

Minutes

**Board of Trustees
Public School Retirement System of Missouri
And
Public Education Employees Retirement System of Missouri
June 16, 2014**

by Carol Weatherford, MNEA Legislative Consultant

Members present:

Yvonne Heath
Jason Hoffman
Scott Hunt
Susan McClintic
Wayne Wheeler
Aaron Zalis
Bill Compere was present by telephone

Others present:

Steve Yoakum, Executive Director	Nicole Hamler, Board Secretary
Craig Hustings, Chief Investment Officer	Dearld Snider, Asst Executive Director
Lori Woratzeck, Chief Financial Officer	Al Thompson, General Counsel
Maria Walden, Director of Legislation and Policy.	

SYSTEM OPERATIONS

Minutes from April 14, 2014 meeting were approved and the Order of Business was established.

INVESTMENTS

Performance Report and Ongoing Investment Activity -- Craig Hustings, Chief Investment Officer and Michael Hall of Towers Watson reported on ongoing investment activity. Fiscal Year to Date (July 1, 2013 - May 31, 2014) investments have grown by 14.8%. The following assets were reported as of 12/31/13:

PSRS: \$32,627,535,000

PEERS: \$3,611,229,000

Total: \$36,238,764,000

As of 5/31/14, Total Assets were \$37,228,463, 000 showing a growth of nearly \$1 billion during the first 5 months of 2014.

The following tentative investment calendar was presented:

August 25, 2014 -- FY 14 Annual Performance Review

October 27, 2014 -- Real Estate Annual Review

December 8, 2014 -- Performance Report (9/30/14)

February 16, 2015 -- Performance Report (12/31/14)

MANAGEMENT REPORT

Meeting Dates for FY2015: 8/25/14; 10/27/14; 12/8/14; 2/9/15; 4/13/15; 6/8-9/15.

Legislative Update, presented by Jim Moody of Moody & Associates and Maria Walden, Director of Legislation and Policy.

Rather than summarize Jim Moody's report, here are the direct quotes from two key pieces of information he shared regarding his perception of Missouri's dismal financial future:

The Moody View of Life and Budgets

- Revenues in May continued to be weak. Net general revenue for May 2014 receipts were -3.0. Year to date net general revenue growth is only growing by +.2%, compared to the Governor's estimate of +2.8% and the General Assembly's estimate of +2.0%.
- The really bad news is that this weak growth is worse than it looks, because the Department of Revenue is holding a significant amount of refunds. In an Associated Press article from late last week, it was noted that Revenue was still holding 310,000 taxpayer refunds, with an "amount owed" totaling \$139 million.
- Refunds are a reduction in revenues, and so the end of May data is misleading. If the refunds had been paid in May 2014, the May 2014 revenue total would be negative for the year.
- It appears that the revenue estimates for FY 2014 will be missed by a great margin, thus making the current revenue estimates for FY 2015 unattainable.

What Does It Mean?

- The revenue news from April and May 2014 is really bad news. It is hard to figure out how it could be worse in a non-recessionary time.
- We were correct in thinking there would be a shortfall in revenues this year. However, our worst case scenario was probably a shortfall of 2% to 3%. It looks like reality may be worse than that at -3.5% to -4.0%. The final shortfall in part depends on whether all refunds are paid by June 30, 2014.
- In the midst of all of this the General Assembly enacted a tax cut bill that was vetoed and then overridden by the General Assembly. The lack of knowledge in the General Assembly about what is going on fiscally is shocking.
- Fiscal Year 2015 is going to be a really rough budget year. There will have to be very dramatic withholdings.

Maria Walden presented brief information on each of the 2014 bills that affect public retirement systems. Of these, the eight bills that were Truly Agreed to and Finally Passed will not have any negative impact on PSRS/PEERS. Walden also highlighted the additional eleven bills that had

potential impact on the Systems, none of which passed. Of ongoing concern, however, is the likelihood that in the 2015 Legislative session, a bill mandating PSRS/PEERS to invest 2%-5% in a Missouri-Based venture capital firm could once again be proposed. She expressed appreciation to "the associations" for their dedicated efforts to oppose legislation that could negatively affect the Systems.

Pension Project Update, presented by Dearld Snider, Assistant Executive Director. Snider and Gary Fowler, Project Manager of OASIS. According to Snider, there is definitely a "light at the end of the tunnel" in the years-long process of putting the new OASIS computer system in place. He shared the following implementation schedule:

- Remaining test cases completed in July
- Testing Web Member Services and the rest of Phase 5 will conclude in August
- Training for PSRS/PEERS IT staff is in process
- Training for PSRS/PEERS staff begins Aug 4
- **Go-Live with remaining phases – Nov 3, 2014**
 - No changes in the data during the last week of October
- Warranty Period – Nov 2014 through Oct 2015
- Maintenance Contract begins Nov 2014
 - 9 Sagitec Employees On-Site & 4 Off-Site for first 6 months

Public Comments: None

Closed Session

The open session of the Board of Trustees adjourned at 10:30, after which the Board went into closed session. The agenda for the closed session included the following: approval of minutes, legal report, security update, personnel change report/set salary for Executive Director.

**PSRS/PEERS Board Retreat
Tuesday, June 17, 2014**

As part of the PSRS/PEERS Board of Trustees requirement for Continuing Education, staff members presented an overview of seven other states' public employee retirement systems. Using a travel theme, moving from west to east across the United States, information about the following states' systems were presented: California, Utah, Colorado, Illinois, Ohio, West Virginia, and New York. The areas covered and staff members who shared information are as follows:

General Overview – Dearld Snider, Assistant Executive Director
Board Structure – Nicole Hamler, Executive Assistant & Board Secretary
Legislation – Maria Walden, Director of Legislation and Policy
Funding and Contributions – Lori Woratzeck, Chief Financial Officer
Employers – Jeffrey Russler, Director of Employer Services
Benefit Structure – Ronda Peterson, Director of Member Services
Working After Retirement – Jeff Hyman, Director of Internal Audit
Information Technology – Thomas Smith, Chief Technology Officer
Legal – Al Thompson, General Counsel

At the conclusion of all reports, Steve Yoakum shared his hope that by learning about the unique attributes of these seven states' retirement systems, participants would gain a greater appreciation for Missouri's Systems. He emphasized that while there are always challenges for change, especially in the area of "Working After Retirement," PSRS/PEERS is recognized at the national level as an exceptionally well structured system.

In addition to the Trustees and the presenters, many of the PSRS/PEERS employees were in attendance at this Retreat. Although this was an open session and representatives from other education associations could have attended, I was the only "outside guest" (i.e. non-employee or trustee) at the event.

Carol Weatherford
MNEA Legislative Consultant

I. School Readiness Programs & Services

Early childhood education is vitally important to every child's success. In order to create life-long learners, we must make a more concerted effort to meet the physical, emotional and social needs of all children. This can be accomplished by parents in a home setting, by properly trained care givers in a childcare facility, by teachers in a school setting or by a combination of these options. Regardless of the setting, young children need to be offered high quality early childhood education choices that encourage curiosity and creativity.

A. Current programs that should be continued and/or expanded

- a. **Parents as Teachers** – Parents must be actively and integrally involved as partners with teachers in fostering a child's development. To this end, it is vitally important that Missouri's "Parents as Teachers" program be continued with services available to all. In addition, a serious effort should be made to serve an increased number of low-income families.
- b. **Head Start** -- This program should not only be continued, but expanded to include more children. In order to ensure a continued quality program, instructors should be paid the same salary and benefits provided to elementary teachers. In addition, the current Head Start program should be expanded to provide comprehensive services to low-income families with children under the age of 3, as well as to pregnant women.
- c. **Public Pre-school Education** – An optional program of public pre-school education should be provided for all children whose parents choose to participate. Pre-school activities should include not only pre-academic skills, but also emphasize music, art, fine and gross motor activities, and socialization skills.
- d. **Statewide Full-day Mandatory Kindergarten** – All school districts in Missouri currently offer full-day kindergarten classes. However, attendance is optional, and in some districts parents are required to pay for the extra half day of classes for their kindergarten students. Full-day Kindergarten should be made available to all children at no additional expense to parents, with the minimum age requirement lowered from the current 7 years to 6 years of age.
- e. **Early Childhood Special Education** – To help meet the challenges of children with disabilities, Missouri currently offers Early Childhood Special Education classes for those pre-schoolers whose needs have been identified. This program should be expanded, with special emphasis on Autism Spectrum Disorder. Adults who work with children with this disorder must be properly trained to understand its many

complexities, as well as appropriate treatment and response to these children's unique challenges.

- f. **Professional Development Opportunities** -- Professional development opportunities need to be made available for all teachers and support professionals who work with young children.

B. Programs not currently in place that should be enacted

- a. **Quality Rating System (QRS)** for childcare facilities -- If enacted, childcare facilities that choose to participate would be given a 1-5 star rating, based upon measurable criteria. QRS would give clear and comparative information about class size, activities, safety, teacher training, student/teacher ratio and other valuable information to help parents select the facility that best meets their needs. (This was proposed for several consecutive years during the Missouri Legislative Session, but did not pass due to concerns about cost and 'government intervention'.)
- b. **Early Childhood Teacher Compensation** -- Teachers who work with young children should have a bachelor's degree with a specialization in early childhood development and education. These teachers should be compensated on a professional salary schedule.
- c. **Preschool and Kindergarten Standards** – Studies show that educational programs age birth – 3 are effective in giving students a solid educational foundation. Therefore, states should be encouraged to align developmentally appropriate preschool and kindergarten standards in order to make a smooth transition/**bridge** between these settings. **Such programs (Head Start, First Steps, Parents as Teachers etc.) should be building-based.**

Perhaps the most important key to successful early childhood education is the involvement of the child's parents. To this end, we support greater parental involvement in early education decisions, as well as organized efforts to integrate childcare and pre-school classes with effective parenting skills. This includes continued efforts to ensure that children, from birth, are provided proper nutrition and mental stimulation for healthy development of the body and mind.