November 3, 2017

Dear Members,

We are pleased to announce that the Board voted on November 3, 2017 to set the COLA for eligible PSRS/PEERS benefit recipients at 1.63%, effective January 2018.

The PSRS/PEERS Board of Trustees understands and sympathizes with the current financial condition of many of our retirees and the impact the 2016 COLA decision had on each one personally. The Board fully appreciates the sacrifice, hard work and dedication of not only our retired members, but our active members as well.

There has been a great deal of incorrect information concerning the Board's COLA changes and subsequent review. Two critical factors have governed the Board in making the decisions they have over the last year, and the decisions we will make regarding the Systems into the future. Those elements are our fiduciary responsibility and PSRS/PEERS' ability to maintain long-term financial stability by applying consistent goals for the plans.

Fiduciary Responsibility
Fiduciary responsibility for the Board and others responsible for the trust funds includes both the duties of loyalty and impartiality. The duty of loyalty requires operating the Systems for the exclusive benefit of the active members and retirees of the Systems, and must supersede the interests of all other parties. The duty of impartiality requires that the Board not favor any type of plan participant over another (e.g. active, inactive, retired members). The Board has a fiduciary duty to: 1. Effectively collect contributions, 2. Prudently invest the assets to obtain optimum returns, 3. Equitably provide benefits, 4. Impartially and in accordance with applicable law, administer the benefit program, and 5. Set contribution rates adequate to fund promised benefits.

PSRS/PEERS' Continuous Goals
Throughout the review and discussion concerning COLAs, the following long-term goals were in the forefront of consideration: 1. Provide for the security and financial stability of the Systems, including maintaining an 80% pre-funded ratio and allowing for a reasonable assumed rate of return given capital market estimates, 2. Maintain the contribution rates of both Systems at or below current levels, and 3. Provide a consistent COLA for PSRS/PEERS retirees to maintain their purchasing power, noting COLAs should be dependable and affordable without harming the stability of the Retirement Systems.

It is important to understand the history of how we got to the current COLA policy and what brings us to the decisions that faced the Board.

Several important items converged in 2016: 1. The actuarial review or audit (done every 10 years by a third-party actuary) reviewed and questioned actuarial assumptions and methods, 2. The actuarial experience study (done every five years to test actual against assumed experience), 3.

The Society of Actuaries' new professional standards (requiring greater scrutiny of mortality tables, assumptions and methods by retained actuaries) and, 4. A continued low interest rate/low expected return investment market environment (as shown in the Asset-Liability study, which put additional pressure on reducing assumed investment return rate assumptions), all of which, combined in 2016 to create a very challenging environment. Importantly, the changes needed to address each of these substantial additional costs to the plans.

Throughout the spring of 2016, the Board was presented with detailed information regarding mortality, investment assumptions and overall funding, which resulted in a change in the PSRS/PEERS funding policy. The various assumptions within the Funding Policy that needed amending included inflation rates, payroll growth, mortality rates, investment returns, individual salaries, retirement rates and refund rates. This information was shared with the state education associations, as well.

What became readily apparent was that doing nothing with the COLA policy was **not** an option, as contribution rates would rise substantially for active members and school districts without changes. The following chart illustrates the impact on the Systems should the policy existing in 2016 continue:

	Projected June 30, 2016 *inclusive of estimated return of 0% for FY16*		
	No Change In COLA Funding	Actual COLA when CPI is between 0-2%	0% COLA when CPI is between 0-2%
Estimated Peak Contribution Rate	35.3%	31.5%	29.6%
Estimated Lowest Funded Ratio	77.5%	80.8%	82.5%

Importantly, at the time, the changes in liabilities would have resulted in the PSRS total contribution increasing from the current 29% (14.5% for both the active educator and his or her school district) to 35.3%, while the pre-funded percentage of the plan would have declined to 77.5%. Neither of these were desirable, or acceptable outcomes.

I am sure you understand that these were difficult decisions for the Board. However, during this challenging time, the overall financial health and solvency of the plans for both current **and** future generations of Missouri educators and school employees was the most important goal. The changes made to the funding policy in 2016, including the COLA policy, were critical at that time to achieve that goal. Again, doing nothing was not an option.

In December 2016, the Board passed a resolution, which stated that the Board would "annually analyze the financial impact of revisions to the COLA assumptions as part of the annual actuarial valuations." The intent of the resolution was to review the COLA change more frequently than the normal five-year experience study cycle, clarified with a Board motion to that effect.

In accordance with the COLA Resolution, the Board worked with staff and advisors to come up with various COLA options and parameters within the stated goals above. The Board then requested that the Systems' actuaries, PricewaterhouseCoopers (PwC), calculate the 2017 actuarial valuation with these different COLA options and assumptions. The analysis of this was presented by PwC to the Board and others in a working session on November 2, 2017.

We are fortunate that PSRS/PEERS has remained in strong financial health (over 85% pre-funded) and for the achievement of strong 2017 investment returns. Both of these factors allowed the Board to review the COLA decision at this time within the constraints of our long-term goals. After much discussion, the Board voted (5-2) to change the COLA policy. Effective January 1, 2018, eligible benefit recipients will receive a one-time 1.63% COLA, which is equal to the CPI-U for the fiscal year. The policy going forward for consideration of the January 1, 2019 COLA is outlined in the following chart:

2017 Board Approved Funding Policy Effective for January 1, 2019 COLA	
CPI - U	**COLA per Board Approved Funding Policy**
Less than 0	0.0%
0-2%	0% when CPI-U is cumulatively below 2%
0-2%	2.0% when total cumulative CPI-U reaches 2.0% or more*
2-5%	2.0%
over 5%	5.0%

* Resets cumulative calculation after a 2% COLA is provided.

All decisions are dictated by the Board's fiduciary responsibility to the Systems. The Board will continually monitor the financial health of the Systems and re-evaluate assumptions in the Funding Policy, including the COLA policy. Maintaining the financial solvency and the viability of the plans is the primary goal and responsibility of the Board of Trustees.

A detailed summary with additional information about the Board's Work Session and Trustee meeting will be available next week.

Sincerely,

The PSRS/PEERS Board of Trustees

Aaron Zalis, Chair

Jason Hoffman, Vice Chair

Charles Bryant, Trustee

Yvonne Heath, Trustee

Scott Hunt, Trustee

Beth Knes, Trustee

Jason Steliga, Trustee