Retired Members | MAY 2019

PEERS Benefit Check

PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

Pensions Make an Economic Impact

2019 Legislative Update

Contact Us

PO Box 268
3210 W. Truman Blvd.
Jefferson City, MO
65102-0268
Call Toll Free (800) 392-6848
or (573) 634-5290

Email
psrspeers@psrspeers.org

Web
www.psrs-peers.org

PEERS

PUBLIC EDUCATION EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI

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Pensions Make an Economic Impact

New Independent Research Study Confirms the Value of Defined Benefit Pension Plans

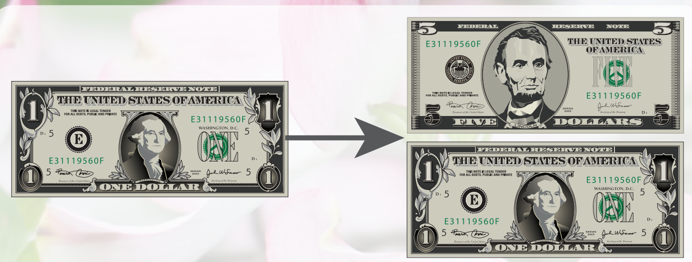
A recent study conducted by the National Institute on Retirement Security (NIRS) found that pensions contribute substantially to the local, state and national economies.

In the report, "*Pensionomics 2018, Measuring the Economic Impact of DB Pension Expenditures*," researchers found that reliable pension income can be especially important not only in providing retirees with peace of mind, but also by stabilizing local economies during economic downturns.

The economic gains attributable to defined benefit pension plans in the U.S. are substantial

- Retiree spending of pension benefits in 2016 generated $1.2 trillion in total U.S. economic output, supporting some 7.5 million jobs across the U.S.
- Pension spending also added a total of $202.6 billion to U.S. government coffers, as taxes were paid at federal, state and local levels on retirees' pension benefits and their spending in 2016.
- Pension spending in Missouri supported 50,829 jobs and a total of $7.2 billion in total output within the state.

The study also found that every dollar invested by members into a Missouri defined benefit pension plan like PEERS produced $6.01 of total economic output within the state.



$1.00
Invested in Defined Benefit Plans

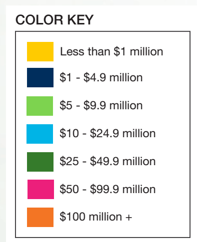
$6.01
Total Output

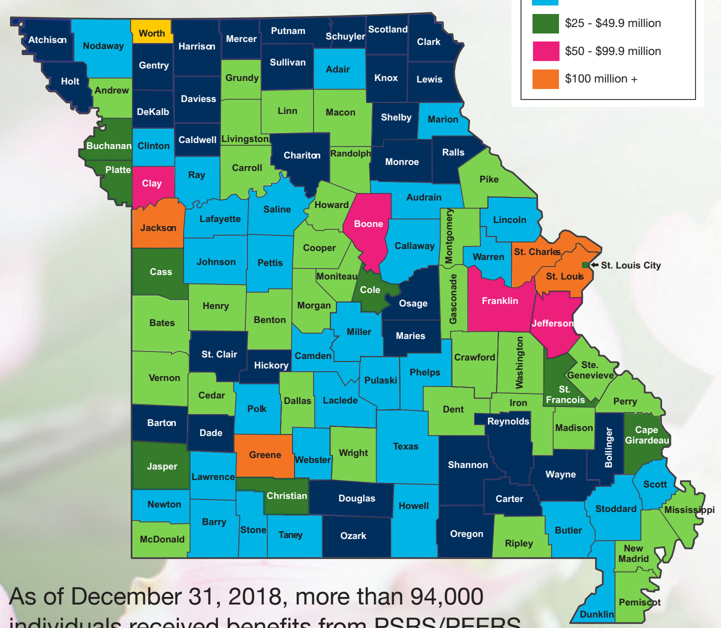
Source: "Pensionomics 2018: Measuring the Economic Impact of DB Pension Expenditures," January 2019.

In Missouri, the benefits paid by PEERS and its sister plan, the Public School Retirement System of Missouri (PSRS), make a sizable contribution to Missouri's economy and help Missouri public schools attract and retain quality teachers and education employees.

PSRS/PEERS of Missouri Pension Benefits by County

(Unaudited as of December 31, 2018)





As of December 31, 2018, more than 94,000 individuals received benefits from PSRS/PEERS. Total annual benefits paid were over **$2.8 billion**. Of this amount, more than $2.5 billion or 89% was distributed among Missouri's 114 counties, positively impacting the state's economy.

You can read the NIRS study in its entirety at **https://www.nirsonline.org**. You may view the interactive version of the Benefits by County on our website.

2019 Legislative Update

Since the General Assembly began the 2019 Legislative Session on January 9, 2019, over 1,900 bills have been introduced. PSRS/PEERS is closely monitoring almost 200 bills. The 2019 Legislative Session ends on May 17, 2019.

The following is an overview of some of the bills of interest to PSRS/PEERS and our members, as of the release of this newsletter. The status of these bills can change daily. To view a summary and the current status of all the bills we are tracking this session, visit **www.psrs-peers.org/Legislation**.

House Bill (HB) 69 allows active PSRS members who have more than 31 years of service to retire with a benefit factor of 2.55% instead of the current benefit factor of 2.5%.

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

House Bill (HB) 77 and Senate Bill (SB) 17 allow all PSRS retirees who return to work for community colleges to be covered under the 550 hours and 50% of salary statutory work limits (this exempts them from the $15,000 salary/no hourly limit provision passed last session).

No contributions would be required from the employer or retiree. This bill does not contain a refund provision.

PricewaterhouseCoopers (PWC), the Systems' actuary, prepared a cost statement that indicates this bill would have no fiscal impact to PSRS and the fiscal impact to PEERS would be an insignificant loss.

The Board went on record unanimously in support of HB 77 and SB 17 as long as the bill(s) do not contain a refund provision, which would jeopardize PSRS/PEERS' federal tax exemption status.

HB 77 was truly agreed to and finally passed on April 4, 2019 and was sent to the governor on April 9. **The governor signed the bill on April 16.**

House Bill (HB) 201 requires that each public pension plan in Missouri provide a pension statement to their members. This 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
- The date of the plan's valuation
- The plan's funded ratio
- 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, 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.

PSRS/PEERS has been in compliance with these provisions already.

House Bill (HB) 362 increases the annual cap on the numbers of hours a retired teacher may serve as a substitute teacher without impacting the payment of his or her retirement benefits from 550 hours to 700 hours per school year.

According to an analysis by the Systems' actuary, this bill would increase PSRS/PEERS' normal costs and liabilities. The actuarially determined contribution rate for each System is a sum of two parts: 1. The normal cost rate – the present value of future benefits, and 2. The unfunded actuarial accrued liability.

The actuary provided a range of potential costs to the System based on how many retirees may decide to take advantage of the increased number of hours they could work while still receiving benefits under this bill.

They also looked at a range of possible usage from an additional 5% of members who would retire earlier and a 1% decrease in payroll, to an additional 10% of members who would retire early and a 3% decrease in payroll.

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If the usage of the increased limit on post-retirement work hours falls within these ranges, the increase in the normal cost to PSRS would be between $18.3 million and $227 million. The increase in PSRS' actuarially accrued liability would be between $26.1 million and $312.2 million. The increase the normal cost to PEERS would be between $5.2 million and $69 million. The increase in PEERS' actuarially accrued liability would be between $5.6 million to $76.9 million.

House Bill (HB) 459 repeals a provision that allows a PSRS retiree to be employed in a position covered by PEERS and earn up to 60% of the minimum teacher's salary as set forth in Section 163.172 RSMo.

- PSRS retirees would be allowed to earn up to 50% of their salary as an active employee as outlined in the bill.
- The provision requiring contributions to be paid to the Retirement System by the hiring employer of such person is also repealed.

House Bill (HB) 723 allows any retiree who selects a Joint-and-Survivor benefit plan and has a subsequent divorce, or any retiree who has already been divorced, to get a benefit "pop-up" to the Single Life benefit plan amount upon receipt of an application by PSRS/PEERS, as long as the following occurs:

- For divorces that occur after September 1, 2017, the divorce decree must clearly state that the retiree retains sole retention of his/her retirement benefit and that the ex-spouse is relinquishing all rights to his/her benefit (no change from current statute).
- For divorces that occurred before September 1, 2017, the divorce decree must clearly state that the retiree retains sole retention of his/her retirement benefit and that the ex-spouse is relinquishing all rights to his/her benefit, and:
    - The parties obtain an amended or modified divorce decree after September 1, 2017, or
    - The spouse named as beneficiary consents in writing to his/her immediate removal as the named beneficiary and disclaims all rights to future benefits to the satisfaction of the PSRS/PEERS Board of Trustees.
- For divorces that occurred before September 1, 2017, and the divorce decree does not provide for sole retention by the retired person, the parties must obtain an amended or modified divorce decree after September 1, 2017, which provides for sole retention by the retired person of all rights to the retirement allowance.

A PWC cost statement indicates an insignificant fiscal savings to PSRS and PEERS for this bill. The Board went on record unanimously in support of HB 723.

House Bill (HB) 864 Allows all PSRS members to elect a Defined Contribution (DC) retirement option.

Under the bill:

- Member are not allowed to change the election once made.
- Members cannot participate in both the defined benefit option and the defined contribution option.
- Requires employers to contribute 5% of payroll (as well as Social Security contribution of 6.2%, total contributions would be 11.2%) for any member who elects the defined contribution option.
- Requires employees to select their contribution level between 3% and 50% (as well as Social Security contribution of 6.2%, total contribution would be 9.2% to 56.2%) of payroll unless restricted by federal law.
- Employees shall select specific investment options.

PWC is still working on the cost to PSRS should this bill go into effect. In years' past, this cost associated with similar bills has been very significant. The Board went on record in opposition to HB 864.

Investments: Diversification and Down-Side Protection

The main determinant of a pension fund's long-term success is its investment asset allocation. One of the PSRS/PEERS investment staff's key objectives is to continuously analyze the Systems' asset allocation to ensure that it is positioned appropriately for *future* market environments. Ultimately, the staff strives to achieve the optimal allocation of funds among asset classes given the Systems' return requirements, risk tolerance and ongoing liabilities.

Reducing Volatility

The volatility of investment returns matters for institutional investors such as PSRS and PEERS because lower volatility translates into higher returns. Volatility refers to the amount of uncertainty or risk related to the size of changes in an investment's value.

A higher volatility means that an investment's value can potentially be spread out over a larger range of values. This means that the price of the investment can change dramatically over a short time period in either direction. A lower volatility means that an investment's value does not fluctuate dramatically and tends to be steadier.

If two portfolios have the same average return, the one with the lower volatility will generate a higher compounded annual return.

Example

Investor A generates an average annual return of **10%**	with returns of **9%** one year and **11%** the next year	Generates compounded annual return of **10%**
Investor B generates an average annual return of **10%**	with returns of **0%** one year and **20%** the next year	Generates compounded annual return of **9.5%**

The same average rate of return with lower volatility will result in a greater fund balance over time. The Systems' goal is to achieve investment returns in a relatively smooth (non-volatile) manner.

The primary method to reduce portfolio volatility is through the introduction of additional, uncorrelated asset classes (diversification). The theory behind utilizing uncorrelated assets (or investments that act differently) is that one asset class may be declining (or lower) in value when another is rising. The result is a smoother series of returns for the portfolio as a whole than if the two asset classes moved down and up in a correlated fashion.

Achieving Long-Term Stability

The solid investment performance of PSRS/PEERS several years ago was the result of a two-dimensional portfolio of stocks and bonds. However, the most recent investment success at PSRS/PEERS has been the result of a more broadly diversified program complemented by non-traditional investment strategies (such as real estate, private equity and absolute return strategies) and more active management of assets. The Board made allocations to real estate and private equity over the last several years as a way to improve returns (relative to bonds), diversify stock risk and contribute greater stability to the overall portfolio. For example, the diversified portfolio provides the Systems with a greater degree of downside protection in periods where the stock market declines.

Minimizing Losses During Downturns

Mathematically, if an investor can reduce the exposure in down markets (even by foregoing some upside in positive markets) he can create more wealth (the money grows at a faster rate). Our goal is to protect the PSRS/PEERS' portfolio as much as possible in down markets (because it is difficult to earn back what is lost). However, we also want to remain as fully invested in the stock markets as possible to allow the Systems to earn money when markets are strong.

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> The broad goal of the Systems with respect to the global stock market is to structure the portfolio to capture **at least 60%** of the market when it is up and **less than 40%** when it is down.

For example, if the global stock market was up 10% in a specific year, we would expect the PSRS/PEERS portfolio to be up around 6%. Conversely, if the global stock market was down 10% in a year, we would expect the PSRS/PEERS portfolio to only be down approximately 4%.

We do not expect the PSRS/PEERS asset allocation to provide 'home-run' like returns for the Systems in any one year. Instead, the diversified asset allocation is expected to enhance the probability that PSRS and PEERS can continue to deliver 'singles' through consistent and meaningful investment returns over the long-term for the members of the Systems. In the end, the overall primary mission and focus still remains investing the Systems' assets in a manner to earn the 7.5% actuarial assumed rate of return over a long-time horizon.

Board Leadership Selected for 2019-2020 School Year

At their April meeting, the Board re-elected Dr. Aaron Zalis to serve as chair and Jason Hoffman to serve as vice chair for the 2019-2020 school year (July 1, 2019 to June 30, 2020).

Dr. Aaron Zalis
Chair

Jason Hoffman
Vice Chair

Board Sets Interest Rates on Contributions, Reinstatements and Service Purchases

Interest on Contributions

At the April meeting of the PSRS/PEERS Board of Trustees, the Board voted to maintain the interest rate active members earn on their contributions at 2%, effective June 30, 2019, and also for the upcoming 2019-2020 school year (July 1, 2019 - June 30, 2020).

Interest is credited June 30 each year on the total contributions and interest in a membership, as of the previous June 30. This occurs until the membership is closed. Memberships are closed due to retirement, a refund of a member's contributions and interest, the death of the member, or when the member is not vested and is out of PSRS-covered employment for five consecutive school years.

The interest rate has no impact on the amount of your retirement benefits. Interest is paid out through lump-sum payments made to members who request refunds of their contributions and the interest earned on those contributions, and to the beneficiaries of deceased members.

Interest on Reinstatements and Service Purchases

In accordance with PSRS/PEERS regulations, the Board voted to maintain the interest rate charged on the reinstatement of previously forfeited service and applicable service purchases at 7.5%. This is the Systems' assumed, or target rate of return on investments.

PEERS
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RETIREMENT SYSTEM OF MISSOURI
PO BOX 268 JEFFERSON CITY MO 65102-0268

Working After Retirement: Know Your Limits

Working as a retiree for a PEERS-covered employer can be rewarding and beneficial for you and your employer. However, if you work part-time or as a temporary-substitute for a PEERS-covered employer and plan to continue receiving your retirement benefits, your work is limited by law to a maximum of 550 hours per school year. If you exceed the limit, your benefits stop.

This is the maximum limit. If you retire in a month other than July, your first-year limit will be pro-rated. When you are reported by your employer as working post-retirement, we will contact you with information about your specific limit and provide you a ***Working After Retirement Record*** form on which to track your work.

It is important to understand how your employer is tracking your work and that your records agree. If they don't, we consider the employer's records official. You can view the hours reported by your employer by logging in to view your membership in PEERS Web Member Services at **www.psrs-peers.org**.