

PSRS-PEERS Board of Trustees Report
August 27, 2018
By Otto Fajen

Trustees present

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

Others present as active participants:

Steve Yoakum, Executive Director
Dearld Snider, Associate Executive Director
Nicole Hamler, Board Secretary
Craig Husting, Chief Investment Officer
Barry Dennis, Verus Investments
Sarah Swoboda, Director of Member Services
Alan Thompson, General Counsel
Kam Mangat, CEM Consulting

SYSTEM OPERATIONS

Minutes from the June 11, 2018 meeting and the June 12, 2018 meeting were approved and the order of business was established.

INVESTMENTS

Craig Husting and Barry Dennis from Verus Investments gave the FY 2018 investment report. FY 2018 PSRS/PEERS investment returns net of fees are 8.70%. PSRS/PEERS investment returns over the last 1, 3, 5 and 7 years are in the top third relative to other large public plans while maintaining a portfolio risk in the bottom quartile. The long-term rate of return remains over the current assumed return rate of 7.60%, but 7.60% remains a difficult target to maintain going forward in the short term.

The system performance showed a positive "alpha" or a return above the benchmark investment performance totaling 1.46% for FY 2018. Of this positive "alpha," 0.71% was attributed to strategic decisions (asset class movements) and 0.76% was attributed to implementation decisions (manager selection and types of managers).

Mr. Dennis noted that the U.S. economy has speeded up and appears to be getting close to capacity. This may lead to inflation in the future. Meanwhile, the U.S. dollar has strengthened, leaving some emerging markets down due to currency devaluation.

MANAGEMENT REPORT

Appointment of NCTR delegates - The National Council on Teacher Retirement conference will be held in October. Yvonne Heath, Chuck Bryant and Steve Yoakum were selected to serve as delegates to the conference. Nicole Hamler and Dearld Snider will serve as alternate delegates.

Amendments to Regulations - Due to bills passed by the legislature and other issues, the Board approved changes to current PSRS/PEERS regulations. Legal Counsel Alan Thompson reviewed the proposed amendments regarding Working After Retirement and interest rate.

Working after retirement - Trustees approved the proposed amendment to WAR rules pursuant to the amended version of section 169.560 enacted in SB 892. The new law affects PSRS retirees employed by districts in positions for which a DESE certificate is not required, such as a retired teacher working as a bus driver. SB 892 changes the work restriction in this case from up to 550 hours and up to 50% of full pay to a compensation cap of 60% of the state's minimum salary or \$15,000.

Interest rate determination - Trustees also approved a rule that will apply the annual determination of interest rate in April to the following fiscal year beginning in April 2019 for the 2019-2020 fiscal year.

Third party mailing - Trustees also approved a motion to have Mr. Thompson review the former proposal regarding third party mailing that would allow three or more associations to create a joint mailing under PSRS restrictions. The board will consider this information at the next meeting in October.

Member Services Update – Sarah Swoboda, Member Services Director, shared information about retirees, active members and use of system services. The data shows that, while the number of active members remains relatively consistent, the number of retirees has been steadily growing each year and will continue to grow in future years. Roughly 4,500 members retire each year from the two systems combined, while about 2,000 retirees pass away each year.

Member Services Benchmarking – The system hired CEM Benchmarking to review PSRS/PEERS member services and compare them both to the entire plan universe of CEM clients and to comparable public pension plans. Kam Mangat from CEM reported that PSRS/PEERS has the highest rated services in our public plan peer group and third highest in their entire client pool. Recent improvements include a more comprehensive set of web tools and expedited response in processing disability applications. Meanwhile, PSRS/PEERS member service costs are below median for both the peer group and the entire client pool. Thus, the system has outside confirmation that it provides a broad range of outstanding member services very efficiently.

Strategic Planning – Dearld Snider, Associate Executive Director, gave a report on the system's recent Strategic Planning project. The strategic plan outlines the goals and priorities of the system in key areas. The plan will be drafted in the form of a policy and considered for adoption by the Board at the December meeting.

CPI update/COLA review – This year’s CPI-U figure grew by 2.87%, so, pursuant to the system’s COLA policy, eligible retirees will receive a 2.0% COLA based on this figure.

Facility Analysis and Planning – Dearld Snider, Associate Executive Director, gave a report on the staff’s analysis of the system’s current and future facility needs. PSRS-PEERS operate at a single facility owned by the system, located in Jefferson City and first occupied by the system in October 2001.

As the size of the investment pool and the number of retirees has continued to grow, the system has needed more staff. Further, the system has been moving to invest more in private assets, which requires the development of more relationships with more managers, and this has also required an increase in investment staff. These trends are expected to continue in the future. The PSRS/PEERS staff is now about at full capacity in the existing facility.

Snider’s report offered the Board three options to address facility needs in the future: 1) lease other space in Jefferson City, 2) renovate and expand the current facility or 3) build a new facility on the unused portion of the current PSRS-PEERS property.

Leasing is relatively quick and cheap, but will present serious policy, operational and member service challenges long-term if the various parts of the staff are not able to work in the same space. Renovation is the most expensive option and would create a lot of disruption and challenges during what would probably have to involve several transitional steps. The new facility option is slightly cheaper than renovation, since the existing facility can be leased and ultimately sold to another business. The new facility option also avoids much of the disruption that renovation and expansion would entail.

The Board approved a motion to have staff provide further detail on costs and implementation of the latter two options: renovation/expansion of the current facility and construction of a new facility.

Public Comment – None.

The meeting adjourned at 12:00.

Annual Legislative Planning Session Report

Following the board meeting, the system held the annual Legislative Planning Session. Prior to the meeting, several education organizations, including MNEA, submitted written information regarding their legislative platforms. At the planning session, organizations in attendance discussed ideas regarding upcoming legislative and policy changes that could affect members of the systems.

The main topic of discussion was Working After Retirement. The system presented information about WAR usage and the details of the change in SB 892. System staff acknowledged that while SB 892 will offer more flexibility for low-wage employment such as bus driving, it will have unintended impacts on other categories of employment, including speech-language pathologists. Also unintended was the impact on community college instructors. All community college retirees are affected, since even instructors are not required to have a DESE teaching certificate and thus are covered by the \$15,000 compensation cap.

The system believes that WAR plays an important role and that the policy could be improved, but that it should be given a comprehensive review and discussion. The systems invited all associations to participate in a working group this fall to discuss possible options to address any and all aspects of WAR employment, including possible adjustments to the language in SB 892.