**April 9, 2018**

**MEMBERS PRESENT**

Dr. Aaron Zalis, Chair  
Jason Hoffman, Vice Chair  
Chuck Bryant  
Yvonne Heath  
Scott Hunt  
Beth Knes  
Jason Steliga

**MEMBERS ABSENT**

**OTHERS PRESENT**

M. Steve Yoakum, Exec. Director  
Dearld Snider, Asst. Exec. Dir., Oper.  
Craig Husting, Asst. Exec. Dir., Invest.  
Alan Thompson, General Counsel  
Anita Brand, Chief Finan. Officer  
Bill Betts, Chief Technology Officer  
Maria Walden, Legislative Director  
Omar Davis, Dir. of Retirement Serv.  
Nicole Hamler, Dir. Admin Planning

**Meeting  
Convened**

The meeting convened at 8:45 a.m., at the retirement system offices in Jefferson City, Missouri. In attendance were Board members Aaron Zalis, Jason Hoffman, Chuck Bryant, Beth Knes, Yvonne Heath, Scott Hunt and Jason Steliga. Also present were Executive Director, M. Steve Yoakum; Assistant Executive Director, Investments, Craig Husting; Assistant Executive Director, Operations, Dearld Snider; General Counsel, Alan Thompson; Chief Financial Officer, Anita Brand; Director of Retirement Services, Omar Davis; Director of Legislation and Policy, Maria Walden; Chief Technology Officer, Bill Betts; Director of Administrative Planning and Design, Nicole Hamler; and various other PSRS/PEERS staff members.

**Approval of  
Minutes  
PSRS4742  
PEERS2977**

Mr. Bryant moved that the minutes from the February 12, 2018 meeting be approved. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

**Order of  
Business**

Mr. Yoakum presented a plaque to Ronda Peterson recognizing her recent retirement from PSRS/PEERS.

**Certification  
of Election**

Ms. Heath moved that the trustee election results as certified by the petition audit committee be accepted as presented. That certification showed that Mr. Jason Hoffman and Mr. Jason Steliga had been elected by the membership for four-year

PSRS4743  
PEERS2978

**Election of Chair**

PSRS4744  
PEERS2979

terms beginning July 1, 2018. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. Hoffman nominated Dr. Aaron Zalis to serve as Chair of the Board for the period July 1, 2018 through June 30, 2019. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

**Election of Vice Chair**

PSRS4745  
PEERS2980

Mr. Steliga nominated Jason Hoffman to serve as Vice Chair of the Board for the period July 1, 2018 through June 30, 2019. Mr. Bryant seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

**Interest Credit Rate**

PSRS4746  
PEERS2981

Following discussion, Mr. Hoffman moved that the interest credit rate be set at 2% for June 30, 2018. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

**Interest Purchase Rate**

PSRS4747  
PEERS2982

Mr. Hunt moved that the interest purchase rate be set at 7.6% as recommended by staff which coincides with the assumed investment return. Mr. Steliga seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

**Other**

Dr. Zalis recognized Ms. Heath for being named the MSTA Southwest Region Elementary Educator of the Year. Ms. Heath was nominated by the Republic Community Teachers’ Association (CTA) and was chosen as one of 10 elementary school teachers across the State as a recipient for this award.

**Investments  
Consultant Observations**

Mr. Barry Dennis and Ms. Margaret Jadallah from Verus presented the firms’ initial observations regarding PSRS/PEERS’ investment portfolio and governance process. They also reviewed current items under discussion with the PSRS/PEERS’ investment staff.

**Ongoing Investment Activity**

Mr. Craig Husting and Mr. Barry Dennis, investment consultant, reviewed ongoing investment activities, which included the estimated 2018 fiscal year-to-date return of 7.1% as of March 31, 2018. Mr. Husting discussed the current asset allocation of the PSRS/PEERS portfolio, in which he reviewed the long-term strategy, portfolio themes and the broad portfolio expectations. Mr. Husting also reviewed the tentative board investment calendar.

**US Equity**

Mr. John Tuck, Mr. Travis Allen and Mr. Chad Myhre reviewed the Systems’ U.S. Public Equity portfolio with the Board. The five-year annualized return for the Large-Cap and Small-Cap U.S. Public Equity composite for the period ended February 28, 2018 was 14.3% and 12.0% respectively. Mr. Tuck also discussed the performance of the Alpha Overlay program.

## Private Equity

Mr. Doug LeBon, Mr. Vince Dee, Mr. Wayne Smith and Mr. John Ruggieri, were present from Pathway Capital Management to review the Systems' Private Equity portfolio. Mr. LeBon presented an overview of the firm and recent activity. Mr. Dee updated the Board on the current private equity environment and PSRS/PEERS portfolio. Mr. Ruggieri reviewed the Co-Investment program and discussed the primary benefit as well as the approach and strategy. Mr. Dee discussed the Private Credit portfolio with the Board in which he gave an overview of the combined accounts. In summary, Mr. LeBon reported that the PSRS/PEERS' Private Equity portfolio is developing according to plan and that PSRS/PEERS is invested in a well-diversified, high-quality portfolio. The Private Equity portfolio had produced an annualized return of 11.8% for the 10-year period ended December 31, 2017 relative to the Russell 3000 public equity benchmark of 8.6%.

## Management Report

### Legislative Update

Ms. Maria Walden and Mr. Jim Moody updated the board on the current legislative session. Mr. Moody reported briefly on state revenue and gave an update on the March 2018 revenue to the Board. He also discussed sales tax growth and Missouri income from capital gains and dividends.

Ms. Walden reviewed the upcoming important legislative dates, the legislative statistics, and new legislation filed. There are several bills that have been filed this year that could have a direct impact on the Systems.

**HB 1670** removes the current requirement for a school district to have a salary schedule applicable to all teachers and replaces it with a required compensation plan. This bill also impacts the System's working after retirement statute. Currently, a retired PSRS member may work a total of 550 hours on either a part-time or temporary substitute basis and be paid up to 50% of the annual compensation payable under the district's salary schedule for the position filled, without a discontinuance of his or her retirement allowance.

HB 1670 changes the 50% annual compensation limit to 50% of the salary paid to the person who last held the position. Any enhancement or adjustment to the working after retirement statute has an increased cost to the Systems. This bill creates some concerns about the school districts' ability to adequately monitor such a change. It also poses some concern over the ability to adequately enforce the working after retirement provision. The Systems have an actuary firm, PricewaterhouseCoopers (PWC), that prepares actuarial cost statements on any proposed legislation, as well as the annual actuarial valuation reports for the Systems.

**HB 1673** requires that each public pension plan in Missouri provide a pension statement to their members. The pension statement must be provided annually and must include:

- The participant's accrued contributions to the plan
- The date the participant is first eligible for a normal retirement benefit
- The participant's projected benefit at normal retirement and may include the percentage of the participant's salary that will be replaced by the pension benefit upon reaching normal retirement

- The date of the plan's valuation
- The plan's funded ratio
- A notice if the plan is on the joint committee on public employee retirement's annual watch list
- A notice if the actuarially determined contribution to fund the plan has not been made as of the most recent annual actuarial valuation, unless the plan is unable to make such contribution due to statutory limitations
- An electronic link or website address to view the plan's Comprehensive Annual Financial Report

This information is already available on our Member Statements and our website. The Systems send over 151,000 Member Statements every year to our active membership. The Member Statement consists of 10 pages of information regarding the member's accrued contributions, current account balance, the date the member is first eligible for normal retirement and the projected benefit for the member at normal retirement.

Section 105.661, RSMo., of this bill requires additional information be included in the pension statement, such as the date of the plan's valuation, the plan's funded ratio, notification if the plan is on the Joint Committee on Public Employee Retirement's annual watch list, notification if the actuarially determined contribution to fund the plan has not been made as of the most recent annual actuarial valuation, and an electronic link to view the plan's Comprehensive Annual Financial Report. It also requires that each plan provide the statement annually to active participants regardless of whether it is requested. Currently, PSRS/PEERS provides most of this additional information in a separate publication called Summary Report to Members that is available on our website to over 250,000 active and retired members separate from the Member Statement.

**SCS HB 2044/SCS SB 1021** is an omnibus public pension retirement bill. The SCS impacts more than eight different retirement plans in the state. There are three provisions that impact PSRS/PEERS directly. First, this bill allows any teacher retired from PSRS to be employed in a position covered by PEERS without stopping their retirement benefit. Such retired teacher may earn up to 50% of the minimum teacher's salary (\$12,500) and will not contribute to the Retirement System or earn service. The employer's contribution rate will be paid by the hiring employer. If such person is employed in excess of these limitations, the person will not be eligible to receive their retirement allowance for any month the person is employed, and such person shall contribute to the Retirement System if he or she is in an eligible position.

Second, this bill allows municipal firefighter pension plans to enter into cooperative agreements with other pension plans, including PSRS and PEERS, for the transfer of service between the plans in accordance with 105.691, RSMo. PSRS or PEERS would have discretion to choose whether to enter into such agreement.

And finally, this bill exempts information pertaining to the salaries and benefits of the executive director and employees of PSRS/PEERS from being confidential.

One provision in the bill that we are closely monitoring applies to the Public School Retirement System of the City of St. Louis and the Kansas City Public School Retirement System, and deals with member benefits. This provision allows members' benefits to be modified, changed, reduced or repealed for any member of these two retirement systems hired on or after August 28, 2018. The modification or repeal would only apply to service rendered by the member after the effective date of the changes. This provision would potentially allow the General Assembly to make changes at any time to the benefits of members who are actively employed (hired after August 28, 2018) without impairing their constitutional guarantee to provide promised benefits.

**HCS HB 2200** authorizes schools of innovation. Under this bill, the board of education of a school district may establish a school of innovation offering a program with a curriculum, delivery method, or instructional model different from the traditional school model. The governor shall award 10 competitive grants per year to school districts for the establishment, implementation, or expansion of schools of innovation.

The bill also permits a school district to enter into an agreement with another school district to provide students access to courses or schools, or to cooperatively provide schools to educate resident students of all participating districts.

Section 160.430.10, RSMo. of this bill allows a retired teacher of PSRS to return to work for a covered employer in these schools of innovation and not be subject to the working after retirement limits found in Section 169.560, RSMo. Last school year, more than 10,514 PSRS/PEERS retirees returned to work for a covered school district. This group of retirees earned more than \$70 million dollars, and while the average earnings were \$7,092 for PSRS (\$4,800 for PEERS retirees), there is still a financial impact to the Systems, particularly if this statute is expanded without any working after retirement limits for schools of innovation.

This section of the bill also would circumvent the Critical Shortage Full-Time Employment Exception provision. Last year, PSRS had 83 retirees (PEERS had 83 retirees) return to work under the Critical Shortage provision. The employers of these 166 positions were required to pay contributions on all salary earned. This new change does not require any employer contributions for those retired members who work full-time for these schools of innovation or cooperatives.

As of July 2017, PSRS had 14,704 active members eligible to retire (7,381 with unreduced benefits). Of those, 2,601 actually retired, which is approximately 17.7% of the 14,704 who were eligible. The proposed change in this bill could affect future retirement patterns of PSRS members. If that occurs, PSRS/PEERS' actuaries would have to make a change in the current retirement assumptions, which would also impact the Normal Cost of the System, which could further increase the Actuarially Determined Contribution Rate and result in a long-term cost increase for the System.

PWC's actuarial cost statement regarding the impact to PSRS will have, at minimum, a cost of over \$101.1 million to the Unfunded Actuarial Accrued Liability to PSRS, and a potential increase to the contribution rate of 0.26% for our members

and employers. There would also be a change in the present value of future benefits of \$76.2 million. If the bill becomes law and is used by 200 retirees per year, HCS HB 2200 will likely have a cost of over \$187.1 million to the Unfunded Actuarial Accrued Liability to PSRS and a potential increase to the contribution rate of 0.47% for our members and employers. There would also be a change in the present value of future benefits of \$144.4 million.

**HCS HB 2247** makes various changes to charter schools. It removes provisions authorizing a charter school to operate in a school district that has been classified as provisionally accredited. Instead, a charter school may operate in any school district in which at least one attendance center has received an annual performance report (APR) score of 60% or less for two of the three most recent reports available when the charter school applies to open a school. There are numerous other provisions in this bill that also relate to charter schools.

There is an amendment to this bill, drafted by Representative Rocky Miller, that would modify the Board structure of PSRS/PEERS. Currently, the Board is composed of seven trustees: four elected, active members (three PSRS and one PEERS) and three governor appointed members. Of the three governor-appointed positions, one of those positions is required to be a retired member of PSRS or PEERS. The amendment would require that one of the two remaining positions appointed by the governor be a member of a school board of a school district or a trustee of a community college.

There are also two amendments to this bill drafted by Representative Rhoads that would add HCS for HB 2200, which deals with working after retirement, to this bill.

**HCS HB 2335** allows any teacher retired from PSRS to be employed in a position covered by PEERS without stopping his or her retirement benefit. These retired teachers may earn up to 60% of the minimum teacher's salary (\$15,000) and will not contribute to the Retirement System or earn service. The employer's contribution rate must be paid by the hiring employer. If such person is employed in excess of these limitations, the person will not be eligible to receive their retirement allowance for any month the person is employed, and such person shall contribute to the Retirement System if he or she is in an eligible position.

According to PWC, there will be an insignificant cost savings to this provision as it is currently drafted, this is a result of the fact that the bill will not incent any retired teachers to retire early, there is a low salary cap and the employer contributions are collected on any salary earned.

**HB 2505** clarifies that educational requirements for public employee retirement plan board members only apply to defined benefit pension plans, and for board members who have served at least one year and administered a defined benefit plan. Individual participants in a defined benefit plan may request an annual pension benefit statement.

**HB 2619** makes some changes to PSRS/PEERS' working after retirement statute. Currently, a retired PSRS member may work a total of 550 hours on either a part-

time or temporary-substitute basis and be paid up to 50% of the annual compensation payable under the district's salary schedule for the position filled, without a discontinuance of his or her benefits. Currently, a retired PEERS member may work a total of 550 hours on a part-time or temporary basis. This bill changes the 550-hour limitation to 700 hours for both PSRS and PEERS.

PWC provided the cost statement regarding this provision. The Actuarial Accrued Liability would cost PSRS between \$24.8 million and \$300.1 million, depending upon the number of people who take advantage of this increase. The Actuarial Accrued Liability would cost PEERS between \$5.01 million and \$66.8 million, depending upon the number of people who take advantage of this increase.

**HB 2633** repeals the July 1, 2014 termination date of a provision allowing members of PSRS who have 31 or more years of service to have their retirement benefit calculated using a benefit factor of 2.55%.

PWC provided the cost statement regarding this provision. The Actuarial Accrued Liability would save PSRS approximately \$91.2 million and reduce the Actuarial Determined Contribution rate by -0.21%.

**HB 2660** also changes the Board structure of PSRS/PEERS. Currently, the Board has three elected trustees from PSRS (certificated) and one elected trustee from PEERS (noncertificated). This bill will restructure the seven-member Board to have two elected trustees from PSRS and will add one elected trustee from a school board of a school district.

This proposal also requires the PSRS/PEERS to pay to a covered employer any contributions made on behalf of members who no longer are active and who take a refund of their contributions and interest from the Systems. Currently, if a member is no longer an active member, he or she can take a refund of his or her contributions and interest from PSRS or PEERS. The employer contributions remain in the System and are utilized to offset the cost of retirement benefits for the other members and employers.

PSRS and PEERS are defined benefit, tax-qualified governmental pension plans. For PSRS and PEERS to maintain their tax-qualified status, the Systems must meet several requirements set forth in the Internal Revenue Code, Section 401(a)(2). This section does not allow for any part of the trust assets or income to be used for any other purpose other than for the exclusive benefit of the employees or their beneficiaries, this is known as the Exclusive Benefit Rule.

The provision in this bill to include payment to the employer that is equal to the accumulated value of contributions paid to members who take a refund of their contributions would violate the Exclusive Benefit Rule and raise tax qualification issues for PSRS/PEERS under the IRS Code.

PWC provided the cost statement regarding this provision. This provision will have an actuarial cost of over \$508.2 million to the Unfunded Actuarial Accrued Liability for PSRS, and a potential increase to the contribution rate of 2.07% for our members

and employers. This cost does not take into account the amount the System would have to pay to the IRS if our tax-qualified status was revoked.

**HB 2728** permits a retired teacher to exceed the 550-hour limit on substitute teaching without impacting the teacher's retirement benefits, if the teacher has an annual income, not counting income from substitute teaching, of less than \$15,000. PWC is still analyzing HB 2728 regarding its' financial impact to the Systems.

**SB 686** prohibits PSRS/PEERS and all public pension plans in Missouri from contracting with or investing in individuals, partnerships, corporations or other legal entities investing or doing business with Russia, or any territory occupied by Russia. Existing contracts shall not be renewed and shall be cancelled or divested as soon as prudently possible.

The PSRS/PEERS Board of Trustees has adopted a policy to monitor all investments to comply with the U.S., and applicable non-U.S., economic sanction programs from the U.S. Treasury's Office of Foreign Assets Control (OFAC). Monthly, quarterly and annual verifications are conducted by PSRS/PEERS investment staff and custodian to ensure compliance. It is the role of the federal government to set the foreign policy that the states should follow.

The Board has a resolution that respectfully urges the General Assembly not to adopt any legislation or mandate any changes that would diminish or impair the PSRS/PEERS Board of Trustees' full authority for directing the Systems' investment program.

Ms. Walden also discussed other legislation the Systems are monitoring, which do not have direct impacts on the Systems

Following discussion, the board made the following motions:

Mr. Hunt made a motion to oppose any legislation (currently HB2660) that alters the tax qualified status and requires the return of employer contributions for members who take a refund from the Systems. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4748  
PEERS2983

Mr. Hunt made a motion to support any legislation that affirms the current structure of the Board, which already has a mechanism in place for employers to be represented. Mr. Steliga seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4749  
PEERS2984

Mr. Hoffman made a motion to continue the support of HCS HB 2235 considering the following two provisions remain in the bill: the salary remains at 60% of the minimum teacher's salary and the employer is required to pay contributions on those earnings. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS47450  
PEERS2985



PSRS4751  
PEERS2986

Mr. Hunt moved that the Board oppose any working after retirement legislation that would have a cost and increase the liabilities of the Systems. Mr. Bryant seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

### **CPI Update**

Mr. Yoakum discussed the calculation of the Consumer Price Index (CPI) calculated by the Bureau of Labor Statistics (BLS). PSRS/PEERS’ regulation requires that the time period for the CPI calculation is from June to June. Based on the values provided by the BLS, the CPI-U, which is used for COLA calculations, is up 1.6476% through February 28, 2018. The March reading for the CPI-U will not be released until April 11, 2018

### **Public Comment**

Mr. Jim Kreider, Missouri Retired Teachers Association, stated he was concerned about the bill that modifies the Public School Retirement System of the City of St. Louis and the Kansas City Public School Retirement System, allowing changes to the benefit structure for new hires after August 28, 2018. Mr. Kreider indicated he believed that PSRS/PEERS may be next, and stated that he would like our Board to take a position against the bill.

The Board discussed the bill and understands the potential harm. However, they do not want to take a position on bill that does not impact PSRS/PEERS directly.

Mr. Michael Stearly, PSRS retiree, expressed his concern for the bill that changes the structure of the PSRS/PEERS Board of Trustees. He believes that PSRS/PEERS is a model plan and that is partly because of the current structure of the Board. He also stated that he believes that the current structure does represent the employers and a change is not necessary. He stated that he planned to testify against the bill at the Capitol. Dr. Zalis thanked Mr. Stearly for his comments.

### **Other**

Dr. Zalis congratulated Mr. Yoakum on his recent 40<sup>th</sup> anniversary in the pension industry and his upcoming 20 years with PSRS/PEERS in August.

### **Closed Session**

PSRS4752  
PEERS2987

Mr. Bryant moved that the meeting continue in closed session to consider personnel issues, technology security issues, and legal matters under Sections 610.021 (1), (13), (14), (21) and 169.020.15, RSMo. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

The following motions were made in closed session:

PSRS4753/PEERS2988 - Minutes (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the previous closed session minutes)

PSRS4754/PEERS2989 – ED Evaluation (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the Board completed ED evaluation)

PSRS4755/PEERS2990 – ED Contract and Compensation Review (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the new contract and salary for ED)

PSRS4756/PEERS2991 – Board Self- Evaluation (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the Board completed self-evaluation)  
PSRS4757/PEERS2992 – Adjournment (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to adjourn closed session)

The following items were discussed in closed session that did not require a vote by the Board: Legal Report, Internal Controls Report and Personnel Report.

**Adjournment**  
PSRS4758  
PEERS2993

Mr. Steliga moved that the meeting adjourn. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.